

Read candid views of KPMG's audit leaders as well as senior government audit professionals on the value of an audit. Their observations demonstrate a number of challenges and concepts that are critical to the value of audit in government today and in the future.

Value of Audit: Perspectives for Government



cutting through complexity

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Who are the KPMG government audit leaders



Sjaak Bruinsma

Partner, KPMG in the Netherlands

Sjaak Bruinsma started his career as an accountant in 1985. Prior to joining KPMG in 1998, his experience was focused on business services and government. At KPMG, his knowledge and expertise have shifted from social security and health insurance to the government and independent public bodies. As part of his services for the government, he has conducted or supported the performance of audits for the Ministry of Defence, Security and Justice, and the Ministry of Infrastructure and Environment. Within KPMG, Sjaak has been responsible for embedding accounting developments in the public sector. He is the co-author of the annual KPMG publication on developments in the public sector in the Netherlands.



Diane Dudley

Partner in-Charge, US Federal Audit Business Unit, KPMG in the US

Diane Dudley is the partner-in-charge of KPMG's Government Audit Practice in Washington, D.C. She leads the KPMG practice of over 300 professionals dedicated to providing auditing services to federal agencies. She currently serves as the overall audit partner or quality control review partner of several large federal agencies. Ms. Dudley is highly involved in contributing to the improvement of federal financial management as an auditor and by participating in work groups to comment on relevant auditing standards applicable to the US Federal government.



Baudouin Griton

Partner, KPMG in France

Baudouin Griton, a French certified public accountant, is technical advisor to Michel Camoin, a member of the International Public Sector Accounting Standards Board. Baudouin is an audit partner with KPMG France, where he has been working in the Infrastructure and Government sector for more than 20 years. He is the partner in charge of the audit of the International Bureau of Weights and Measures' Financial Statements and Pension scheme, an international organization located in Paris that prepares its financial statements using IPSAS as well as the signing partner of one of the largest listed construction companies in Europe.



Archie Johnston

Partner, Audit, KPMG in Canada

Archie Johnston has over 30 years of experience in servicing public sector, not-for-profit and regulatory organizations. He currently serves as industry leader of KPMG Canada's Province of BC public sector practice. Archie has also served as lead audit partner and quality control review partner for many of Canada's premier public sector organizations. In recognition of his contributions to the sector and profession, Archie has received the Government Finance Officers' Association (GFOA) of BC's Life Member award and the Institute of Chartered Accountants of BC (ICABC) Fellowship (FCA) designation.



Hans-Werner Nieweg

Partner, Audit, KPMG in Germany

Hans-Werner Nieweg has extensive assurance experience in the Industrial Market and in the Infrastructure and Government industries. His specialties include the audits of individual and consolidated financial statements according to HGB and IFRS (accredited partner of IFRS). He has a strong track record in the management of medium-sized companies with private or public shareholder background. Hans-Werner's focus is on the audit of the consolidated financial statements and annual audits, as well as other related consulting services.

**Andrew Reeves**

Partner, Financial Services, KPMG in Australia

Andrew Reeves is a Partner in the KPMG Sydney Financial Services practice specializing in Insurance. Andrew was appointed as a Partner in January 2002 after joining KPMG in 1987. He has worked in Sydney and London on a range of financial services clients across insurance, funds management and superannuation. Andrew's depth of experience enables him to provide a wealth of knowledge to clients on the prudential regulatory environment, risk management and financial reporting issues.

**Andy Sayers**

Partner, KPMG in the UK

Andy Sayers joined KPMG in 1986 and was appointed a partner in 1997. He has worked in both the KPMG Audit and Advisory practice with both commercial and public sector clients. He is now a partner in KPMG's Public Sector practice working with a range of public sector bodies in local government, central government and related bodies focusing predominantly on external and internal audit.

**Alfred Sithole**

Director, KPMG in South Africa

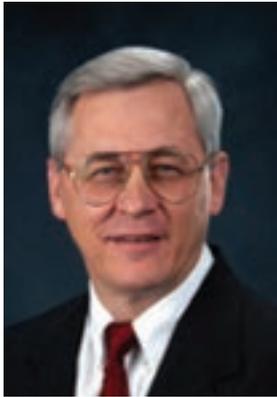
Alfred Sithole has over 15 years of experience working on a wide range of entities in both the private and public sectors. He is responsible for the overall performance and the technical quality of the audits including formulating an audit opinion and has extensive experience in GRAP, IFRS, SA GAAP reporting. As a Partner on assurance audits, he ensures that the audit meets the firm's quality standards. Alfred is directly involved with the planning, execution and finalization of the audit and maintains effective and regular audit-to-client communication throughout the year at all appropriate levels.

**Yoshihide Takehisa**

Head of Public Sector, KPMG in Japan

Yoshihide Takehisa has over 25 years of experience with KPMG Japan, specifically around delivering services in the public sector. He currently serves as the Leader of KPMG Japan's Public Sector practice. Yoshi has also served as the Vice President of Risk Management and the Director of Healthcare for KPMG Japan LLP. Additionally, Yoshi is a member of several public sector groups in Japanese Institute of Certified Public Accountants.

Who are the senior government audit professionals



Robert Dacey

Chief Accountant
US Government Accountability Office (GAO)

Robert Dacey is the Chief Accountant for the US Government Accountability Office (GAO), serving as an advisor and counsel to the Comptroller General of the United States on accounting and auditing matters. Robert led the first three financial audits of the consolidated financial statements of the US government and other key federal agencies and developed financial and information security audit methodologies that are used by all auditors of federal government financial statements, including independent public accounting firms. He is currently a member of the Federal Accounting Standards Advisory Board, AICPA Service Organization Audit Guide Task Force and International Public Sector Accounting Standards Board (IPSASB).



Bill Matthews

Comptroller General of Canada
Federal Government, Ottawa
Canada

Bill Matthews was appointed Comptroller General of Canada effective 17 July 2014. The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

**Cathy McLay**

CFO & Executive Vice President
Finance and Corporate Services
TransLink, Vancouver, Canada

Cathy McLay has extensive experience with reorganizational structures, mergers, acquisitions, change management and divestitures. Prior to her current role as CFO and Executive Vice-President, she was TransLink's Director of Finance. She served as the General Manager for Canadian Forest Products Ltd, as well as the Corporate Controller for Howe Sound Pulp and Paper Limited Partnership.

**Arnold H.J. Moerkamp**

Chairman and CEO
National Health Care Institute
Netherlands

Arnold Moerkamp has been the Chairman of Zorginstituut Nederland (the National Health Care Institute) and its predecessor (the National Board for Health Care Insurance) since 2011. Prior to this, Arnold held various executive positions with a number of ministries. The most recent of these was as Director of Curative Care and Deputy Director-General with the Ministry of Public Health with which he also held the position of Director of Long-Term Care. In addition, Arnold, was one of the instigators of the Social Support Act.

Foreword

Audit has proved its worth over the years, to organizations and their stakeholders: investors and companies, tax payers and governments – and society as a whole. But as the events of the last decade have shown, it's time for change – for a revolution in audit thinking and execution. Business has changed, issues of public trust have arisen, stakeholder needs have evolved, and audit needs to keep up. That's why we created the Value of Audit project.

When we started thinking about the future of audit we wanted to find out where we are now. As a starting point, we asked our own partners to share their thoughts on the value in audit today and in the future. But more importantly, we engaged in a dialogue with our external stakeholders on audit's current strengths and weaknesses and on how we, as a profession, can address the latter to make the audit more relevant to twenty-first century business.

