

Auditor Independence

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The Office of the Auditor General

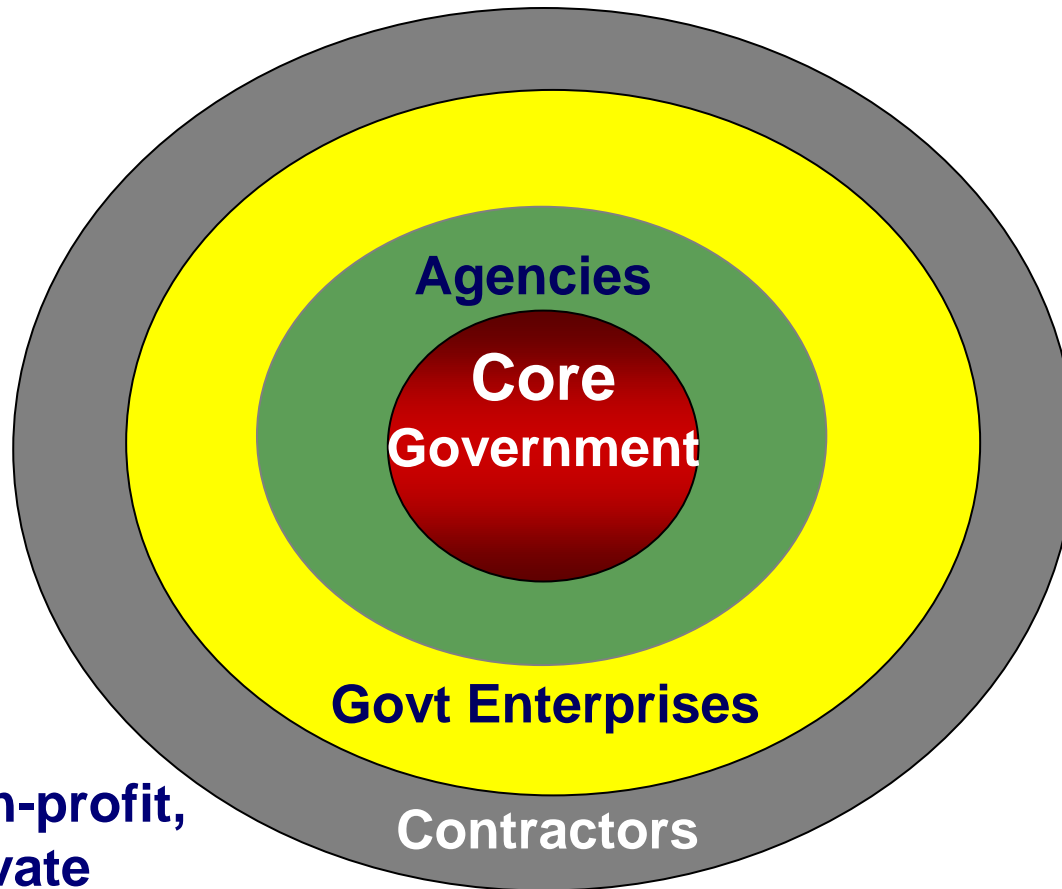
- Appointed to 10-year term by the House of Assembly, under authority of Auditor General Act
- Independent Officer of the House with a mandate to audit government and its administration and report to the House



Auditor General's Role

- Independent objective assurance to the House of Assembly
- Help House to hold government to account for use of public funds
- Help improve operations of the provincial public sector

