

OCAG information note: public accountability and audit

September 2020

This information note gives an overview of the accountability process for the spending of public monies and the conduct of public business. It explains the responsibilities of the accountable persons in relation to the accountability process, the role of audit by the Comptroller and Auditor General and the auditing framework.

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Government departments and public bodies are responsible for the conduct of public business and for spending public money. They are accountable to Dáil Éireann and through Dáil Éireann to the public for ensuring that this business is conducted in accordance with the law and proper standards of accounting and governance and that public money is used economically, efficiently and effectively. Their principal source of funding is money voted by Dáil Éireann or by means of statutory levies and their powers to raise revenue in other ways are governed by legislation.

The financial statements of government departments and non-commercial public bodies are audited by the Comptroller and Auditor General (C&AG).

The C&AG gives an independent opinion on the financial statements of those entities and may review and, where appropriate, report on aspects of the arrangements set in place by the entities to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. As such, his/her audit is an essential element in the process of accountability and makes an important contribution to the stewardship of public money.

Reference material

Constitution of Ireland

Comptroller and Auditor General Acts 1866 to 1998

Standing Orders of Dáil Éireann

Public Financial Procedures issued by the Minister for Public Expenditure and Reform

The Code of Practice for the Governance of State Bodies issued by the Minister for Public Expenditure and Reform

International standards on auditing issued by the International Auditing and Assurance Standards Board and promulgated for national auditors by the International Organisation of Supreme Audit Institutions.

Financial statements produced in central government normally have the following characteristics -

- prepared on an annual basis
- laid before Dáil Éireann
- available to the public in published form.

Financial statements prepared by public sector entities include funds administered through the Exchequer, voted funds, departmental funds, the financial statements of non-commercial state bodies, health agencies, third level educational institutions, education and training boards and some regional and local bodies.

The Committee of Public Accounts

The body in Dáil Éireann mainly concerned with the work of the C&AG is the Committee of Public Accounts (PAC)¹. It examines and reports to Dáil Éireann on

- all financial statements audited by the C&AG together with his/her reports thereon
- reports of the C&AG on value for money examinations
- other reports made by the C&AG.

The Committee consists of thirteen Deputies, none of whom may be a member of the Government or Minister of State. The Chairman is a member of the Opposition.

The PAC possesses no executive powers and its power is one of recommendation only. The Committee is entitled to send for persons, papers and records and takes evidence primarily from the Accounting Officer of the department under examination or an accountable person designated for that purpose in the case of other entities.

The role of Accounting Officers and accountable persons

Accountability in the case of government departments is exercised by an Accounting Officer designated by the Minister for Public Expenditure and Reform to be responsible for the preparation of Appropriation Account(s). The civil service head of the department or office administering a Vote is normally appointed Accounting Officer on the premise that he/she alone is in a position to account for all monies entrusted to the department.

An Accounting Officer is also accountable for the

- regularity and propriety of transactions
- economy and efficiency of the department in the use of its resources and

¹ Established in accordance with Standing Order 218 of Dáil Éireann.

- systems procedures and practices employed by the department for the purpose of evaluating the effectiveness of the operations.

The Comptroller and Auditor General (Amendment) Act 1993 provides that an Accounting Officer may be required to give evidence to the PAC on these matters.²

The Department of Public Expenditure and Reform's document *Public Financial Procedures* sets out the Accounting Officer's responsibility in relation to the preparation of the appropriation account for which he or she is answerable. It also sets out the other main responsibilities including

- the regularity and propriety of all transactions of the department/office
- proper financial procedures are followed
- public funds are properly controlled, well managed and safeguarded and
- assets are safeguarded and controlled.

Similar responsibilities attach to the accountable persons or boards of other public sector entities. These are expressly acknowledged in the Statement of Responsibilities published in the Governance Statement and Board Members' Report which accompanies the financial statements.

Management in all public sector entities have the general responsibility of developing and maintaining effective controls to prevent fraud and to ensure that, when it does occur, it is detected promptly.

Financial reporting by Government departments and non-commercial public sector bodies

Legislation normally sets out the responsibility of management or those charged with governance for the preparation of the financial statements in accordance with the applicable financial reporting framework. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The financial reporting framework may differ from sector to sector within central government as follows

- Appropriation Accounts are cash based accounts prepared by government departments and offices in accordance with Exchequer and Audit Departments Act 1866, the requirements of *Public Financial Procedures* issued by the Department of Public Expenditure and Reform and other directions of the Minister for Public Expenditure and Reform

² In the case of other entities, accountability for the Chief Executive (or equivalent) may be provided for by way of primary legislation.