We first looked at the realm of public company audit in our *Value of Audit: Shaping the Future of Corporate Reporting* report. And now, with this report, we are offering up our thoughts on how public sector accounting and audit can and should evolve. The comments made in both reports by partners from across KPMG's network of member firms are their own and were made in the context of their role as experienced auditors. Though the partners' responses were clearly defined by their personal ideas and experience, a number of common messages emerged.

Until recently there has been little impetus for the audit profession to develop. But all those interviewed for this project are adamant that innovation around auditing information beyond the financials as well as how we communicate our findings is absolutely critical in order for the audit to stay relevant.

The profession as a whole is furthering this public policy debate, and KPMG intends to continue to be a leading voice in this discussion. We are serious about change and about having an open dialogue to see how that change can happen in the best possible way. We invite all stakeholders to join us in the discussion.



William O'Mara

Global Head of Audit,
KPMG International



Mark Vaessen

Global Head of IFRS,
KPMG International

Introduction



Public trust is a vital part of effective governance. However, recent studies by the Organisation for Economic Co-operation and Development (OECD) have shown a dramatic decline in public trust in national governments worldwide¹. This decline could have serious implications for governments around the world. One way to rebuild trust with the public is to open up a government's financial records to audit and engage in honest and open discussions about how the government has allocated its resources.

This report, *The Value of Audit: Perspectives for Government*, features the views of KPMG government audit leaders in nine countries – Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US as well as senior government audit professionals from Canada, the Netherlands and the US. Their observations demonstrate a number of challenges and concepts that are critical to the value of audit in government today and in the future, including:

- **The lack of consistent accounting standards across the globe, which limits the usefulness of government financial statements as a means of comparison.** One of the biggest factors influencing the differences with government financial reporting is the fact that many countries around the world are not using full, accrual-based accounting, but are still operating on a cash-based accounting system. If countries are using a broad range of accounting standards to prepare financial statements, there can be no comparison between the financial health of one country to the next. This is the greatest global issue facing financial reporting, and ultimately, determines the usefulness of government financial statement audits today.

¹ OECD (2013), *Governments at a Glance 2013*, OECD Publishing

² Value of Audit – Shaping the Future of Corporate Reporting, KPMG International, 2014

- **The differing approaches to conducting government audits around the world that impacts the reliance on government financial reports.** One of the challenges in producing a report on such a multi-faceted topic is the significant difference of government audits from jurisdiction to jurisdiction. No two countries are the same. In some countries, government audits are made public to taxpayers, while in others they are not. In some countries, the law mandates that audits provide commentary beyond a pass or fail audit opinion, while in others that is not the case. To help provide a foundation for readers, we have provided an appendix that summarizes the government audit landscape for each of the nine countries.
- **Challenges in demonstrating the trust and independence of government audits around the world.** The structure of the government audit organizations within each country impacts the perceptions of trust and independence among their citizens. While our interviewees' opinions vary depending on the country, you will find similar themes throughout – the importance of independence and trust is a common sentiment across the board.
- **Looking for ways that government audits can provide more value to government and its citizens.** Often, the structure of government financial reporting, as well as the fundamental comments on long-standing weaknesses and gaps in controls in the associated audit reports, remain unchanged over several years. As a result, the observations we share through government audits become lost in the competing priorities of the government. But audits can potentially provide great value to governments and the public by bringing accountability, which can enhance the government's controls and instigate decision-making.
- **Technology integration is the key to the future of audits in government.** Around the world, governments have invested in modernizing information technology (IT) systems and service delivery models to take advantage of significant IT advances. However, we need to address two questions; 1) have auditing techniques modernized in a similar fashion, and 2) is there a better way to take greater advantage of modern financial and business systems with a government audit?

Throughout this report, our interviewees explore and address these themes providing fresh perspectives based on their country's operations. Even though each country is at a different stage of its audit evolution, it is clear we can all learn from each other. We hope that sharing the knowledge and experience of our government audit leaders from around the world will spur discussion and lead to a further sharing of information across borders to help inform decisions.



Diane Dudley
Partner in-Charge,
US Federal Audit Business Unit
KPMG in the US

It should also be recognized that there is a global initiative by the International Federation of Accountants to encourage all governments to adopt accrual-based accounting standards, such as the International Public Sector Accounting Standards Board (IPSASB) standards; this initiative aims to achieve enhancements in various ways.

- A more accurate and comprehensive view of a government's financial position.
- Added transparency and accountability, which demonstrates stewardship of taxpayer funds.
- Reduced risk of reporting fraud.
- An increased ability to plan for future services, programs and funding requirements.

The IPSASB provides an accrual-based accounting framework for countries to potentially adopt or tailor to their use. While the framework exists, the current challenge is having policy makers understand the value of accrual-based accounting and adopting it in their own country.

The audit model and profession

Should government audits deliver more than just a pass or fail opinion? This section examines the relevance of the audit model in its current state, as well as the evolution of the profession.

Government audits are essential to delivering an objective and independent view of government programs and services, and they help provide accountability to the use of public funds. The reality is that audits have been evolving and transforming in government for some time. While innovation in the audit and the pace at which change is taking place may vary from country to country, there are definite steps being taken to make audit more relevant to the users.

The views in this section include the following:

- Auditors should deliver information that is beyond a pass or fail opinion, and should have the training and capability to do so.
- How audit might evolve in the future is unclear because of the way government audits are viewed by stakeholders, the current local regulatory environment, and the needs of the government.
- The stronger emphasis on transparency in government reporting will likely impact what is audited and how the audit is conducted.
- For some countries, the move from cash to accrual-based accounting has already taken place, resulting in improved government reporting.

Q&A

Interview with government audit leaders

“The audit profession is one of the only professions that has access to such a wide variety of functional areas within an organization.

Andrew Reeves Australia

Q: Do auditors have the capability to give anything more than a binary pass or fail audit opinion? Is the profession sufficiently sophisticated to deliver a more narrative-based opinion?



Australia

Andrew Reeves: The audit profession is one of the only professions that has access to such a wide variety of functional areas within an organization. It's this aspect of our profession that gives us not only a deep understanding of the financials to deliver an audit opinion, but a wider appreciation and knowledge of most aspects of the organization. That being said, in order to deliver additional value, a shift in auditors' mindsets to branch out beyond a 'black and white' approach is critical in making that happen.



United States

Diane Dudley: The audit profession is certainly moving beyond a binary pass or fail – especially in government. The general public is increasingly interested in non-financial information, and their government’s ability to demonstrate improvement as it relates to overall performance. The audit is evolving to analyze these factors. The current reality is that there is increasingly more transparency in government audits. This will likely change what is audited and how an audit is conducted. For example, the US government has developed additional, new audited financial statements related to the use of budgetary resources and social insurance commitments and is now reporting specific spending on open Web portals, with more such reporting planned. Further, the US financial statement reporting model includes additional reporting on improper payments that auditors are required to review in relation to the audited financial statements.



Canada

Archie Johnston: In Canada, I don’t think we’ll see the written audit opinion go away in the traditional sense – will it evolve to allow the profession to express its opinion in other ways? Definitely. The additional value we provide beyond the audit opinion can be found in other tangible deliverables. The real life dialogue with the audit committee is really where value-added service comes into play today, and we are listening to the public and working to provide more value to outside stakeholders as well.



Germany

Hans-Werner Nieweg: Auditors have the opportunity to go beyond just a pass or fail audit opinion, as we engage with various functional groups within an organization. It’s through engaging with these diverse stakeholders that we can uncover issues and add value by raising those issues.

