

Auditors role on promoting transparency and accountability

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- › The role and responsibility of an auditor in the public sector for enhancing transparency and accountability in the public sector financial reporting
- › The presentation demonstrates the responsibility referring to the requirements in the international audit standards for supreme audit institutions (ISSAIs) focusing on financial audit.
- › SAIs are independent with diversified mandates and context!



Presentation topics

- › Why transparency and accountability in financial reporting – social contract
- › Role of the Supreme Audit Institution (SAI)
- › Role of the Financial Auditor
- › Conclusions



The Social Contract – why accountability and transparency

Citizens, enterprises
(tax, etc)

Public Sector budget

Financial statements with
relevant information

Obligations, activities:

- *Welfare obligations*
- *Interventions financial markets*
- *Co-operation with private sector*

=> *Debts, liabilities,
provisions, value of assets
etc*

- > Finance and debt crisis
- > International studies (IMF etc.) observed poor reporting from the public sector:
 - *Diversified accounting standards,*
 - *No consolidated financial reporting,*
 - *Not all debts and future obligations were included,*
 - *No reporting on risks*



- > EU Survey (2014 ICAEW/PWC):
 - *Fewer than 1 in 5 Europeans feel that their government provides them with sufficient information about the state of public finances.*
 - *Only 1 in 5 Europeans express confidence in their government's ability to manage public finances.*
 - *The countries with the highest levels of distrust are also the ones where there is a greater demand for financial information.*

- > New laws and regulations for private sector (EU, IFRS)

- > ***Where are the auditors?***

The evolution of the auditor

- > The counting – ticking off – auditor



- > The thinking and analytical auditor!



The role of the SAI

- › Lima Declaration and UN resolutions (66/208, 69/228) recognizes the importance of the SAIs in the PFM context
- › Promote accountability, transparency, effectiveness and efficiency in the public administration
- › Act professionally
- › Expectations from the citizens and other stakeholders



International Audit Standards for SAIs – organization level

ISSAI 12 – Value and benefits of an SAI

- › Acting in the public interest places a further responsibility on SAIs to demonstrate their ongoing relevance to citizens, Parliament and other stakeholders.
- › Strengthening the accountability, transparency and integrity of government and public sector entities
- › SAIs should strive to promote, secure and maintain an appropriate and effective constitutional, statutory or legal framework.



International Audit standards for financial audit

ISSAI 200, 1210 – evaluate the financial reporting framework

- › The nature of the entity

- › The purpose of the financial statements (whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users)

- › Prescribed by law and regulation



Acceptable financial reporting frameworks normally exhibit certain attributes that ensure that the information provided in the financial statements is of value to the intended users:

- › Relevance – the information provided in the financial statements is relevant to the nature of the audited entity and the purpose of the financial statements;
- › Completeness – **no transactions, events, account balances or disclosures that could affect conclusions based on the financial statements are omitted;**
- › Reliability – reflects the economic substance of events and transactions and directs disclosures, measurement, etc.



- › Frameworks prescribed by law or regulation
 - ➔ will often be deemed acceptable by the auditor

- › BUT in those cases where the framework is prescribed but not adequate
 - ➔ ask management to provide the necessary additional disclosures in the financial statements to avoid their being misleading and
 - ➔ the auditor should evaluate the effect of the misleading nature of the financial statements on the auditor's report and the opinion, (ex. EOM)
 - ➔ consider the need to inform the legislator



Conclusions

- › In cases where no financial statements are presented the SAI should probably act (ISSAI 12)
- › In cases where financial statements are presented the auditor needs to evaluate whether the financial reporting framework is adequate and the Financial statements includes all relevant financial information – for decisionmaking.. (ISSAI Financial Audit)



> Thank you!

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Reference material exaples:

- > **IMF Technical notes Transition to Accrual Accounting** (September 2009)
- > **IMF Fiscal Transparency, Accountability, and Risk** (August 2012)
- > **ICAEW/PWC Trust in public finances - A survey of citizens in 10 European countries** (October 2014)

