

**Consultation Draft**

**THE AUDITING PRACTICES BOARD**

# **Practice Note 10 (I)**

---

*Audit of Central Government Financial Statements  
in the Republic Of Ireland  
(Revised)*

**March 2011**

## **THE AUDITING PRACTICES BOARD**

The Auditing Practices Board (APB), which is part of the Financial Reporting Council (FRC), prepares for use within the United Kingdom and Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for reviews of interim financial information performed by auditor of the entity;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditors' and reporting accountants' integrity, objectivity and independence,

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

The APB comprises individuals who are not eligible for appointment as company auditors, as well as those who are so eligible. Those who are eligible for appointment as company auditors may not exceed 40% of the APB by number.

Neither the APB nor the FRC accepts any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

The purpose of Practice Notes issued by the Auditing Practices Board is to assist auditors in applying Auditing Standards of general application to particular circumstances and industries.

Practice Notes are persuasive rather than prescriptive. However, they are indicative of good practice. Auditors should be aware of and consider Practice Notes applicable to the engagement.

This Practice Note, when finalised, replaces Practice Note 10(I): Audit of Central Government Financial Statements in the Republic of Ireland (Revised), which was issued in July 2006.

## INVITATION TO COMMENT

This consultation draft is issued by the Auditing Practices Board (APB) for public comment. Practice Notes reflect existing auditing standards and regulatory requirements. As they do not introduce new or additional standards or otherwise increase the regulatory burden on auditors, the APB has not undertaken a formal regulatory impact assessment.

The APB does not believe that the application of the guidance in this consultation draft will significantly increase audit costs but invites the views of commentators on this point. If commentators do believe there is a cost impact it would be appreciated if the specific aspect of the guidance could be identified and, as far as possible, the nature and quantum of the additional costs described. The APB will evaluate any comments on incremental costs before finalising the Practice Note.

You are invited to send written comments on the consultation draft to the APB. The APB would like to receive comments from those who agree with the consultation draft as well as from those who do not. Your comments will be most helpful if they refer to the relevant paragraphs and are supported by reasoning.

Letters of comment should be addressed to:

Keith Billing  
Project Director  
The Auditing Practices Board  
Aldwych House,  
71-91 Aldwych,  
London WC2B 4HN

E- mail: [k.billing@frc-apb.org.uk](mailto:k.billing@frc-apb.org.uk)

and should be despatched so as to be received no later than **10 June 2011**.  
All letters of comment will be regarded as being on the public record unless confidentiality is requested.

# PRACTICE NOTE 10 (I)

## AUDIT OF CENTRAL GOVERNMENT FINANCIAL STATEMENTS IN THE REPUBLIC OF IRELAND

<b>Contents</b> .....	<b>Page</b>
PREFACE .....	2
Foreword - Public Accountability and Audit.....	3
<b>PartA - ISQC (UK and Ireland) 1 and ISAs (UK and Ireland)</b>	
International Standard on Quality Control (UK and Ireland) 1 .....	8
ISA (UK and Ireland) 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK and Ireland) .....	12
ISA (UK and Ireland) 210: Agreeing the Terms of Audit Engagements.....	13
ISA (UK and Ireland) 220: Quality Control for an Audit of Financial Statements .....	17
ISA (UK and Ireland) 230: Audit Documentation.....	19
ISA (UK and Ireland) 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements .....	20
ISA (UK and Ireland) 250: Section A - Consideration of Laws and Regulations in an Audit of Financial Statements .....	27
ISA (UK and Ireland) 260: Communication with Those Charged With Governance .....	29
ISA (UK and Ireland) 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management .....	31
ISA (UK and Ireland) 300: Planning an Audit of Financial Statements.....	32
ISA (UK and Ireland) 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.....	34
ISA (UK and Ireland) 320: Materiality in Planning and Performing an Audit.....	39
ISA (UK and Ireland) 330: The Auditor’s Responses to Assessed Risks.....	41
ISA (UK and Ireland) 402: Audit Considerations Relating to an Entity Using a Service Organisation.....	42
ISA (UK and Ireland) 500: Audit Evidence .....	44
ISA (UK and Ireland) 510: Initial Audit Engagements – Opening Balances .....	45
ISA (UK and Ireland) 520: Analytical Procedures.....	47
ISA (UK and Ireland) 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures .....	49
ISA (UK and Ireland) 550: Related Parties .....	50
ISA (UK and Ireland) 560: Subsequent Events.....	51
ISA (UK and Ireland) 570: Going Concern.....	54
ISA (UK and Ireland) 580: Written Representations.....	64
ISA (UK and Ireland) 600: Special Considerations – Audits of Group Financial Statements (Including the work of Component Auditors).....	66
ISA (UK and Ireland) 610: Using the Work of Internal Auditors .....	68
ISA (UK and Ireland) 700 (Revised): The Auditor’s Report on Financial Statements .....	71
ISA (UK and Ireland) 720: Section A - The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements .....	77
<b>Part B - The Audit of Regularity</b> .....	<b>79</b>
<b>Part C - Statement on Internal Financial Control</b> .....	<b>83</b>
Appendix: Glossary of Terms.....	89