“There’s no ‘tick-box’ in the world that’s going to get you to conclude whether or not something was done fairly, equitably, transparently, competitively and cost effectively.

Alfred Sithole South Africa

Q: Does the common compliance-based training that auditors around the world receive encourage them to take a ‘tick-the-box’ approach, rather than the more inquisitorial approach?



South Africa

Alfred Sithole: With all of the changes we’ve seen in the last 20 years since becoming a democracy, there has also been a significant amount of legislation to adhere to. This legislation is focused on being principles-driven and that makes ‘ticking-the-box’ impossible. There’s no ‘tick-box’ in the world that’s going to get you to conclude whether or not something was done fairly, equitably, transparently, competitively and cost effectively.

“The real challenge for auditors is to go beyond the compliance exercise, to provide insights and revisit the way in which we communicate with our stakeholders, including through our audit report.

Hans-Werner Nieweg Germany



United Kingdom

Andy Sayers: While compliance is necessary, we encourage professional skepticism and for our people to be inquisitive. Our work as auditors and assurance providers is heavily influenced by the identification and understanding of the risks that audited bodies face and requires a thorough understanding of the organization being audited – as such, it is important that we approach our work thoughtfully.



Germany

Hans-Werner Nieweg: Every auditor can tick a box. The real challenge for auditors is to go beyond the compliance exercise, to provide insights and revisit the way in which we communicate with our stakeholders, including through our audit report.

Industry view:

Bill Matthews (Canada)

Comptroller General of Canada
Federal Government, Ottawa, Canada

Providing assurance on governance, risk management and control to heads of organizations is an invaluable contribution to meeting mandates and objectives. Compliance or tick-box methodology is useful as a training ground. Leadership in internal audit requires a move beyond this approach. When I’m looking for the future leaders of the audit profession, they’re people who are independent, strategic and trusted advisors at the management table.

Q: What meaningful improvements or innovations in audit has the government sector made recently?



France

Baudouin Griton: One of the more significant changes we’ve made in France has been to move from a cash-based to an accrual-based accounting system. Not only does this system lead to more transparency and accountability, it also allows governments to compare their reporting with that of other governments, facilitating continuous improvement.



United Kingdom

Andy Sayers: Our ability to communicate our audit findings in an accessible and understandable way for non-technical readers is a significant advancement, and has increased the awareness of our role and its importance.

Industry view:

Bill Matthews (Canada)

Comptroller General of Canada
Federal Government, Ottawa, Canada

A unique feature of the government in Canada versus the private sector is the range of assurance providers. For example, my office leads the internal audit function across government; the Auditor General of Canada is the agent of Parliament that audits across government institutions; the Public Service Commission audits staffing. We now bring these and other assurance providers together to discuss plans and risks, not only to avoid duplication of effort but to be able to rely on one another's work where appropriate.

“One of the greatest weaknesses in our system today is the fact that we haven't made the transition from cash-based accounting to accrual-based accounting.

Yoshihide Takehisa, Japan

Q: What is the single largest weakness remaining in the government audit and what could be done to rectify it?



Diane Dudley: The users of the financial statements want an expanded audit scope that includes performance data, and other financial data beyond historical financial statements. The underlying weakness is that the data everyone is interested in is unaudited. So if we can find a way to provide assurance over the data beyond the financial statements, all stakeholders would stand to benefit from this service.



Yoshihide Takehisa: One of the greatest weaknesses in our system today is the fact that we haven't made the transition from cash-based accounting to accrual-based accounting. Making this switch would add so much more value to government audits.

Industry view:

Cathy McLay (Canada)

CFO & Executive Vice President
Finance and Corporate Services
TransLink, Vancouver, Canada

The financial reports as they are today are very structured and tend to get in the way of what the real story is. Sometimes less is more. Given all of the requirements of financial statements, we often aren't able to articulate what the real heart of the matter is in audited financial statements.

“Governments and taxpayers need insights that can help them make their decisions.

Baudouin Griton France

Q: Is there merit in extending the typical government audit beyond the financial statements or even the annual report?



Australia

Andrew Reeves: We're certainly seeing an interest from our audit committees to extend the audit beyond the financial statements, such that our teams can highlight areas of opportunity and risk where the audit can be extended to add value to the client, while remaining independent. The audit committee can also bring forward these insights to other stakeholders working on their business. There is definitely interest to leverage audit insights across various functions.



France

Baudouin Griton: Governments and taxpayers need insights that can help them make their decisions. While we're not talking about predicting the future, the use of predictive analytics to test the prospective information provided by the organization is an area where audit can add more value to the decision making process.



South Africa

Alfred Sithole: I think there is merit to looking at an integrated report that takes into consideration more than just performance against service delivery objectives and financials, but also the impact on society as a whole.

Industry view:

Cathy McLay (Canada)

CFO & Executive Vice President
Finance and Corporate Services
TransLink, Vancouver, Canada

I'd like to see the area of sustainability explored in government audit reports. We're often being asked what we are doing in terms of our environmental impact. What are we doing to reduce our carbon footprint? I think it is a big opportunity to include this information in audited financial statements and test the mandates of what many governments are being asked to do.

Arnold Moerkamp (Netherlands)

CEO and Chairman
National Health Care Institute
Netherlands

Recently, we've seen some debate on whether auditors should broaden responsibilities and the scope of their work. This debate has been going on in both the private and public sectors. To be honest, I have my doubts if it would be wise to extend the auditor's work in the public sector. I feel that it would be best to stick to the more traditional responsibilities. One of the reasons is that we have quite an elaborate pyramid of checks and balances in place in the public sector, with different organizations playing different roles in the oversight and governance. An extended auditor's role would be undesirable in this context and would probably lead to duplication of work.

Audit quality and value

This section explores the value that audits provide for stakeholders and audit quality. The perceived value of government audit varies depending on the jurisdiction. In some countries, the audit is a crucial aspect of government's public accountability or is mandated by law. In other jurisdictions, the audit may only be used by one particular group within the government.

Audit quality continues to be impacted by the use of technological innovations, such as data and analytics (D&A). D&A is enabling auditors to analyze a larger set of data and giving them the ability to test more outliers and anomalies. Through these advances, audit quality is evolving and rapidly improving, which will, no doubt, impact audits around the world in the public sector.

The views in this section include the following:

- Audit plays an important role when agency management provides assurance as to the adequacy of their internal controls over government's financial statements.
- In countries where government audits are not made public, or the audit is not presented in a way that is easily accessible, the general public is shortchanged.
- To increase the value of audit, change is needed to reflect the shifting operating landscape, new technologies and the need for more assurance.

Q&A

Interview with government audit leaders

Q: How can you quantify the value of a government audit?



France

Baudouin Griton: There are two streams of value when it comes to government audits in France – our ability to provide management with confidence in the quality of their financial statements, and secondly, with our move to accrual-based accounting. Value is measured in our ability to deliver a robust audit.



United States

Diane Dudley: Quantifying the value of an audit is difficult, but what we do know is that there's no doubt that an audit plays an important role when agency management provides assurance as to the adequacy of their internal controls over government's finances and that the government is carrying out its fiduciary responsibility to use the taxpayers' funds appropriately.

“Picture a world where you weren’t sure you were dealing with the right numbers. You would have a useless conversation about what the right numbers should be

Bill Matthews Canada

Industry view:

Bill Matthews (Canada)

Comptroller General of Canada
Federal Government, Ottawa, Canada

I hate to use the word priceless – but Canadians need to know financial statements are credible. Having a third party opinion changes the whole dynamic of the situation. You can trust these numbers, so we can have a meaningful discussion about government programs. Are they affordable? Are they working? Are we getting good value? Picture a world where you weren’t sure you were dealing with the right numbers. You would have a useless conversation about what the right numbers should be. That kind of external opinion is invaluable.

