

The Role Of Auditing In Public Sector Governance

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To: Audit Committee

The Role of Auditing in Public Sector Governance

■ Introduction

- "The Role of Auditing in Public Sector Governance", is an audit practice guide published by the Institute of Internal Auditors
- Outlines *our* expectations, and sets the bar for *our* success in auditing
- Defines the key elements needed to maximize the value of public sector audit activities
- The essential ingredients necessary to support an effective audit function

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■ Understanding Auditor Independence

- Independence, is the most fundamental element of an effective and credible government audit activity
- Our role is to provide unbiased and accurate information on the use and results of public resources
- We must be able to conduct and report on our work without interference or the appearance of interference

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- Independence is achieved when:
 - The audit activity reports outside the hierarchy of the organization and activities under audit
 - auditors are free to conduct their work without interference, restrictions, or pressures from the organization being audited
- Interference can occur if the audited entity limits access to records or employees, controls budget or staffing for engagements, or has authority to overrule or modify audit reports

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- Through objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help the government organizations
 - achieve accountability and integrity,
 - improve operations, and
 - instill confidence among citizens and stakeholders
- An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their government accountable

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- Because government's success is measured primarily by its ability to deliver services successfully and carry out programs in an equitable and appropriate manner, government audit activities should evaluate
 - financial and program integrity,
 - effectiveness, and efficiency.
- Moreover, auditors must also protect the core values of the government

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- **At a minimum, all government audit activities require:**

1. Organizational independence.
2. A formal mandate.
3. Unrestricted access.
4. Sufficient funding.
5. Competent leadership.
6. Competent staff.
7. Stakeholder support.
8. Professional audit standards.

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- Governments must establish protections to ensure that audit activities are empowered to report significant issues to appropriate oversight authorities.
- One means of accomplishing this protection is through creation of an ***independent audit committee***

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- **The Audit Committee's Role**

- The audit committee can greatly strengthen the independence, integrity, and effectiveness of government audit activities by:
 - Providing *independent oversight* of the internal and external audit work plans and results, and
 - *Assessing audit resource needs*, and
 - *Mediating the auditors' relationship with the organization*, and
 - *Ensuring that audit results are aired*, and
 - *Ensuring any recommended improvements or corrective actions are addressed or resolved*

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■ Audit Committee Best Practices

- Where an audit committee is established, it should strive to:
 - Include independent members who collectively possess sufficient knowledge of audit, finance, risk, and control.
 - Be chaired by a member who is not the individual to whom a head of audit reports administratively.
 - Assess the effectiveness of the organization's governance, risk management, and control frameworks and legislative and regulatory compliance.
 - Provide oversight to the organization's internal and/or external audit activity, including ensuring adequate coverage and resources

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- **Principles Of Governance**

- Setting direction
 - Good governance establishes policies to guide an organization's actions.
- Instilling ethics and integrity
 - Good governance includes clearly articulated ethical values, objectives, and strategies; proper tone at the top; and internal control.
 - An important element necessary to achieve behavior that is consistent with good ethics and integrity is setting and enforcing clear lines of accountability that hold people responsible for doing the right thing.

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- **Principles Of Governance**

- **Overseeing results**
 - Good governance requires continuing oversight to ensure that policy is implemented as intended, strategies are met, and the overall performance of the government meets expectations and needs within policy, laws, and regulations.
- **Accountability reporting**
 - Because government organizations act as “agents” to use resources and authority to accomplish established goals, governments must account for how they used the resources and what they accomplished.

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■ Principles Of Governance

- Correcting course
 - When the organization has not achieved its financial or operational performance goals, or when problems are detected in operations or the use of funds, a good governance system will identify the cause of the problems, determine the corrective actions needed, and follow up to determine whether those actions were implemented effectively.
 - Auditors' findings and recommendations represent critical inputs to good governance that can lead organizations to take prompt and appropriate corrective actions to remedy identified weaknesses and deficiencies.

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- **SUMMARY**

- This professional practice guide describes *our* aspirations and expectations in establishing the Auditor General's Office, and in making the audit function as effective as possible.
- The guide shows that we have firmly established many of the key elements of an effective municipal audit activity.