## **PREFACE**

This Practice Note contains guidance on the application of auditing standards issued by the Auditing Practices Board (APB) to the audit of central government sector bodies in the Republic of Ireland.

This Practice Note is intended to assist auditors in applying the requirements of, and should be read in conjunction with, International Standards on Auditing (ISAs) (UK and Ireland), which apply to all audits undertaken in Ireland. The Practice Note sets out the special considerations relating to the audit of central government sector bodies which arise from individual ISAs (UK and Ireland) listed in the contents. The Practice Note does not provide commentary on all of the requirements in the ISAs (UK and Ireland) - it is not the intention of the Practice Note to provide step-by-step guidance on the audit of central government sector bodies, so where no special considerations arise from a particular ISA (UK and Ireland) no material is included. Extracts from the ISAs (UK and Ireland) are indicated by grey shading.

## Foreword – Public Accountability and Audit

- 1 Central government entities are responsible for the conduct of public business and for spending public money and are accountable to Dáil Éireann and through Dáil Éireann to the public for ensuring that this business is conducted in accordance with the law and proper standards of accounting and governance and that public money is used economically, efficiently and effectively. Their principal source of funding is money voted by Dáil Éireann or by means of statutory levies and their powers to raise revenue in other ways are governed by legislation.
- 2 Financial statements produced in the central government sector normally have the following characteristics - they are:
  - prepared on an annual basis;
  - laid before Dáil Éireann; and
  - available to the public in published form.
- 3 For the purpose of this Practice Note, central government sector entities include funds administered through the Exchequer, voted funds, departmental funds, the financial statements of non-commercial state sponsored bodies, health agencies, third level educational institutions, vocational educational committees and some regional and local bodies. In Ireland all financial statements of central government departments and non-commercial entities are audited by the Comptroller and Auditor General (C&AG).
- 4 The C&AG gives an independent opinion on the financial statements of central government entities and may review and, where appropriate, report on aspects of the arrangements set in place by those bodies to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. As such, his audit is an essential element in the process of accountability and makes an important contribution to the stewardship of public money and the corporate governance of public services.
- 5 The standards governing the conduct and reporting of the audit of financial statements in the central government sector is a matter for the C&AG and he has chosen to adopt the Auditing Practices Board's engagement standards and quality control standards as the basis of his approach to the audit of financial statements. ISAs (UK and Ireland) apply to all audits of financial statements for periods ending on or after 15 December 2010.

### The role of Accounting Officers

- 6 A particular provision has been made for accountability in the case of government departments. An Accounting Officer is designated by the Minister for Finance<sup>1</sup> to be responsible for the preparation of Appropriation Account(s).

---

<sup>1</sup> Section 22 of the Exchequer and Audit Departments Act 1866

- 7 An Accounting Officer is also responsible for:
  - the regularity and propriety of transactions in the Appropriation Account(s);
  - the economy and efficiency of the department in the use of its resources; and
  - the systems procedures and practices employed by the department for the purpose of evaluating the effectiveness of the operations<sup>2</sup>.
- 8 The Comptroller and Auditor General (Amendment) Act 1993 (the 1993 Act) provides that an Accounting Officer may be required to give evidence to the Committee of Public Accounts on these matters.
- 9 The Civil Service head of the department or office administering a Vote is normally appointed Accounting Officer on the premise that he/she alone is in a position to account for all monies entrusted to his/her department.
- 10 In a limited number of other entities an Accounting Officer has been provided for by way of primary legislation.