Robert F. Dacey (United States)

Chief Accountant
US Government Accountability Office and
member of the Federal Accounting Standards Advisory Board

The value of audit is invaluable in a democracy where government acts on behalf of its citizens and must be fully accountable to the public for stewardship of its finances. Any attempt to place a quantitative value on an audit would likely significantly underestimate its value from a qualitative perspective.

Arnold Moerkamp (Netherlands)

CEO and Chairman
National Health Care Institute
Netherlands

I think we should draw a clear distinction between two perspectives. Speaking as the CEO of this organization, I see the value of the external auditor in improvements of our processes and control environment. I’m more interested in the management letter than in the audit opinion on our financial statements. In the recent years, we’ve had an excellent relationship with KPMG, which has triggered a better use of automated controls in our IT environment and improved operational processes. On the other hand, the auditor’s work gives stakeholders an objective look at how we deal with taxpayers’ money. This is invaluable, as government organizations are accountable for good stewardship of their financial household. The value to society is that an auditor provides assurance.

Q: How can audit quality be ensured in an environment where government costs are rising but resources falling?



Germany

Hans-Werner Nieweg: While resources may be limited, audit quality cannot be compromised. Technological advances allow our profession to deliver a better quality service, in a more efficient manner.



Netherlands

Sjaak Bruinsma: While costs are rising, we have called on our organizations to properly prepare for an audit ahead of time – this collaboration is key to delivering the highest quality audit, while effectively managing the resources that are involved with the audit.



United States

Diane Dudley: Outsourcing part or all of an audit is one way that governments can free up their resources to give more focus to investigations and programmatic audits. We've found that this can be a very effective way for governments to focus their energy on priority areas and maintain the quality of their audits. By outsourcing financial statement audits, governments can also tap into leading practices both globally and locally, which can bring enormous value.

“By outsourcing financial statement audits, governments can also tap into leading practices both globally and locally, which can bring enormous value.

Diane Dudley United States

Industry view:

Cathy McLay (Canada)

CFO & Executive Vice President
Finance and Corporate Services
TransLink, Vancouver, Canada

There is continuing pressure on getting an audit faster, quicker, shorter and cheaper. But it's really about balancing out what you can make more efficient, using technology for example, and things that you just can't take shortcuts on. It's like having insurance. You don't buy the cheapest insurance with the lowest coverage because you don't want the outlay of money. You buy it to match your business so that if you ever needed it, it's going to be appropriate.

Robert F. Dacey (United States)

Chief Accountant
US Government Accountability Office and
member of the Federal Accounting Standards Advisory Board

Audit quality is always paramount and a hallmark of *Government Auditing Standards* issued by the Comptroller General of the United States. Federal entity audit oversight is performed by the Government Accountability Office and agency-level Inspectors General, many of whom are nominated by the President of the United States and confirmed by the US Senate and serve as independent auditors without political affiliation. Also, the Governmental Audit Quality Center established by the American Institute of Certified Public Accountants is dedicated to government audit quality.

“There are two groups that truly benefit the most from a government audit. The first would be the government itself and the second is the general public.

Yoshihide Takehisa Japan

Q: Are there any stakeholder groups that are not utilizing the government audit?



Canada

Archie Johnston: Whether you’re the regulatory body, council, management, or taxpayer, the audit serves a purpose and aims to provide a clear opinion for those with a vested interest in the organization. Of those groups, the taxpayers themselves are the furthest removed from the process, and likely feel less engaged than they would expect or hope for. There may be value in developing a collaborative audit approach that involves the public from an awareness or education perspective as it relates to audit procedures.



United States

Diane Dudley: Citizens complain that the information that they currently get is too voluminous and too historical, and it does not focus on what a typical citizen would like to know, which is: are they spending my money on the right programs and protecting against fraud, waste and abuse?

Industry view:

Bill Matthews (Canada)

Comptroller General of Canada
Federal Government, Ottawa, Canada

Subject matter experts outside of the government are looking for more information and would probably find there is not enough depth within the scope of a traditional audit report.

Q: Who benefits most from the results of a government audit?



United States

Diane Dudley: Government agencies find great value in receiving a clean opinion on their finances. It allows them to demonstrate to their stakeholders the appropriate accountability over financial reporting.



Japan

Yoshihide Takehisa: There are two groups that truly benefit the most from a government audit. The first would be the government itself and the second is the general public. Government audits help increase accountability and the level of trust of government entities.



Netherlands

Sjaak Bruinsma: To the general public it’s the audit opinion that indicates appropriate allocation of taxpayers’ money, and that their governments are following relevant laws. As such, we have an obligation to continue to understand what the public needs and, as a profession, take a hard look at how we can evolve as their needs change.

Industry view:

Cathy McLay (Canada)

CFO & Executive Vice President
Finance and Corporate Services
TransLink, Vancouver, Canada

Our audited financial statement is of huge value to our investors, stakeholders and customers. It gives them that assurance that somebody has looked over our shoulder. They're able to see that we've done what we said we were going to do.

Robert F. Dacey (United States)

Chief Accountant
US Government Accountability Office and
member of the Federal Accounting Standards Advisory Board

Everyone benefits from high-quality government financial statement audits. First and foremost, the public is receiving independent assurance over the reliability of the government's reported financial information, which provides accountability to the public. For financial statement audits for and by the GAO, management is also receiving assurances about the effectiveness of its controls and the reliability of information it uses to manage the entity. Likewise, the Congress is receiving important assurance over the quality of financial information to assist it in its oversight and decision-making processes.

“We go through a cycle of necessary communication touch points with stakeholders, specifically at the stage of audit planning, plan review, and audit committee meetings.

Andrew Reeves Australia

Q: Do stakeholders understand the role and value of the government audit?



France

Baudouin Griton: While everyday people may not be too concerned with government audits, it isn't because of lack of interest. It's due to a lack of understanding of what the information in the financial statements really means, and, more importantly, its relevance and meaning to their lives. By educating the public, this sentiment could change for the better.



Netherlands

Sjaak Bruinsma: The audit of historical information makes sense to those involved, but there is opportunity for the profession to demonstrate its ability to shed light on non-financial information and its potential impact on the future performance of the organization.



Australia

Andrew Reeves: We go through a cycle of necessary communication touch points with stakeholders, specifically at the stage of audit planning, plan review, and audit committee meetings. This helps to ensure that the primary stakeholders – government agencies – and other external stakeholders have a solid understanding of what the government audit entails.

“Fast forward many years later, and while the principles and objectives of a traditional audit remain the same, it’s the tools and industry expertise our profession has that allows us to deliver additional value beyond the original audit.

Archie Johnston Canada

Industry view:

Arnold Moerkamp (Netherlands)

CEO and Chairman
National Health Care Institute
Netherlands

Frankly, the auditors’ report has not been a hot topic of discussion with our stakeholders such as the responsible ministry, politicians and oversight bodies. The litmus test is taking place as we speak. For the first time in history, our external auditor, KPMG, will issue a disclaimer. The underlying issues that add up to this disclaimer are beyond our circles of influence. The healthcare institute is largely dependent on other organizations in a complex care network to make sure that tens of billions of euros are well spent. The structures and mechanisms for financing operations in care have seen tremendous changes in the past years and the complexity causes major issues in controlling the financial processes. This disclaimer is a clear signal to stakeholders about the issue at hand. I would encourage the audit profession to speak up more about this in public, not only by issuing a disclaimer, but also by joining the debate. Their knowledge and experience can surely help to get a better understanding of what is really going on.

