Scope of financial audit in State bodies, respective responsibilities and other matters

1. The appointment of the C&AG as auditor of the financial statements of a State body and the responsibilities for the submission of audit financial statements to the Oireachtas are set out in legislation.[1] Responsibilities for the scope and the form of audit reporting on the financial statements are generally derived from auditing standards applied to the conduct of the audit and from practice.

2. This document sets out the respective responsibilities of the Board Members and Chief Executives[2] of State Bodies and the Comptroller and Auditor General (C&AG) with regard to the preparation and audit of financial statements of State bodies. The responsibilities relating to the accounts and audit of government departments and offices is set out in the annual Appropriation Accounts.

3. This document sets out responsibilities

    - of the Comptroller and Auditor General
    - of the State Body
    - in relation to the prevention and detection of fraud

    The document also sets out procedures for communication of audit matters.

Responsibilities of the Comptroller and Auditor General

4. The audit of financial statements is carried out in accordance with International Standards on Auditing (ISAs) issued by the International Audit and Assurance Board and promulgated for national auditors by the International Organisation for Supreme Audit Institutions[3.] These standards represent best practice in auditing and aim to promote uniformity of practice throughout the world, thereby increasing public confidence in the audit process.

5. Audit procedures are designed primarily to provide an opinion on whether the financial statements provide a true and fair view of (or present fairly) the financial position at the year end and the income and expenditure reported for the year then ended.

[1] The appointment is normally provided for under the Comptroller and Auditor General (Amendment) Act 1993 or the specific statute establishing the body.

[2] In some instances the governance arrangements within the State body may vary from those set out below. For example, some bodies may have, in accordance with law, an 'accountable person' who has sole responsibility for preparation of the financial statements and for governance within the body.

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

6. The audit report also includes an opinion on the entity's accounting records and provides for reporting by exception in relation to a number of matters including

- regularity
- other information presented with the financial statements
- the statement on internal control
- any other matter in relation to the way in which pubic business is conducted.

Further information in relation to these areas is set out below.

Accounting records

7. The audit report includes an opinion in relation to I

- whether the accounting records were sufficient to permit the financial statements to be readily and properly audited
- whether the financial statements are in agreement with the accounting records
- whether all the information and explanations considered necessary for the purposes of his audit have been obtained.

8. The audit obtains an understanding of the accounting and internal control systems to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained. The audit seeks to obtain appropriate evidence to enable reasonable conclusions to be drawn therefrom.

9. The nature and extent of audit procedures will vary according to the assessment of the accounting system and, where the audit wishes to place reliance on it, the internal control system, and may cover any aspect of the operations that is considered appropriate. The audit is not designed to identify all significant weaknesses in the body's systems but, if such weaknesses come to notice during the course of the audit, they will be reported in the appropriate manner.

Regularity

10. The audit is also designed to provide assurance on whether the expenditure and income have been applied to the purposes intended by the Oireachtas and that the transactions conform to the authorities which govern them ('regularity'). The approach to completing the regularity audit is to obtain a sufficient understanding of the framework under which the body operates and to test compliance. The audit reports on 'regularity' by exception, that is, in instances where there is material amount of transactions which do not conform with the regularity framework.

Responsibility in relation to other information presented with the financial statements

11. The information contained in the Annual Report and the Governance Statement (if any) is reviewed by the audit. The information is reviewed only to the extent that the audit confirms that it is consistent with the financial statements and the understanding of the business gained as part of the audit process.

12. Where the information is not materially consistent with the financial statements or the knowledge obtained in the audit, the audit report will drawn attention to that fact.

Statement on Internal Control

13. The Statement on Internal Control prepared by the body is reviewed by the audit team to ensure that it is consistent with the information of which they are aware from their audit work on the financial statements.

14. Where information presented in the Statement on Internal Control is not consistent with the knowledge obtained in the audit, the audit report will drawn attention to that fact.

Other matters in relation to the way in which public business is conducted

15. The audit also has regard to 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[4]), 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, open competition in the award of contracts and the avoidance of waste and extravagance.

16. The audit report may draw attention to significant matters related to the conduct of public business including any significant weaknesses in controls or non-effective expenditure.

Responsibilities of the State Body

17. The Board Members and Chief Executive are responsible for preparing, in accordance with the relevant legislation, financial statements which give a 'true and fair' view of the state of affairs of the State body and of its income and expenditure for the reporting period.

18. They are responsible for maintaining proper accounting records that disclose with reasonable accuracy at any time the financial position of the body and enable it to ensure that financial statements are prepared to comply with statutory requirements.

19. They are also responsible for the safeguarding of assets of the body and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

20. When preparing financial statements they should:

    - select suitable accounting policies and apply them consistently;
    - make judgements and estimates that are reasonable and prudent;
    - state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
    - state that the financial statements have been prepared on the going concern basis, unless it is inappropriate to presume that the entity will continue in business.

    These responsibilities are normally set out in a Statement of Responsibilities which accompanies the annual financial statements.

---

[4] Committee of Public Accounts established under standing orders of Dáil Éireann

21. Bodies must also ensure that transactions are regular i.e.

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

22. Legislation normally sets out the responsibility of the relevant Minister of the Government to lay the audited financial statements before the Oireachtas. The body is responsible for submitting the financial statements promptly to the Minister after the audit has been completed.

Supporting Records

23. Bodies are also responsible for making available to the C&AG, as and when required, all accounting records and all other relevant records and related information, including minutes of all management meetings.

24. All relevant general ledger transactions should be processed to allow trial balances to be made available for audit purposes with the financial statements. Any amendments made to the trial balances after the close of books should be discussed with audit staff and supported by an approved journal and any other underlying documentation. Further adjustments may be required as a result of audit findings.

Fraud

25. The primary responsibility for the detection of fraud rests with management. Its role in the detection of fraud is an extension of its role in preventing fraudulent activity. Management establishes a sound system of internal control designed to support the achievement of policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

26. The audit is designed to provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. The audit is not responsible for preventing fraud or corruption, although it may serve to act as a deterrent.

27. *ISA 240:* the Auditor's responsibilities relating to fraud in an audit of financial statements requires the auditor to make inquiries of those charged with governance in respect of the oversight responsibility for

- management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;
- management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- management's communication to the Audit Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud; and
- management's communication, if any, to its employees on its views about business practices and ethical behaviour.

28. The audit also makes inquiries about whether management has knowledge of any actual, suspected or alleged fraud.

Communication of audit matters

29. *ISA 260: Communication with those charged with governance* provides guidance for communication during the audit cycle. The principles of this ISA are embodied in the C&AG audit approach and include the provision of the audit strategy document, post-field work meetings to communicate findings, and the provision of a letter at the completion of the audit setting out observations and recommendations on significant matters (if any) which have arisen during the course of the audit.

30. In addition, the ISA states that 'the auditor shall communicate with those charged with governance significant difficulties, if any, encountered during the audit'. Significant difficulties would include delays in the provision of required information, the unavailability of expected information and restrictions imposed on the auditor by management. If any significant difficulties are encountered during the audit they will be reported to those charged with governance, together with the steps taken to resolves them.

31. *ISA 265: Communicating deficiencies in internal control to those charged with governance* places a responsibility on the auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. Significant deficiencies (if any) will be reported in writing to those charged with governance.