### **Responsibilities of the Comptroller and Auditor General**

- 11 Article 33 of the Constitution of Ireland provides for a Comptroller and Auditor General and legislation provides the authority for the audit of each central government sector entity. The scope of audit is determined by:
  - the legislation governing the accountability of, and audit provisions relating to, the audited entity; and
  - auditing standards and related guidance promulgated by the Auditing Practices Board.
- 12 In the case of all central government sector entities it extends in particular to:
  - the financial audit of the accounts;
  - the regularity of transactions included in such accounts; and
  - the proper conduct of public business (propriety).

### **Committee of Public Accounts**

- 13 The body in Dáil Éireann mainly concerned with the work of the C&AG is the Committee of Public Accounts (PAC). It examines and reports to Dáil Éireann on:
  - all financial statements audited by the C&AG together with his reports thereon;
  - the C&AG reports on Value for Money examinations; and
  - other reports made by the C&AG under the 1993 Act.

---

<sup>2</sup> Section 19 of the 1993 Act

- 14 The Committee consists of twelve Deputies none of whom may be a member of the Government or Minister of State. By long tradition, the Chairman is a member of the Opposition.
- 15 The PAC possesses no executive powers and its power is one of recommendation only. The Committee is entitled to send for persons, papers and records and takes evidence primarily from the Accounting Officer of the entity under examination or in the case of other entities an accountable person designated for that purpose.

### **The Audit of Regularity**

- 16 An audit of financial statements in the central government sector is similar in scope and nature to an audit of limited companies and other entities in the private sector. There is, however, a greater emphasis on compliance with authority, commonly known as regularity.
- 17 The general concern is with the administration of public monies in accordance with the legal authority governing them and therefore extends to the substance of transactions and the entitlement of recipients of public funds.
- 18 The concept of regularity reflects a concern that public money raised through taxation on the public should be used only for those purposes approved by Dáil Éireann. The preparation of financial statements by central government sector bodies is an important means by which they are accountable for the use of public funds made available to them. The financial statements of central government sector bodies include an implied assertion regarding the regularity of financial transactions, in addition to the financial statement assertions identified in ISA (UK and Ireland) 500, 'Audit Evidence'.
- 19 Regularity, as applied in the audit of the Appropriation Accounts and the financial statements of Vocational Education Committees, is defined in the 1993 Act. In these cases, the C&AG must satisfy himself as to:
  - whether amounts expended have been applied by the entity concerned for the purposes intended
  - whether transactions recorded in the account conform with the authority under which they purport to have been carried out.
- 20 Upon completion of the audit, the C&AG must refer to any material case in which the entity has failed to apply expenditure recorded in the financial statements for the purpose intended or transactions recorded in the financial statements do not conform to the authority under which they purport to have been carried out. As a matter of principle, the concept of regularity is also applied in the audit of all other central government sector entities which are within the audit remit of the C&AG.
- 21 By comparison, the auditors of private sector bodies are also concerned with applicable law and regulations. Nevertheless, the environment within which they work is different, as the operations of private sector bodies are generally subject to less detailed regulation than those in the central government sector. Indeed,

ISA (UK and Ireland) 250 Section A, ‘Consideration of Law and Regulations in an Audit of Financial Statements’, draws attention to the fact that the auditor of bodies in the central government sector may have duties that go beyond those of auditors of private sector entities.

- 22 Part B to this Practice Note amplifies this guidance on the audit of regularity.

### **The Concept of Propriety**

- 23 Propriety is concerned with the way in which public business is conducted including any conventions agreed with Dáil Éireann (and in particular the PAC), and any guidance issued on governance and ethics.
- 24 Whereas regularity is concerned with the compliance with appropriate authorities, propriety goes wider than this and extends to standards of conduct, behaviour and corporate governance. It is concerned with fairness and integrity including avoidance of personal profit from public business, even handedness in the appointment of staff, open competition in the award of contracts and the avoidance of waste and extravagance.
- 25 Although of no less importance than regularity, propriety is less readily susceptible to objective verification and is not expressly covered in the opinion on financial statements. Nevertheless, the auditor of a central government account is expected to have regard to matters of propriety in conducting his audit.
- 26 When considering the measures taken by management to promote propriety the C&AG has regard to what is considered generally accepted practice in the central government sector. To ascertain what is acceptable practice, the auditor of central government accounts draws as necessary on recommendations or expression of opinion made by the PAC as accepted by the Executive following consideration of specific cases, guidance issued by Department of Finance or, in the case of other central government sector bodies, guidance issued by the supervising government departments.