Q: Is the typical government audit relevant in today’s environment?



Canada

Archie Johnston: Looking back on the profession, audits were put in place to help ensure store keepers were being honest and not running away with goods. Fast forward many years later, and while the principles and objectives of a traditional audit remain the same, it’s the tools and industry expertise our profession has that allows us to deliver additional value beyond the original audit. Our world is changing faster than ever imagined. And we need to keep pace, whether that’s through advanced data and analytics, examining what we can give assurance on beyond the financials, or when and how we audit.



France

Baudouin Griton: Given the recent shift in accounting methods within France, third party audits are critical to ensuring organizations have successfully transitioned from one process to another, ultimately providing confidence in the financial statements.



United States

Diane Dudley: The audit is relevant because it's expected, and it instills the public trust in their government. If we could expand the scope to include more assurance around performance results as well as the other financial data that agencies distribute, that would certainly improve the relevance.



United Kingdom

Andy Sayers: The government audit is more relevant than ever in a period of cost-cutting, savings and efficiency demands. Today's auditors will unearth issues that will raise the need for audit even further.



Australia

Andrew Reeves: Government audits bring accountability to large projects like events or disasters. Accountability in itself is extremely valuable and helps build and restore trust with the public. There is no greater value than building trust in government with the public. It isn't something we can be complacent about.

“The government audit is more relevant than ever in a period of cost-cutting, savings and efficiency demands. Today's auditors will unearth issues that will raise the need for audit even further.

Andy Sayers United Kingdom

Industry view:

Robert F. Dacey (United States)

Chief Accountant
US Government Accountability Office and
member of the Federal Accounting Standards Advisory Board

Most certainly, and perhaps more than ever as the US faces tough spending decisions given our nation's long-term fiscal sustainability challenges. Also, a new financial statement will report information on fiscal sustainability.

Arnold Moerkamp (Netherlands)

CEO
National Healthcare Institute in the Netherlands

Absolutely, and in our case, the stakes are of course very high. Controlling the cost of care in our society will remain a challenge for years to come, as it is in most western societies. Being in control over these costs is essential, since it's about good stewardship on taxpayers' money. Furthermore, the Healthcare Institute operates at the hinge of the public and private sector in the Netherlands. The public task of organizing good care is in large part a responsibility of private organizations. This makes it even more important to remain in control over the financial processes.

“Service delivery reporting is there to prove to the audit stakeholder that the public sector entity has done what was allocated for them to do with their respective funding.

Alfred Sithole South Africa

Q: What is the most useful element of a government audit?



Canada

Archie Johnston: It's the assurance that we provide to the users that things are happening the way they should. If an auditor's responsibilities were expanded either in the internal control area or the performance measurement area, they would gain further value.



Germany

Hans-Werner Nieweg: Many of our clients ask how other government entities are handling a particular issue. Of course we are very careful with independence and confidentiality, but on a broad level, it's helpful to be able to impart sector knowledge and experience. Championing developments that make government reporting more comparable is a way we can work to increase our ability to do this.



South Africa

Alfred Sithole: Service delivery reporting is there to prove to the audit stakeholder that the public sector entity has done what was allocated for them to do with their respective funding. It's this section of the audit report that provides the most comfort. This is one of the things that we grapple with the most – whether or not the objectives that have been set out for an entity are appropriate within its context.



United States

Diane Dudley: One of the most valuable aspects of a government audit is the fact that audits help management in making sound and timely decisions. For example, an audit might assess the economic value of splitting or combining two government departments.

Industry view:

Robert F. Dacey (United States)

Chief Accountant

US Government Accountability Office and
member of the Federal Accounting Standards Advisory Board

There are many useful facets of financial statement audits. At a higher level, the audit process provides:

- Continuing discipline over financial reporting and the processes and controls that assure data quality
- Continuing accountability and transparency about the finances of government
- Identification of opportunities for improvements in internal control and in financial systems and operations

Relationships and third party perceptions

Do government stakeholders, including taxpayers, understand the depth and breadth of an audit? This section examines how stakeholders view audit and how relationships impact the audit process. It is evident from the interviews that education is a clear solution to improving understanding and expectations, both for the general public and for stakeholders within government.

The views in this section include the following:

- There is an 'expectations gap' between the assurance that the audit provides and what people think it provides. This expectations gap was most prevalent among taxpayers and, in some cases, taxpayers or the general public who do not understand what an audit provides.
- Government institutions understand the scope of a financial statement audit; however, many within government believe that audit already provides assurance beyond the financial statements, including assurance over the adequacy of internal control.
- Despite jurisdictional differences, trust is central to all audits.
- Auditor independence is critical in being able to provide assurance over financial statements, and this should never change.

Q&A

Interview with government audit leaders

Q: Can government auditors ask the truly tough questions, or are they too beholden to management?



United States

Diane Dudley: Asking tough questions and having difficult conversations is an everyday reality of our work.



United Kingdom

Andy Sayers: There is no value to auditors in holding back. If you ask any local government executive, they will tell you their external auditor is the first to ask the tough questions. It's in both parties' best interests for it to be that way.

“Asking tough questions and having difficult conversations is an everyday reality of our work.”

Diane Dudley United States

“Taxpayers and elected members will always want to know an independent third party is keeping track of their activity and allocation of funds.

Andy Sayers United Kingdom

Industry view:

Cathy McLay (Canada)

CFO & Executive Vice President
Finance and Corporate Services
TransLink, Vancouver, Canada

Auditors absolutely have to ask tough questions. In government agencies there can be strong political oversight. At times, what we do may not make sense because of the political influence. That is where an auditor can really help bring that independence to the table. In fact, I think auditors should do more of it.

Q: If government audits were not required, would we have them anyway?



Canada

Archie Johnston: You never know what you have until it’s gone – this rings true for the necessity of the audit. Should the day ever come where audits are not necessary, society will soon realize they are critical. As issues will arise, companies will disappear, and transparency and accountability to shareholders will be lost.



United Kingdom

Andy Sayers: Taxpayers and elected members will always want to know an independent third party is keeping track of their activity and allocation of funds. Knowing there is one level of independent external scrutiny gives all stakeholders involved piece of mind in the work their government is doing.



Japan

Yoshihede Takehisa: If statutory requirements did not exist, I still think that government would be audited in Japan. There is truly a demand for the government audit – it plays a large role in assuring the fair nature in our country.

Industry view:

Bill Matthews (Canada)

Comptroller General of Canada
Federal Government, Ottawa, Canada

I hope Canadians would demand it, because there’s a need to have that independent opinion on your financial statements. On the internal audit side of things, we would still have them. You would see less consistency from department to department in terms of what they look at, but they would be viewed as tools to understand how the department is running. The fact that we have something that can attach itself to professional standards and drive consistencies is a good thing.

Q: How can the profession enhance the value of government audits?



Australia

Andrew Reeves: The government sector goes beyond the work at the legislature – it permeates through countless industries, businesses, and communities. In order for the audit profession to really add value to its government work, the auditors on the job must be subject matter experts within that specific function, whether it be media arts, infrastructure, or insurance. While being a generalist has its benefits, it's the industry experts that really add value to the audit work they do. Expanding our ability to access and analyze data, including external disruptive data would allow us to enhance this value.



Netherlands

Sjaak Bruinsma: Enhancing the value of the government audit will come from our ability as a profession to integrate the analysis of non-financial information within the audit report. Delivering a point of view on the future success of an organization will be critical to demonstrating value to our clients.



