

Presented To:	Audit Committee
Presented:	Tuesday, Jan 17, 2012
Report Date	Monday, Jan 09, 2012
Type:	Presentations

## For Information Only

### The Role Of Auditing In Public Sector Governance

#### Recommendation

For Information Only

#### INTRODUCTION:

Beginning a new year with the Auditor General's Office, it is an appropriate time to review our accomplishments in establishing the Office of the Auditor General. The audit practice guide published by the Institute of Internal Auditors titled, "The Role of Auditing in Public Sector Governance" does a good job of outlining *our* expectations, and setting the bar for *our* success in government auditing.

This practice guide is endorsed by The Association Of Local Government Auditors (ALGA), The Canadian Comprehensive Auditing Foundation (CCAF), and the Government Internal Audit Council Of Canada (GIACC).

"The guide presents information on the importance of the public sector audit activity to effective governance and defines the key elements needed to maximize the value the public sector audit activity provides to all levels of government. The practice guide is intended to point to the roles of audit (without differentiating between external and internal), methods by which those roles can be fulfilled, and the essential ingredients necessary to support an effective audit function."

#### KEY OBSERVATIONS FROM THE IIA DOCUMENT - "The Role of Auditing in Public Sector Governance"

##### Understanding Auditor Independence

"The reporting line of the auditor is tied to the function's independence, which is the most fundamental element of an effective and credible government audit activity. Because the government auditor's role is to provide unbiased and accurate information on the use and results of public resources, auditors must be able to conduct and report on their work without interference or the appearance of interference.

Independence is achieved when the audit activity reports outside the hierarchy of the organization and activities under audit and when auditors are free to conduct their work without interference, restrictions, or

Signed By

**Auditor General**

Brian Bigger

Auditor General

*Digitally Signed Jan 9, 12*

pressures from the organization being audited. Such 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. Individual auditors also need to have independence, which means that the auditors are free from conflicts of interest or biases that could affect their impartiality, the appearance of impartiality, or how the auditor conducts the work or reports results.

Through objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders."

## **Key Elements Of An Effective Public Sector Audit Activity**

"An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their government accountable. Auditors perform an especially important function in those aspects of governance that are crucial in the public sector for promoting credibility, equity, and appropriate behavior of government officials.

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 have the authority and the competency to evaluate financial and program integrity, effectiveness, and efficiency. Moreover, auditors must also protect the core values of the government, as it serves all citizens."

### **"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.

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."

## **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.

## **Audit Committee Best Practices**

"Where an audit committee is established, it should strive to:

1. Operate under a formal mandate, preferably legislation, with sufficient authority to complete its mandate.
2. Include independent members who collectively possess sufficient knowledge of audit, finance, risk, and control.
3. Be chaired by a member who is not the individual to whom a head of audit reports administratively.
4. Assess the effectiveness of the organization's governance, risk management, and control frameworks and legislative and regulatory compliance.
5. Provide oversight to the organization's internal and/or external audit activity, including ensuring adequate coverage and resources, receiving the Auditor General's audit workplans, and approving the appointment or termination of internal and/or external auditors.
6. Oversee the organization's financial reporting and accounting standards.
7. Provide a direct link and regular reporting to the organization's governing board, council, or other governing authority."

## **Principles We Have In Common / Principles Of Governance**

- "Setting direction.
  - Good governance establishes policies to guide an organization's actions.
  - In government, policy may be directed through broad goals, strategic plans, performance goals, legislative guidance, designated oversight organizations, or legislative oversight committees.
  - A government's policies — or at least its priorities — can generally be found in its budget, which allocates limited resources to specific activities.
- Instilling ethics and integrity
  - Good governance includes clearly articulated ethical values, objectives, and strategies; proper tone at the top; and internal control.
  - It should align policies and procedures to encourage behavior that is consistent with the government organization's ethics and integrity values.
  - 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.
- 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.
  - Accordingly, good governance requires regular financial and performance reporting that is

validated for accuracy by an independent auditor.

- Accountability also implies imposing penalties or sanctions against those who have misapplied the resources for purposes other than intended.
- 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."

## **SUMMARY**

This professional practice guide "The Role of Auditing in Public Sector Governance", 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.