### **Reporting the Results of Audit Activity**

- 27 The results of audit activity are reported to Dáil Éireann in two main ways:
- through certificates or reports which give an audit opinion on each account; and
  - through reports on matters relating to the management of individual entities and other matters likely to be of concern to Dáil Éireann.
- 28 Audit reports give two types of assurance:
- an opinion giving explicit assurance on the financial statements usually in a form prescribed by law; and

- assurance in relation to matters required to be reported on by exception, including the Statement on Internal Financial Control, regularity and propriety.
- 29 Other reports to Dáil Éireann cover matters of value for money, financial administration or outline any material issues that have arisen concerning the regularity of transactions or the propriety of public business.
- 30 This Practice Note does not apply to local authorities or the commercial state sponsored sector<sup>3</sup>. The guidance in this Practice Note relates only to audit work designed to support the issue of audit opinions on financial statements audited by the C&AG. Consequently the guidance does not cover other reports issued under section 11(2) of the 1993 Act such as value for money reports.

---

<sup>3</sup> Bodies in the commercial state sector are largely specified in the Second Schedule to the 1993 Act.

## **Part A – ISQC (UK and Ireland) 1 and ISAs (UK and Ireland)**

### **International Standard on Quality Control (UK and Ireland) 1**

#### **Objective**

The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances. (Paragraph 11)

#### **Definitions**

- 31 In the context of the audit of public sector entities the following clarification of terms used in ISQC (UK and Ireland) 1 is relevant:
- “firm” is taken as a general reference to the Office of the Comptroller and Auditor General or other auditors where the audit has been contracted-out; and
  - “engagement partner” is the nominated senior individual responsible for that engagement and its performance including the delivery of the engagement to the C&AG, in accordance with the ISAs (UK and Ireland).
- 32 In addition, for the purposes of this standard, the following definition applies:
- Contracted-out engagement<sup>4</sup> is where responsibility for issuing the audit report remains with the C&AG, but all or some of the audit assignment is undertaken by another firm or auditor under contract or agreement;

#### **Leadership**

- 33 Overall responsibility for the system of quality control in the central government sector remains with the head of the organisation (the Accounting Officer). The organisation establishes policies and procedures such that any person or persons assigned operational responsibility for the organisation’s system of quality control by the C&AG has the appropriate experience and ability, and the necessary authority, to assume that responsibility.
- 34 For contracted-out engagements, responsibility for quality across all engagements remains with the C&AG. However, this does not absolve the contractor of responsibility for systems of quality control within that firm in accordance with ISQC (UK and Ireland) 1. In practice, this may involve the C&AG obtaining assurances over quality from the contractor, and may involve

---

<sup>4</sup> In accordance with the 1993 Act the C&AG may arrange with an audit firm to undertake work on his behalf.

the C&AG undertaking procedures to confirm that the systems of quality control are working effectively.

### **Ethics**

- 35 The C&AG has chosen to adopt the Auditing Practices Board's Ethical Standards. Additional ethical and propriety standards may apply such as the Civil Service Code of Standards and Behaviour, Ethics legislation<sup>5</sup> and Official Secrets legislation. Compliance with these additional requirements does not compromise the ability of the auditor of a central government account to comply with relevant professional ethical requirements required by ISQC (UK and Ireland) 1.
- 36 For contracted out audits the C&AG confirms that the other firm meets the relevant ethical standards, including independence, on appointment and periodically thereafter, and that there are policies and procedures in place to identify and resolve potential conflicts.