South Africa

Alfred Sithole: Collaboration will continue to be key in demonstrating value to our stakeholders. Having the regulator, the private practice and the Auditor General work closely together, is the key to enhancing the value of the government audit. This collaborative approach takes the audit away from an archaic box-ticking exercise.

“Collaboration will continue to be key in demonstrating value to our stakeholders. Having the regulator, the private practice and the Auditor General work closely together, is the key to enhancing the value of the government audit.

Alfred Sithole South Africa

Industry view:

Bill Matthews (Canada)

Comptroller General of Canada
Federal Government, Ottawa, Canada

When we look at government programs, there is an ongoing question about evaluating those programs and the value for money. This is tough to address because some of these programs could have an impact in 5 or 10 years. What is the best way to answer those questions? A program to address tax fraud is much easier to address than a program that tackles a complex social issue. Who is best placed to answer those questions and how can they be addressed? It's a tough nut to crack.

Arnold Moerkamp (Netherlands)

CEO and Chairman
National Health Care Institute
Netherlands

Auditors have deep insights into organizations and should challenge themselves to a more holistic view on a chain of organizations. This will surely bring forward important issues and possibly also lead to meaningful solutions.

“To that extent, the pass or fail approach of certification remains of great value because it articulates the overall view of the auditor in a quick and simple fashion.

Andy Sayers United Kingdom

Q: Should audit opinions and public reports move beyond the current pass or fail format?



Canada

Archie Johnston: The audit profession needs to evolve with the needs of its stakeholders. The public will likely only require evidence of a clean audit opinion, where, on the other hand, management and audit committees may find value in those intangible conversations and discussions regarding performance measurement or the use of data analytics.



United Kingdom

Andy Sayers: I think we should see how corporate reporting evolves and work towards greater narrative explanations. However, the vast scale of some government accounts means the audit report – no matter how well crafted – could get lost in the detail. To that extent, the pass or fail approach of certification remains of great value because it articulates the overall view of the auditor in a quick and simple fashion.



Australia

Andrew Reeves: Our clients within government agencies and in the public sector are asking for more than just an audit opinion. They see a lot of value in having information that is beyond the typical audit. I’ve also found that there is a lot of interest from audit committees to not just understand our audit opinion, but to also have insight into other areas of focus that they can share across government agencies.

Q: Do you believe there is an “expectation gap” between what the public believes is covered by a typical government audit, and what is actually done by the audit community?



Netherlands

Sjaak Bruinsma: The expectation gap does exist – the public assumes auditors will offer a point of view on not only historical information, but the future health of the organization – even if it’s not currently within their scope of work. As such, auditors are working closely with their clients to manage the expectation gap and shrink it where possible.



United Kingdom

Andy Sayers: The public often believes that an external audit carries out the work that is typically delivered by internal auditors, which is not the case. As a result, an opportunity exists to educate people on what exactly goes into a government audit, and the unique value it delivers.



Germany

Hans-Werner Nieweg: The public perception is still such that we analyze historical information, but given the financial crises' impact on the profession, we look at so much more than the historical numbers. A big part of our jobs is redefining what 'so much more' means as our world economy changes.

“The public perception is still such that we analyze historical information, but given the financial crises' impact on the profession, we look at so much more than the historical numbers.

Hans-Werner Nieweg Germany

Industry view:

Robert F. Dacey (United States)

Chief Accountant
US Government Accountability Office and
member of the Federal Accounting Standards Advisory Board

Any expectation gaps would be the same for audits of private companies. The concept of reasonable assurance may not always be fully understood, but those most likely to use audited financial statements understand the distinction.

Q: Is it important for government auditors to be independent?



Netherlands

Sjaak Bruinsma: Independence will always be critical to the role of the auditor, especially in government. Our governments are under tremendous pressure and public scrutiny for their allocation of funds, and at times misappropriation of funds – so, remaining independent gives all involved an added peace of mind.



United States

Diane Dudley: Independence is a cornerstone of our profession, and it's essential that it remains that way. If it weren't, users of the financial statements wouldn't trust the audit process.



Germany

Hans-Werner Nieweg: Regardless of whether the organization is private or public, independence is key to upholding the integrity of the profession and audit.

“Independence is the auditor’s right to exist. It’s what makes their role valuable. If there was no obligation to hire an external auditor, I would still do so voluntarily. I have experienced the value of their objective views time and time again.

Arnold Moerkamp Netherlands

Industry view:

Bill Matthews (Canada)

Comptroller General of Canada
Federal Government, Ottawa, Canada

From an external audit point of view, there are no issues with regards to independence. But we need to get more sophisticated in internal audit about what it means to be independent. Internal auditors are being asked to offer up opinions on more and more things because they know and understand the department. I think we need to provide more guidance on what it means to be independent in an internal audit.

Robert F. Dacey (United States)

Chief Accountant
US Government Accountability Office and
member of the Federal Accounting Standards Advisory Board

Independence is at the heart of auditing. It has been an area of utmost priority in government, which has been a leader in adopting comprehensive independence standards to help ensure unbiased audits that meet the highest ethical and technical standards in the public interest.

Arnold Moerkamp (Netherlands)

CEO and Chairman
National Health Care Institute
Netherlands

Independence is the auditor’s right to exist. It’s what makes their role valuable. If there was no obligation to hire an external auditor, I would still do so voluntarily. I have experienced the value of their objective views time and time again.

Robert F. Dacey shares his observations for governments beginning the journey to audited financial statements and offers his insights on what they can expect to see happen.

1. Prepare for sustainable audit readiness by developing systematic processes and procedures that are consistently applied and integrated systems to:
 - (a) ensure reliable financial statements can be consistently prepared by management and
 - (b) provide reliable and timely day-to-day information for management decision-making.
2. Be able to address major preparation and audit issues, such as property plant and equipment valuation, accrued liabilities (e.g., pensions), and intergovernmental transactions.
3. Make audit readiness a priority of top leadership and an expectation of everyone in government.
4. Establish a comprehensive set of accounting and financial reporting standards.
5. Develop appropriate human resource capabilities in financial management, including an effective financial management leadership structure.
6. Be prepared for a journey, whereby it may take a period of time to attain an unmodified or clean audit opinion, with an expectation of improvements over time and a focus on remediation, so that the process of audit readiness is sustainable.
7. Understand the nature of a financial statement audit. In the US, there is a detailed audit methodology that provides not only the auditor's requirements but its game plan that can be used by government management to prepare for audit.

“In the US, there is a detailed audit methodology that provides not only the auditors requirements but its game plan that can be used by government management to prepare for audit.

Robert F. Dacey United States

Appendix – country context

Australia



1. How are government audits governed in Australia?

- The Australian National Audit Office (ANAO) supports the Auditor General who is responsible for auditing the public sector.
- Audits conducted by the ANAO must be in accordance with auditing standards set by the Auditor General under section 24 of the Auditor General Act. The ANAO Auditing Standards adopt the standards set by the Auditing and Assurance Standards Board (AUASB).
- Individual states also have audit offices which report to state parliaments. These state audit offices adopt the standards set by the AUASB.

Source: http://www.anao.gov.au/uploads/documents/ANAO_FinStat_BPG.pdf

2. What accounting system is used in Australia? (Cash basis or accrual basis accounting system)

- Australia uses accrual-based accounting

Source: http://www.anao.gov.au/uploads/documents/ANAO_FinStat_BPG.pdf

3. Who are the key stakeholders of a government audit in Australia?

- Federal and State Parliaments
- Agency Audit and Oversight Committees
- Agency Management
- Agency users of the financial reports/statements

Source: <http://www.anao.gov.au/About-Us>

4. Is there a law in Australia that governs government audits?

- Public Governance, Performance and Accountability Act 2013 and the Auditor-General Act 1997 govern Federal Government audits.

