

# Governance Forum Trust and Assurance 28 March 2019

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## The auditor's perspective

▶ Trust



▶ Assurance





## Public money - Accountability and Assurance Frameworks

- ▶ Code of Practice for the Governance of State Bodies 2016
- ▶ Audit and Assurance
- ▶ Trust and the audit
- ▶ When trust breaks down




## Code of Practice for the Governance of State Bodies - 2016 (The Code)

- ▶ Designed to ensure that State bodies meet the highest level of corporate governance
- ▶ Based on the underlying principles of good governance, accountability, transparency, probity
- ▶ Greater emphasis on accountability and transparency - underpinned by effective relationships between the Minister and the Chairperson of the State body



## Good governance

The Board and Management are accountable for the proper management of the organisation.

➔

Better informed and longer term decision making

➔

Efficient use of resources

➔

Accountability Stewardship Scrutiny

- Importance of the tone at the top
- Board gives assurance to the Minister/Parliament
- Review of effectiveness of internal controls



## Good governance





## OCAG Mission statement

to provide independent assurance that public funds and resources

- are used in accordance with the law
- are managed to good effect
- are properly accounted for

And to contribute to improvement in public administration



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## Audit and Assurance

The audit is focused towards delivery of assurance at two levels

- Stakeholders**
  - Independence, opinion, and reports
  - Deliver assurance
- Board and Management**
  - Observe and report on any shortcomings in financial reporting and operations/systems
  - Share experience on best practice

The audit approach is tailored to the specific circumstances of the entity taking account of

- Complexity of accounting treatments used to account for transactions
- Changes in accounting environment
- Changes in the business environment
- Result of work by Internal Audit
- Considerations raised by Board / Audit Committee

We focus our audit on those risks that impact on financial reporting



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## Audit and Assurance

- ▶ **Audit opinion** - true and fair view/properly presents
- ▶ **Objective** - to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error
- ▶ **Exercise** - professional judgment and maintain professional scepticism throughout the audit
- ▶ **Communicate** - with those charged with governance, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during the audit
- ▶ **Report on other matters** - if there are material matters relating to the manner in which public business has been conducted.
- ▶ **Report on other matters** - if there is any material instance where public money has not been applied for the purposes intended or where transactions did not conform to the authorities governing them.




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## Audit and Assurance

- ▶ The audit scope does not extend to providing assurance on the arrangements in place for ensuring the proper conduct of financial business or the managing of performance and use of resources.
- ▶ Neither do we search specifically for fraud or test the effectiveness of all control systems.
- ▶ We don't express an opinion on the effectiveness of the internal controls.
- ▶ However, in planning and performing an audit we obtain an understanding of, and examine many aspects of an entity's business and financial processes.
- ▶ While the audit cannot be expected to identify all weaknesses or irregularities that may exist, we do report our findings or observations on matters which we believe should be addressed.




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## Trust and the auditor

Maintaining professional scepticism

- ▶ Auditor's role is not limited to ensuring management have evidence to support its assertions
- ▶ Rigorous questioning and challenging of management's assertions
- ▶ Risk assessment process undertaken through independent eyes
- ▶ High degree of knowledge of the audited entity's business and the environment in which it operates
- ▶ Audit managers actively involved in all aspects of the audit including assessing risk and planning audit procedures
- ▶ Assess critically the information and explanations obtained
- ▶ Investigate the nature and cause of deviations or misstatements
- ▶ Be alert for evidence that is inconsistent
- ▶ Have the confidence to challenge management and the persistence to follow things through to a conclusion
- ▶ Challenge consensus views
- ▶ Engage with senior management and those charged with governance

Ronald Reagan's negotiations with the Soviet Union in the 1980s - "Trust, but Verify"




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## When trust breaks down

In business... trust is a must!

In business, trust is like a three-legged stool. Leadership must trust employees. Employees must trust leadership. Customers must trust the company. If one leg of the stool is missing...



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## When trust breaks down

TRUST

- ▶ Reputational impact for State body
- ▶ Information - withheld, misleading, mis-information
- ▶ Mis-representation
- ▶ Difficult to re-build trust
- ▶ Rigour of audit and examination processes
- ▶ Recent C&AG reports
- ▶ Importance of maintaining professional scepticism
- ▶ Auditor judgment

## To summarise



- ▶ Code of Practice provides the framework for good governance
- ▶ Role of the auditor in providing assurance to stakeholders, the board and management
- ▶ Trust V Professional Scepticism (and auditor judgment)
- ▶ When trust breaks down - Reputational and other impacts

Thank you for your attention  
Questions?