### **Acceptance and Continuance of Client Relationships and Specific Engagements**

- 37 In the central government sector, where the audit appointment is by or under statute, it is not possible to decline or withdraw from the engagement. However, in most cases the auditor of a central government account has the statutory authority to report publicly matters that may otherwise have caused withdrawal from the engagement. For example, in the central government sector such matters can be reported to the Dáil Éireann.
- 38 The auditor of a central government account therefore establish policies and procedures equivalent to those envisaged within ISQC (UK and Ireland) 1 for acceptance and continuance of both client relationships and specific engagements in accordance with ISA (UK and Ireland) 220.

### **Human Resources**

- 39 Where an engagement is contracted out steps are taken to ensure that the other auditor has sufficient personnel with the competencies, capabilities and commitment to ethical principles necessary for compliance with ISQC (UK and Ireland) 1.

### **Engagement Performance**

- 40 For contracted-out audits, the auditor of a central government account remains responsible for engagement performance. This does not affect the contractor's responsibility for its engagement performance. Both undertake their own consideration of whether internal consultation and the appointment of an engagement quality control reviewer are necessary. The fact that either has undertaken, or chosen not to implement, this process does not absolve the other from considering the need for such procedures in accordance with ISQC (UK and Ireland) 1. Equally, a review by the engagement partner of the auditor of a central government account does not constitute an independent engagement quality control review for the purposes of ISQC (UK and Ireland) 1.

---

<sup>5</sup> Ethics in Public Office Acts 1995 and 2001

- 41 ISQC (UK and Ireland) 1 requires the appointment of an engagement quality control reviewer for listed companies, but acknowledges that certain public sector entities may be of sufficient significance to warrant performance of such a review. Each firm establishes a policy for determining which assignments are subject to an engagement quality control review, taking into account the complexity of the organisation, public interest issues, and other relevant factors determined corporately, for example whether a modification to the audit report is expected.

### **Monitoring**

- 42 Each firm implements quality control monitoring policies and procedures. Where contractors perform assignments on a contracted-out basis, the auditor of a central government account ensures that the quality control monitoring system includes those assignments.
- 43 A firm undertaking an assignment on a contracted-out basis ensures that their quality control monitoring system includes such assignments.
- 44 Where deficiencies are identified as a result of monitoring an assignment undertaken on a contracted-out basis, these deficiencies are reported to the firm undertaking the assignment. Equally, if the contractor identifies deficiencies in any of its assignments that fall within the remit of the auditor of a central government account, these are communicated to that auditor, along with the action undertaken.
- 45 Each firm establishes policies and procedures designed to provide it with reasonable assurance that it deals appropriately with complaints and allegations relating to quality. These policies and procedures allow for escalation of such issues to the auditor of a central government account, where relevant.

### **Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation**

The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Paragraph 46)

- 46 Although the auditor of a central government account applies the provisions of ISQC (UK and Ireland) 1 in full, there may be additional statutory obligations relating to confidentiality. For example, when carrying out central government assignments the auditor of a central government account is aware of, and complies with, any applicable provisions of the Official Secrets Act 1963.
- 47 Where the C&AG has arranged for a firm or person to perform any audit work in accordance with the 1993 Act, it is normal practice to include a condition that audit documentation remains the property of the C&AG. The firm or person is equally bound by the legislation on confidentiality, retention of working papers and freedom of information.

- 48 The Freedom of Information Act 1997 does not apply to records created after the commencement of an audit<sup>6</sup>. However, records created before the commencement of an audit and other administrative documents are covered by the Act.

---

<sup>6</sup> Section 46(c) of the Act.

## **ISA (UK and Ireland) 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK and Ireland)**

### **Overall Objectives of the Auditor**

In conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by the ISAs (UK and Ireland), in accordance with the auditor's findings. (Paragraph 11)

In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the ISAs (UK and Ireland) require that the auditor disclaim an opinion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation. (Paragraph 12)

- 49 Although the principles of auditing are the same in the public and private sectors, the auditor of a central government entity often has wider objectives and additional statutory responsibilities, laid down in legislation or otherwise.

### **The Audit of Regularity**

- 50 In observing the requirements of ISA (UK and Ireland) 200, the auditor of a central government account is aware that:
- for central government sector entities, there is a requirement, laid out in statute or by convention, to obtain evidence on compliance with authorities (regularity); and
  - in recognition of the importance of regularity to the audit of these entities, the matters addressed in the section of the auditor's report that deals with matters required to be reported on by exception includes the regularity of transactions.