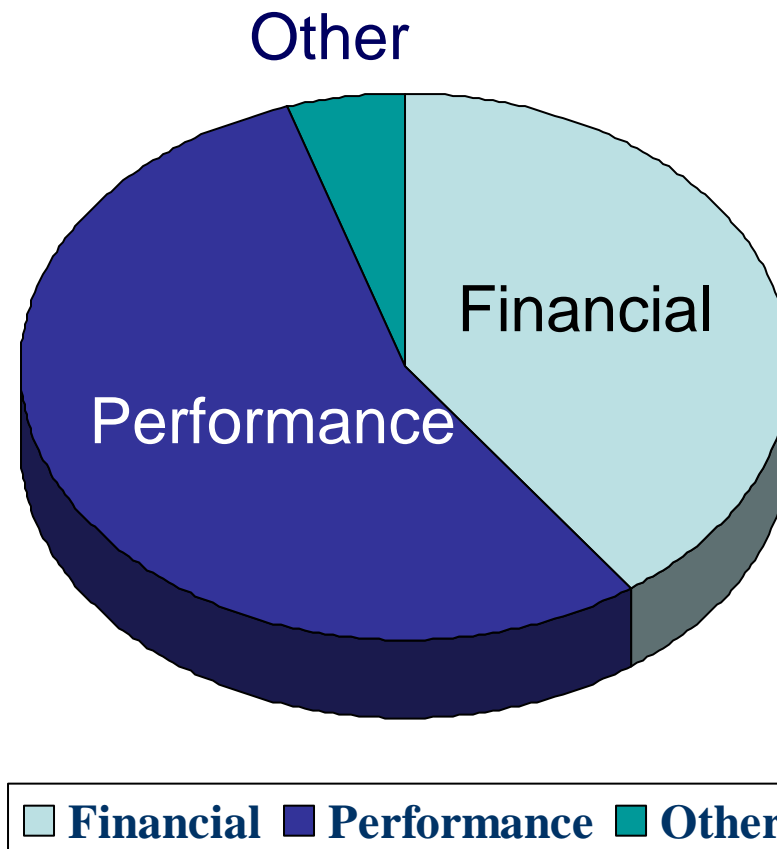
What we Audit



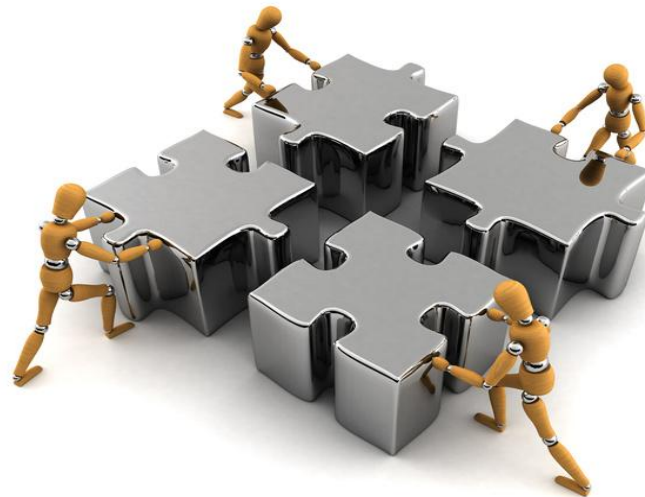
**Non-profit,
Private
Sector**



How we Audit



Some Basic Principles



Independence vs Objectivity

- Usually dealt with together
- Definitions
 - **They are separate and distinct issues**
- This discussion restricted to independence