Source: http://www.anao.gov.au/uploads/documents/ANAO_FinStat_BPG.pdf

5. Are government audits available to the public?

- Yes

Source: http://www.anao.gov.au/uploads/documents/ANAO_FinStat_BPG.pdf

6. If yes, what is available to the public?

- Annual reports are available.

Source: http://www.anao.gov.au/uploads/documents/ANAO_FinStat_BPG.pdf

Canada



1. How are government audits governed in Canada?

- The Public Sector Accounting Board (PSAB) is an independent body that sets accounting standards for the public sector.
- PSAB establishes accounting standards and other guidance for governments and their organizations. The information assists with transparency, accountability and decision-making.

Source: <http://www.frascanada.ca/public-sector-accounting-board/what-we-do/about-psab/index.aspx>
<http://www.frascanada.ca/public-sector-accounting-board/news-and-publications/annual-reports/item76688.pdf>

2. What accounting system is used in Canada? (Cash basis or accrual basis)

- Canadian governments use an accrual-based accounting system for financial statements.

Source: <http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=5174>
<https://www.fin.gc.ca/afr-rfa/2013/report-rapport-eng.asp>

3. Who are the key stakeholders of a government audit in Canada?

- Management
- Taxpayers
- Council
- Regulatory bodies

Source: http://www.oag-bvg.gc.ca/internet/English/admin_e_41.html

4. Is there a law in Canada that governs government audits?

- Audits in both the public and private sectors are conducted in accordance with Generally Accepted Auditing Standards (GAAS).

Source: http://www.gfoa.org/index.php?option=com_content&task=view&id=2125

5. Are government audits available to the public?

- Yes. Both internal audits and audits conducted by the Office of the Auditor General.

Source: <http://www.frascanada.ca/public-sector-accounting-board/news-and-publications/annual-reports/item76688.pdf>

6. If yes, what is available to the public?

- Annual reports and public accounts.

Source: <http://www.frascanada.ca/public-sector-accounting-board/news-and-publications/annual-reports/item76688.pdf>

France



1. How are government audits governed in France?

- The Court of Public Sector Audit (CPSA?) has been in existence for the last 200 years and governs audits in the public sector.
- The Court of Audit is split in France into a national level and regional level.

Source: <https://www.ifac.org/sites/default/files/publications/exposure-drafts/comments/04077.pdf>

2. What accounting system is used in France? (Cash basis or accrual basis)

- The government in France moved to accrual based accounting in 2006.
- Accounting standards are based on French Generally Accepted Accounting Principles (GAAP) for the private sector, International Financial Reporting Standards (IFRS), and International Public Sector Accounting Standards (IPSAS).

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/france>

3. Who are the key stakeholders of a government audit in France?

- Parliament
- Government
- Preparers
- Reviewers
- Administrators

Source: <https://www.ifac.org/sites/default/files/publications/exposure-drafts/comments/04077.pdf>

4. Is there a law in France that governs government audits?

- Since 2006 the law imposes all financial statements of the French State to be audited by the Court of Audit.

Source: <https://www.ccomptes.fr/>

5. Are government audits available to the public?

- Yes

Source: <https://www.ccomptes.fr/>

6. If yes, what is available to the public?

- The Court of Audit issues an annual audit report which can be downloaded from the Court's website.

Source: <https://www.ccomptes.fr/>

Germany



1. How are government audits governed in Germany?

- The institution that governs audits in the public sector in Germany is the Federal Court of Auditors.
- The Federal Court of Auditors prepares an annual audit report on the government level.
- The government level is sub-divided into three categories: central, state and local government.
- Audit reports are considered in the audit sub-committee of the Budget Committee, where membership is proportionately distributed according to party representation in parliament.

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

2. What accounting system is used in Germany? (Cash basis or accrual basis)

- The federal government of Germany reports under the cash-based accounting. The federal government does not plan to adopt International Public Sector Accounting Standards (IPSAS).

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/germany>

3. Who are the key stakeholders of a government audit in Germany?

- Parliament

Source: http://english.skl.se/MediaBinaryLoader.axd?MediaArchive_FileID=87a37c08-f1c3-4245-8e25-0706f6c7c179&FileName=International+survey,+Local+government+audit.pdf

4. Is there a law in Germany that governs government audits?

- The "Haushaltsgrundsatzgesetz" (HGrG, Budgetary Principles Law) obliges the Federation and the 16 states to regulate their budget law in accordance with certain principles at the central and the state government levels.

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

5. Are government audits available to the public?

- Available to the public is only the publication of the financial statement including audit opinion. The more detailed report of the auditor is only available to some selected stakeholders.

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/germany>

6. If yes, what does the public get from the audit?

- It's primarily the audit opinion.

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/germany>

Japan



1. How are government audits governed in Japan?

- In Japan there is an Audit Commission consisting of three Commissioners. All major decisions pertaining to audit are made by the Audit Commission including finalization of the Audit report.

Source: <http://www.jbaudit.go.jp/english/jbaudit/commission.html>

2. What accounting system is used in Japan? (Cash basis or accrual basis)

- Japan uses accrual-based accounting.

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/japan>

3. Who are the key stakeholders of a government audit in Japan?

- The Board holds the briefing of the Audit Report for the deputy vice-minister of each ministry, senior directors of accounts divisions of each ministry, the relevant accounting officers of each ministry, auditors and board members in charge of budget execution of State-Financed bodies and accounting managers of prefectures.

Source: <http://www.jbaudit.go.jp/english/effort/reflect.html>

4. Is there a law in Japan that governs government audits?

- The board of Audit Act.

Source: <http://www.jbaudit.go.jp/english/jbaudit/law.html>

5. Are government audits available to the public?

- Yes

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/japan>

6. If yes, what does the public get from the audit?

- Annual reports are available.

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/japan>

Netherlands



1. How are government audits governed in the Netherlands?

- The Court of Auditors (Algemene Rekenkamer) uses the work of the Internal Audit Department (Audit Dienst Rijk) and reports its findings to Parliament.

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

2. What accounting system is used in the Netherlands? (Cash basis or accrual basis)

- The majority of the central government uses cash-based accounting.
- Most national public agencies use accrual-based accounting.

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

3. Who are the key stakeholders of a government audit in the Netherlands?

- Parliament
- Ministries

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/netherlands>

4. Is there a law in the Netherlands that governs government audits?

- The central government applies the Central Government Accounting Standards (Comptabiliteitswet) in terms of accounting and budget.

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

5. Are government audits available to the public?

- Yes

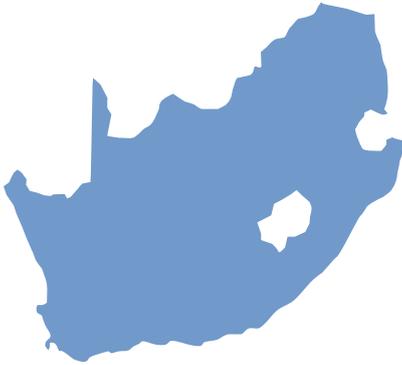
Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/netherlands>

6. If yes, what is available to the public?

- Financial Statements for each ministry
- Auditor's report for each ministry
- Detailed findings for each ministry

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/netherlands>

South Africa



1. How are government audits governed in South Africa?

- The Auditor-General of South Africa (AGSA) is responsible for auditing and reporting on the accounts, financial statements and financial management of the public sector.
- Audits are generally undertaken in two cycles: national and provincial government, as well as local government.