The auditor of a central government account also considers propriety, internal control and corporate governance.

- 51 The audit opinion issued by the C&AG only refers to instances of departure from the norms of regularity, internal control or corporate governance. Issues of probity are generally reported separately from the audit opinion.

## **ISA (UK and Ireland) 210: Agreeing the Terms of Audit Engagements**

### **Objective:**

The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:

- (a) Establishing whether the preconditions for an audit are present; and
- (b) Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement. (Paragraph 3)

52 In this section of the Practice Note, the client is considered to be the audited body.

### **Preconditions for an Audit**

In order to establish whether the preconditions for an audit are present, the auditor shall:

- (a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and
- (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
  - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
  - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
  - (iii) To provide the auditor with:
    - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - b. Additional information that the auditor may request from management for the purpose of the audit; and
    - c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence. (Paragraph 6)

53 In the central government sector, the preconditions for audit may derive from a number of sources, including legislation or 'by agreement' with the Minister for Finance.

## Agreement on Audit Engagement Terms

The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (Paragraph 9)

Subject to paragraph 11 [of the standard], the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

- (a) The objective and scope of the audit of the financial statements;
- (b) The responsibilities of the auditor;
- (c) The responsibilities of management;
- (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content. (Paragraph 10)

If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10 [of the standard], the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b) [of the standard]. (Paragraph 11)

- 54 Statutory engagements in the central government sector normally differ substantially from those addressed in the private sector. In the central government sector there are often a number of parties with an interest in the terms of an engagement. In most other instances, the statutory framework allows a substantial part of the scope and objectives of the audit to be mandated by the auditor of a central government account.
- 55 For this reason, formal engagement letters for statutory engagements may not be necessary. However, it remains important that the client and the auditor formally recognise their respective responsibilities. It may also be necessary, where legislation does not provide sufficient detail on the scope of the audit, to ensure that is appropriately understood by those charged with governance. A letter of understanding may therefore be necessary. The annex to this chapter provides examples of areas such a letter may cover.
- 56 The auditor may find it appropriate to conclude letters of understanding with the audited entity to confirm the auditor's understanding of the roles of the parties with an interest in the engagement, the requirements of the audit, the responsibilities of each party, how the responsibilities will be met, and the expectations that each party can have of the other.
- 57 For audit engagements undertaken 'by agreement', an engagement letter is required, covering the matters set out in ISA (UK and Ireland) 210. The issuance of an engagement letter for such assignments makes clear the rights, responsibilities and duties of all parties.

### **Acceptance of a Change in Engagement**

If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so.

(Paragraph 15)

- 58 Where the responsibilities of the auditor of a central government account are set out in statute, the terms of the engagement cannot be changed to provide a lower level of assurance.

If the auditor is unable to agree to a change of the audit engagement and is not permitted to continue the original engagement, the auditor shall:

- (a) Withdraw from the audit engagement where possible under applicable law or regulation; and
- (b) Determine whether there is any obligation, either contractual or otherwise, to report to other parties, such as those charged with governance, owners or regulators. (Paragraph 17)

- 59 In the central government sector, where the appointment is under statute, it is not possible to decline or withdraw from the engagement. However, in most cases a central government auditor has the statutory authority to report publicly matters that may otherwise have caused withdrawal from the engagement. For example, in the central government sector such matters can be reported to Dáil Éireann.
- 60 Where appointment is not by statute, the requirements of ISA 210 (UK and Ireland) will apply in full with respect to considerations for acceptance of an engagement, or changes and restrictions to the terms of an engagement.

## **Areas that may be Covered in a Letter of Engagement or Understanding**

The auditor of a central government account considers the areas that may be covered by the letter of engagement or understanding. These areas may change over time and the auditor of a central government account will need to consider developments that may be relevant to the client.

In preparing the letter of engagement or understanding the auditor of a central government account may consider the following:

- Individual responsibilities of the Accounting Officer or accountable person, as well as the general responsibilities of those charged with governance, where relevant;
- Responsibilities of the auditor of a central government account, with reference to the relevant legislative framework;
- Wider auditor responsibilities, such as obligations to report certain matters involving fraud and other offences in accordance with law<sup>7</sup>;
- Reviewing the Accounting Officer or a Board's Statement on Internal Financial Control;
- Electronic Publication of Financial Statements;
- Value for Money Examinations;
- Audit Fees.