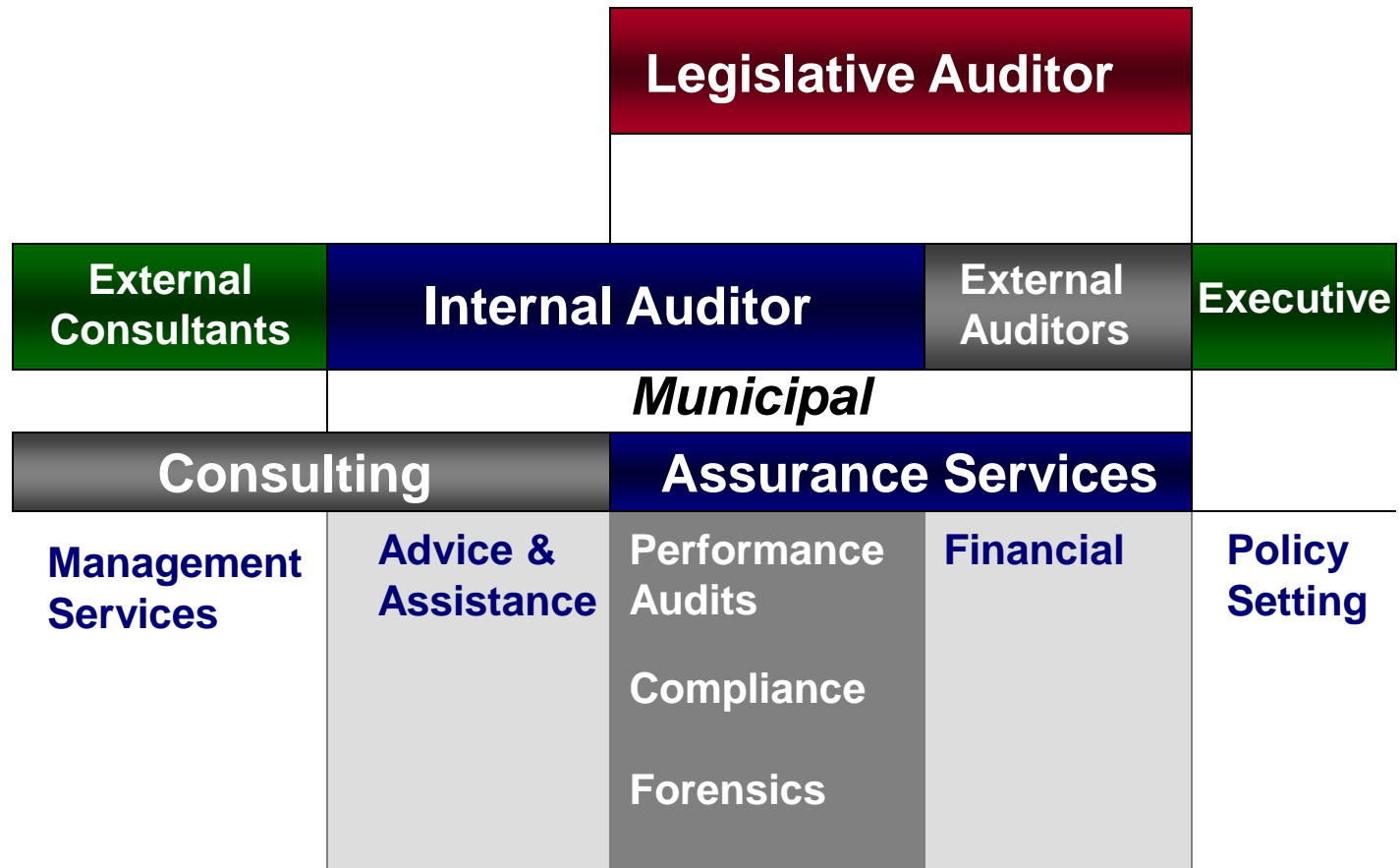
Basis of Public Sector Auditing: Principal-agent relationship



Different Forms of Government Audit

- Westminster system
 - National and state AGs, IA
- Europe
 - Courts of Audit, IAS
- US Republican system
 - State auditors, agency IA
 - Inspectors general
 - GAO – in a class by itself
- Municipal auditors

Public Sector Audit Roles



The Independence Issue



The Basic Conflict

- Government auditors may report to a legislature (or other elected body)
- But need to be independent of them, not take direction or be controlled by them.
- Or they may report to management, while auditing management.



Audit services may conflict with government interests

- Financial statement opinions
 - **Qualifications may embarrass government**
- Performance audits
 - **may be critical of government operations**
 - **may recommend unwelcome changes**
- Compliance audits
 - **make find wrongdoing or illegalities**

Government may retaliate

- Ignore reports
- Attack credibility in media
- Restrict or delay information
- Cut audit budgets
- Dismiss the auditor

Internal Audit Vulnerability

- Risks of being part of management
- May lead to interference in audit role
- May be insufficient status or authority
 - Can be out-ranked
- May be auditing those you report to
- May be confusion of roles

Why independence ?

Example – elected members expenses

- United Kingdom
 - scandal over moat cleaning and other egregious acts
- Canada – Newfoundland
 - 4 members jailed for fraud
- Nova Scotia
 - Elected Members' Expenses
 - Recent report: IEF, Colchester

MLAs criticize AG probe

Board reinstates claims for MLAs' living expenses, won't go after 5 biggest spenders

Tories reel as Hurlburt quits, Casey stays put

Caucus supports leader in first fallout from expenses audit

AG report slams MLA spending

\$2,500 TV, \$740 coffee machine among political expenses claimed

Layton: No need for AG to audit MPs

Facing spending scandal and deficit, N.S. hikes taxes

Budget raises HST to 15% amid voter outrage over MLA expenses

N.S. Liberal quits politics, but few reasons given for departure

MLA EXPENSES

N.S. Liberals apologize for role in spending scandal

Expenses scandal overshadows Throne Speech

Premier Darrell Dexter ejects veteran MLA from NDP caucus over what party characterizes as taking reimbursements for unpaid bills