- Departmental fund accounts relate to sums of money controlled or managed by or for a Minister or his/her department, and which are accounted for separately from the department's appropriation account. These are normally cash based accounts prepared in accordance with specific legislation and/or in a format specified by the Minister for Public Expenditure and Reform.
- Accrual based financial statements of State agencies and third level education institutions are generally prepared in accordance with FRS 102 — The Financial Reporting Standard applicable in the UK and the Republic of Ireland. Some agencies apply International Financial Reporting Standards (IFRS) as adopted by the European Union.
- Financial statements prepared in accordance with a framework specified by a Minister of the Government, for example the accounting standards for voluntary hospitals set by the Minister for Health.
- Cash based accounts for the Education and Training Boards which are prepared in the form prescribed under section 51 of the Education and Training Boards Act 2013.

In addition to the preparation of financial statements, public sector entities are required to prepare the following statements which accompany the financial statements

- government departments and large departmental fund accounts — A Statement on Internal Financial Control is prepared in accordance with the directions of the Minister for Public Expenditure and Reform.
- other entities — A Statement on Internal Control, Governance Statement and Board Members' Report is prepared in accordance with the *Code of Practice for the Governance of State Bodies*.

Responsibilities of the Comptroller and Auditor General

Article 33 of the Constitution of Ireland provides for a Comptroller and Auditor General and legislation provides the authority for the audit of each public sector entity. After completing each audit, the C&AG reports his/her opinion on the financial statements which are then laid before the Houses of the Oireachtas

The auditing framework

Financial audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. In general, the objective of an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Professional standards and guidelines are essential for the credibility, quality and professionalism of public-sector auditing. In most jurisdictions the standards governing the conduct of public audit is a matter for the head of the audit office. The C&AG has chosen to adopt International Standards on Auditing (ISAs) and quality control standards as the basis of his approach to the audit of financial statements.

ISAs are issued by the International Auditing and Assurance Standards Board (IAASB). The International Organisation of Supreme Audit Institutions (INTOSAI)³ has adopted and promulgated the ISAs (referred to as ISSAIs) for use by the external government audit community around the World within its framework of professional pronouncements. The framework incorporates both financial and performance audit.⁴

For the purposes of financial audit, the framework includes

- the ISAs issued by the IAASB (available from www.iaasb.org)
- ISSAI 130 – Code of Ethics (available from www.issai.org)
- ISSAI 140 – Quality Control for SAIs.

Financial reporting and audit is ultimately aimed at enhancing democratic public accountability, transparency in accounting for public funds, and improving the management of public resources. Accordingly, the scope of financial audits in central government may extend beyond the normal objectives of an audit of financial statements prepared in accordance with a financial reporting framework to include the concepts of regularity and propriety.

The audit of Regularity

An audit of financial statements in central government is similar in scope and nature to an audit of companies in the private sector. There is, however, a greater emphasis on compliance with authority, commonly known as regularity. The concept of regularity reflects a concern that public money should be used only for those purposes approved by Dáil Éireann and only in accordance with the legal authority governing them. Regularity therefore extends to the substance of transactions and the entitlement of recipients of public funds.

Regularity, as applied in the audit of the appropriation accounts and the financial statements of education and training boards, is defined in the 1993 Act. In these cases, the C&AG must satisfy himself/herself as to whether

- amounts expended have been applied by the entity for the purposes intended
- transactions recorded in the account conform with the authority under which they purport to have been carried out.

³ INTOSAI is a non-governmental organisation with special consultative status with the Economic and Social Council of the United Nations and operates as an umbrella organisation for the external audit community of government.

⁴ INTOSAI contributes to the development of ISAs through its participation in the IAASB Task Forces responsible for developing new standards or revising existing standards. INTOSAI's 'due process' with regard to the development, revision and withdrawal of ISSAIs is set out at www.issai.org.