---

<sup>7</sup> Section 74 of the Company Law Enforcement Act 2001 requires that an auditor report to the Office of the Director of Corporate Enforcement instances of the suspected commission of indictable offences under the Companies Acts by a company, its officers or agents.

Section 59 Criminal Justice (Theft and Fraud Offences) Act 2001 requires that an auditor report to a member of the Garda Síochána in circumstances where information or documents indicate that certain offences under the Act may have been committed by a client entity, or by its management or employees.

Anti-money laundering legislation requires that an auditor report suspicions of money laundering to the Garda Síochána and the Revenue Commissioners.

## **ISA (UK and Ireland) 220: Quality Control for an Audit of Financial Statements**

### **Objective**

The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

- (a) The audit complies with professional standards and applicable legal and regulatory requirements; and
- (b) The auditor's report issued is appropriate in the circumstances. (Paragraph 6)

- 61 In the context of the audit of public sector entities the following clarification of terms used in ISA (UK and Ireland) 220 is relevant:
- “firm” is taken as a general reference to the Office of the Comptroller and Auditor General or other auditors where the audit has been contracted-out; and
  - “engagement partner” is taken as the nominated senior individual within the firm responsible for that engagement and its performance including the delivery of the engagement to the C&AG, in accordance with the ISAs (UK and Ireland).

### **Acceptance and Continuance of Client Relationships and Specific Audit Engagements**

The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and specific audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Paragraph 12)

- 62 A central government sector auditor may be specifically appointed under legislation to audit the financial statements of a central government entity, in which case it will not be open to the auditor to decline the appointment. For example, the Comptroller and Auditor General can be named as the auditor in the legislation that creates a new public sector entity. However, an assessment is carried out on initial appointment and annually thereafter of the matters outlined in the ISA (UK and Ireland) and put in place sufficient safeguards to mitigate the risks identified.
- 63 In all other respects the auditor of a central government account will follow the guidance set out in ISA (UK and Ireland) 220, and if necessary include in the auditor's report, for example, any constraints to undertaking sufficient work to be able to perform the audit in accordance with Auditing Standards or an imposed limitation in audit scope.

If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Paragraph 13)

64 Further guidance on declining or withdrawing from engagements in the public sector is provided in paragraph 88 of this Practice Note and in paragraph A7 to ISA 220 (UK and Ireland).

### **Engagement Quality Control Review**

For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:

- (a) Determine that an engagement quality control reviewer has been appointed;
- (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
- (c) Not date the auditor's report until the completion of the engagement quality control review. (Paragraph 19)

65 The ISA (UK and Ireland) requires that engagement quality control review is undertaken for all audit engagements where the entity is a listed company, and that firms establish policies setting out the circumstances in which an engagement quality control review is performed for other audit engagements, whether on the grounds of the public interest or risk.

66 In the central government sector, the auditor of a central government account considers the circumstances in which an engagement quality control review of the audit is necessary. In doing so consideration will need to be given to the size and characteristics of the entity. Generally engagement quality control reviews are more likely to be appropriate to larger, more complex, entities than smaller ones, and to higher profile entities than lower profile entities. An engagement quality control review may be appropriate for smaller entities with a high profile, for example if there is a particularly high level of Oireachtas, public or media interest in the entity or where the entity itself is not high profile, although the activities of the entity are. It is the decision of each firm to determine what constitutes a high profile entity taking into account both the size and profile of the entity.

## ISA (UK and Ireland) 230: Audit Documentation

### **Objective:**

The objective of the auditor is to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's report; and
- (b) Evidence that the audit was planned and performed in accordance with ISAs (UK and Ireland) and applicable legal and regulatory requirements. (Paragraph 5)

### **Assembly of the Final Audit File**

- 67 Guidance on the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation is provided in the ISQC (UK and Ireland) 1 section of this Practice Note.

After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period. (Paragraph 15)

- 68 The auditor of a central government account also considers whether there are specific statutory requirements for the retention of working papers. In certain circumstances the National Archives Act 1986 could apply to documentation relating to the audit of a central government sector entity. Where the auditor is uncertain as to his statutory duties, he considers seeking legal advice.