Standing defiant
MLA refuses to apologize for expensing \$8,000 generator

Spending rules tightened

N.S. slaps restrictions on legislators' spending

Expenses will now be posted online and receipts required; other allowances cancelled after revelations of inappropriate expenditures

Secret spenders outed

MLA Richard Hurlburt expensed thousands on LCD TV

Leaders agree on reform for MLA expenses

N.S. Tory resigns over generator, TV purchases

MLAs lose monthly allowance, will need receipts as expense crackdown begins

Editor's Pick: HOT TOPIC

Scandal rocks Nova Scotia politics

Hey big spenders

Speaker releases auditor general's full list of expenses

NOVA SCOTIA SPENDING SCANDAL

Dexter promises to legislate tighter controls on MLA expenses

MLAs must answer for 'dumb moves': Minister



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How to improve independence

- Auditors must be free to select, conduct and report audits without interference
- Best protection from interference or retribution derives from independence. Key elements:

Mandate and authority
Organizational independence
Audit & reporting independence
Secure funding

Oversight and support
Unrestricted access
Protection
Professional standards
Administrative autonomy

Mandate and Authority

- Are the powers and duties of the government auditor established by legislation, possibly supplemented by a charter or policy?
- Are the entities subject to audit clearly identified?
- Is it clear what services are required or allowed?

Organizational Independence

- Does the auditor report to the appropriate levels administratively and functionally?
- If legislative/external, is reporting direct to the legislature?
- Who can appoint, terminate, set salary and benefits, evaluate performance?
- Is there a secure employment contract?

Audit & Reporting Independence

- Selecting audits
 - **Can the auditor decide what to audit?**
- Conducting audits
 - **Can anyone limit the auditor's ability to conduct his/her work free of interference?**
- Issuing reports
 - **Can the auditor issue reports to the appropriate level without edit, restriction or delay?**
 - **Are reports public and may they be issued to the media?**

Secure Funding

- Is the auditor's budget approved at the highest level? Is it protected from arbitrary reduction?
- Is the funding secure from influence by audited parties? Is there excessive reliance on billing auditees?
- Is funding sufficient to conduct the work required?



Oversight and Support

- Does an appropriate oversight body oversee the auditor's work – eg audit committee, legislative committee?
- Does internal auditor report functionally to an audit committee?
- Does audit committee act as audit's champion, supporting audit activity and promoting implementation of recommendations?

Unrestricted Access

- Does the auditor have unrestricted right of access to people and information, even if confidential?
- Are government employees required to cooperate?
- Does the auditor have the legal authority to enforce cooperation?

Protection

- Do auditor and staff have immunity from legal actions related to their work?
- Are audit files protected from disclosure?
- Conversely, do auditors have a duty to maintain confidentiality of information?



Professional Standards

- Is the auditor required to comply with independent professional audit standards
 - **Eg IIA; INTOSAI; IFAC; national**
- Does the audit office do so?

Administrative Autonomy

- Are any government policies and rules applicable and do they restrict the audit office's autonomy?
 - **Purchasing and spending**
 - **Human resource practices including recruitment, salaries, evaluations**
 - **Finance and accounting**
 - **Business plan approval**

Key Elements of independence

- Mandate and authority**
- Organizational independence**
- Audit & reporting independence**
- Secure funding**
- Oversight and support**
- Unrestricted access**
- Protection**
- Professional standards**
- Administrative autonomy**

The Public Sector Internal Audit Capability Model

- Identifies fundamentals for effective IA in the public sector
- Levels and stages through which IA can evolve
- Model for self-assessment, capacity building and advocacy
- Section on governance deals with evolution of independence in IA activity
- Also – upcoming practice guide on independence and objectivity

Summary

- Adequate independence is essential for effective operation, and protection, of public sector audit.
- A number of key elements can be critical to audit independence.
- Auditors should identify independence deficiencies and seek improvements.

Some References

- INTOSAI GOV 9140: Internal Audit Independence in the Public Sector
- IIA IPPF :
 - **1100: Independence & Objectivity**
 - **1110-1: Organizational Independence**
- IIA: The Role of Auditing in Public Sector Governance
- IIA Research Foundation: Internal Audit Capability Model (IA-CM)
- CICA: 20 Questions Directors Should Ask about Internal Audit

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