Upon completion of the audit, the C&AG must refer in the audit report to any material case in which the entity has failed to conform with the regularity framework. As a matter of principle, the concept of regularity is also applied in the audit of all other public sector entities which are within the audit remit of the C&AG.⁵

The concept of Propriety

Propriety is concerned with the way in which public business is conducted including any conventions agreed with Dáil Éireann (and in particular the PAC), and any guidance issued on governance and ethics. Whereas regularity is concerned with compliance with appropriate authorities, propriety goes wider than this and extends to standards of conduct, behaviour and corporate governance. It is concerned with fairness and integrity including avoidance of personal profit from public business, even-handedness in the appointment of staff, open competition in the award of contracts and the avoidance of waste and extravagance.

Although of no less importance than regularity, propriety is less readily susceptible to objective verification and is not expressly covered in the opinion on financial statements. It has long been an established expectation that the C&AG has regard to matters of propriety in conducting the audit. This enables significant propriety failings identified as part of the financial audit to be reported publicly in the auditor's report.

There is no definitive code or guidance that can capture all the activities and behaviours that will infringe the standards of propriety. As governance codes have developed and become more comprehensive, they have responded to many of the propriety risks facing organisations and set out standard practices designed to ensure the proper conduct of public business. When considering the measures taken by management to promote propriety the auditor has regard to what is considered generally accepted practice in central government.

Responsibilities in relation to internal control, fraud and other areas

The auditor is required under the ISAs to exercise professional judgment and maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind, maintaining alertness throughout the audit to possible misstatements, and critically assessing evidence.

As part of the audit process, the auditor

- identifies and assesses the risks of material misstatement of the financial statements whether due to fraud or error
- designs and performs audit procedures responsive to those risks
- obtains audit evidence that is sufficient and appropriate to provide a basis for the audit opinion on the financial statements.

⁵ Further guidance on the audit of regularity is available on this website.

The auditor obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.

The primary responsibility for the prevention and detection of fraud rests with the entity. It is important that management and those responsible for governance place a strong emphasis on fraud prevention and deterrence measures, including a commitment to creating a culture of honesty and ethical behaviour. The auditor is responsible for obtaining reasonable assurance that the financial statements as a whole are free from material misstatement due to fraud or error. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

The auditor evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.

The auditor concludes on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, he/she is required under the ISAs to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the audit opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.

Where financial statements are prepared in accordance with generally accepted accounting principles, the auditor evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Reporting the results of audit activity

The results of audit activity on each account are reported to Dáil Éireann through certificates or reports which give an audit opinion usually in a form prescribed by law and/or auditing standards.

Across central government, most financial statements include a 'true and fair' audit opinion. However, there are instances where the auditing framework requires an opinion as to whether the financial statements present fairly or properly present the entity's transactions or balances. Whichever wording is used for the audit opinion this will not have an impact on the extent to which the requirements of auditing standards are observed

The audit report also includes opinions and conclusions on other matters including

- Other information presented with the financial statements
- Regularity which is reported on a 'by exception basis' (material cases of non-compliance with regularity)

- Reporting on other matters such as the way in which public business is conducted and supporting records.

The audit report also explains the extent of the auditor's responsibilities and the relevance of other areas such as internal controls and going concern to the audit.

Information other than the financial statements

The audit opinion on the financial statements does not cover the other information presented with those statements, and the auditor does not express any form of assurance conclusion thereon. This other information may include the statement on internal control and the governance statement (in the case of non-commercial State bodies).

In connection with the audit of the financial statements, the auditor is required under the ISAs to read the other information presented and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with knowledge obtained during the audit, or if it otherwise appears to be materially misstated. If, based on the work performed the auditor concludes that there is a material misstatement of this other information, then that fact must be reported in the audit report.

Reporting on regularity and other matters

The auditor also seeks to obtain evidence about the regularity of financial transactions in the course of audit and reports where any material instances are identified where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.

Audit by the C&AG is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. If material matters relating to the manner in which public business has been conducted are identified, then these are reported. For example, the C&AG may report matters of concern arising from the audit such as non-effective expenditure, inadequate financial administration, weaknesses in systems and controls, or issues relating the conduct of public business. In determining whether an issue is of such significance to report publicly, the C&AG has regard not solely to the monetary amount involved but also its nature or the context in which it arises. A matter may be of significance where it relates to the public interest, public accountability, probity or ensuring effective legislature oversight.

The auditor also reports by exception if, in his/her opinion

- all the information and explanations required for the audit have not been received, or
- the accounting records are not sufficient to permit the financial statements to be readily and properly audited, or
- the financial statements are not in agreement with the accounting records.