Source: http://www.google.co.in/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CCKQFjAA&url=http%3A%2F%2Fwww.irba.co.za%2Findex.php%2Fcomponent%2Fdocman%2Fdoc_download%2F1246&ei=KUpfU63ANYe-uATNhoCIDg&usg=AFQjCNF7PXrdkYv8l8_of1kDr3f81I694A&bvm=bv.65397613,d.c

2. What accounting system is used in South Africa? (Cash basis or accrual basis)

- South Africa uses a modified cash based accounting system.
- The Office of the Accountant General (OAG) issues a preparation guide on financial statements to be adopted by government departments each financial year.
- Public entities and trading entities use Generally Recognized Accounting Practice (GRAP), developed by the South African Accounting Standards Board based on IPSAS (International Public Sector Accounting Standards).

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/south-africa>

3. Who are the key stakeholders of a government audit in South Africa?

- | | |
|--|-------------------------|
| • Parliament | • Executive authorities |
| • Provincial legislatures | • Municipal councils |
| • National and provincial treasuries | • Accounting officers |
| • The Accounting Standards Board (ASB) | • Executive mayor |
| | • Citizens |

Source: http://www.google.co.in/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CCKQFjAA&url=http%3A%2F%2Fwww.irba.co.za%2Findex.php%2Fcomponent%2Fdocman%2Fdoc_download%2F1246&ei=KUpfU63ANYe-uATNhoCIDg&usg=AFQjCNF7PXrdkYv8l8_of1kDr3f81I694A&bvm=bv.65397613,d.c

4. Is there a law in South Africa that governs government audits?

- The Public Audit Act requires the OAG to audit and report on the accounts, financial statements and financial management.

Source: http://www.google.co.in/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CCkQFjAA&url=http%3A%2F%2Fwww.irba.co.za%2Findex.php%2Fcomponent%2Fdocman%2Fdoc_download%2F1246&ei=KUpfU63ANYe-uATNhoCIDg&usg=AFQjCNF7PXrdkYv8I8_of1kDr3f81I694A&bvm=bv.65397613,d.c

5. Are government audits available to the public?

- Yes

Source: http://www.agsa.co.za/portals/0/sharingwhatwewknow/Wits_lecture_slides_v2.pdf

6. If yes, what is available to the public?

- The audit outcomes are reflected in the Auditor's report which form part of the published annual report, available to all stakeholders in hard-copy or soft-copy, as well as part of a formal submissions through the tabling to legislatures and a general submission in the publishing of "General Audit Outcomes" by the AGSA.
- The audit report currently includes an opinion on the Financial Statements as well as significant findings relevant to the reported performance against predetermined objectives, compliance with relevant laws and regulations and an evaluation/analyses of those significant Internal Control Deficiencies which resulted in any form of modification or significant finding reported on the audit subject matters.

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/south-africa>

UK



1. How are government audits governed in the UK?

- The institution in charge of enforcing the government accounting rules that were enacted at a national level is the National Audit Office (NAO).
- For Central Government audits, the Controller and Auditor General give the financial statements a “true and fair” view of the financial position of the body.
- For other, principally Local Government audits, accounting firms undertake the audits.

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

2. What accounting system is used in UK? (Cash basis or accrual basis)

- UK public sector uses accrual-based accounting.

Source: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/uk>

3. Who are the key stakeholders of a government audit in UK?

- Parliament
- Government agencies and departments
- Local government authorities and bodies
- Citizens

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

4. Is there a law in UK that governs government audits?

- The Government Accounting Rules were enacted in 2000 at a national level. These rules focus on accounting and budgeting. They refer to IFRS, which has been adapted for the public sector.

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf

5. Are government audits available to the public?

- Yes

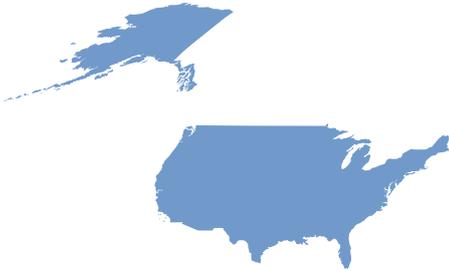
Source: <https://www.nao.org.uk/report/implementing-transparency/>

6. If yes, what is available to the public?

- Audit opinions and accounts, as well as reports in some sectors.

Source: <https://www.nao.org.uk/report/implementing-transparency/>

US



1. How are federal government audits governed in the US?

- The US Government Accountability Office audits the consolidated financial statements for the US government. Federal inspectors general (IG) are responsible for the agency-level audits and generally contract with public accounting firms to conduct the audits.
- Under the Inspector General Act of 1978, all federal audits must adhere to Government Auditing Standards, issued by the Comptroller General of the United States, who heads GAO. These standards incorporate by reference financial audit standards issued by the American Institute of CPAs.

Source: Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, and the Inspector General Act of 1978

2. What accounting system is used in US? (Cash basis or accrual basis)

- The US applies accrual-based accounting.

Source: <http://www.fasab.gov/>

3. Who are the key stakeholders of a federal government audit in US?

- Office of Management and Budget
- Department of the Treasury
- Government agencies
- Congressional committees
- Citizens
- Government Accountability Office and federal Inspectors General (IG), including public accounting firms under contract to the IGs or agency management to perform independent annual financial statement audits

Source: Government Accountability Office and federal Inspectors General (IG), including public accounting firms under contract to the IGs or agency management to perform independent annual financial statement audits.

4. Is there a law in US that governs federal government audits?

- The following laws govern federal government auditing: (1) Budget and Accounting Act of 1921, which established GAO, (2) Inspector General Act of 1978, (3) CFO Act of 1990, as expanded by the Government Management Reform of 1994, and (4) Federal Financial Management Improvement Act of 1996.

Source: <http://www.kpmg-institutes.com/content/dam/kpmg/governmentinstitute/pdf/archive/cfo-act-anniversary.pdf>

5. Are federal government audits available to the public?

- Yes

Source: gao.gov; ignet.gov; and websites of individual federal inspectors general. Also, see *Government Auditing Standards* and the Inspector General Act of 1978, as amended for a discussion of reporting and distribution of federal audit reports.

6. If yes, what is available to the public?

- The GAO produces a wide variety of documents available to the public, including all reports and testimonies, legal decisions, a Top 10 List, Month in Review, Comptroller General Presentations, the High-Risk Series, and 21st Century Challenges. GAO's reports are available online and are in the public domain for anyone to have access at anytime. There are also about 70 agency-level Inspectors General, whose reports and other products are likewise available to the public. The only exception would be reports related to classified national intelligence and security issues.

Source: gao.gov; ignet.gov; and websites of individual federal inspectors general. Also, see *Government Auditing Standards* and the Inspector General Act of 1978, as amended for a discussion of reporting and distribution of federal audit reports.

For more information on electronic reporting in the US, please visit <http://www.kpmg-institutes.com/industries/government.html> for the following publications:

Are You Prepared to Meet the Challenges of the DATA Act and Open the Door Wider on Open Government Reporting, KPMG Government Institute, 2015

Digital Auditing: Modernizing the Government Financial Statement Audit Approach, KPMG Government Institute, 2014

Moving to the Next Stage of Federal Financial Reporting: Bringing Greater Value and Transparency Through "Open Government" Electronic Reporting, KPMG Government Institute, 2013

Building Public Trust through Open Government Electronic Reporting: We've Only Just Begun, KPMG Government Institute, 2012



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