## **ISA (UK and Ireland) 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**

### **Objectives**

The objectives of the auditor are:

- (a) To identify and assess the risks of material misstatement of the financial statements due to fraud;
- (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- (c) To respond appropriately to fraud or suspected fraud identified during the audit. (Paragraph 10)

- 69 An auditor conducting an audit in accordance with ISAs (UK and Ireland) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
- 70 The central government sector auditor's responsibilities under ISA (UK and Ireland) 240 are not any different from those of private sector auditors as regards the audit of the financial statements (although in some instances they are different with respect to the other responsibilities relating to fraud as set out in paragraphs 74 and 82).
- 71 Further details regarding the requirements of central government audit with regard to loss and mismanagement (including the possibility of fraud) are set out in the Department of Finance's *Public Financial Procedures* and other appropriate guidance on corporate governance.
- 72 These other responsibilities are different from and wider than those to which ISA (UK and Ireland) 240 is directly relevant. The auditor of a central government account is concerned, to a greater or lesser extent, with reviewing and reporting upon the entity's arrangements for the prevention and detection of fraud. ISA (UK and Ireland) 240 is concerned with ensuring that the auditor considers the risks of material misstatement in the financial statements due to fraud and designs and performs further audit procedures whose nature, timing and extent are responsive to assessed risks.

### **Fraud in the Context of the Regularity Opinion**

- 73 Only a court of law can determine whether a particular transaction is fraudulent. However, the auditor often encounters situations where there is suspicion of fraud, identified by management, internal audit, third parties or the auditor. Although the auditor does not have the authority to determine whether or not a fraud has actually occurred, the auditor does have a responsibility to determine

whether, in the auditor's opinion, the transactions concerned are in compliance with the authorities that govern them.

- 74 Fraudulent transactions cannot, by definition, be regular since they are without proper authority. Where there is a duty to give a regularity opinion (including 'by exception'), fraud that is material always results in a qualification of the regularity part of the opinion, regardless of the manner or extent of disclosure in the financial statements.
- 75 The definition of fraud in ISA (UK and Ireland) 240 includes acts committed by individuals both inside and outside the audited entity. Guidance in the ISA (UK and Ireland) is, however, primarily concerned with internal fraud as it is this type of fraud which is considered most likely to lead to material misstatements in the financial statements. The responsibility that the auditor of a central government account has to reach an opinion on regularity means that the auditor is also concerned with the extent of fraud perpetrated from outside the entity.
- 76 The guidance in appendix 1 of ISA (UK and Ireland) 240 provides examples of fraud risk factors. These are all relevant to central government, but in addition, the auditor considers those conditions and events which increase the risk of external fraud.
- 77 Paragraphs 28 and 30 of ISA (UK and Ireland) 240 require that the overall audit response to address the assessed risks of material misstatement due to fraud at the financial statement level be determined and further audit procedures whose nature, timing and extent are responsive to the assessed risks at the assertion level be designed and performed. However, as explained in paragraph 6 of ISA (UK and Ireland) 240, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK and Ireland). In addition, the likelihood of the audit detecting material fraud, and in particular external fraud, is always lower than a reasonable expectation of detecting error, since fraud is usually accompanied by acts specifically designed to conceal its existence, or involving collusion between employees, or employees and third parties, or falsification of records. The audit cannot be expected to identify forged documentation in support of claims for grants or other benefits, other than the most obvious forgeries, and generally do not have investigative powers or rights of access to individuals or organisations making claims.
- 78 Both for practical reasons and in recognition of the responsibilities of those charged with governance in this area, the audit is likely to focus on the adequacy of the entity's internal controls for preventing and detecting fraud.
- 79 Whilst ISA (UK and Ireland) 240 is not written to address, and should not be considered to address the audit of regularity, in some instances compliance with the requirements of ISA (UK and Ireland) 240 may be effectively extended to also gain assurance over regularity. For example, the requirements to:

- evaluate whether unusual or unexpected relationships that have been identified through analytical procedures are indicative of material misstatement due to fraud (ISA (UK and Ireland) 240 paragraph 22);
  - test the appropriateness of journal entries made in the general ledger (ISA (UK and Ireland) 240 paragraph 32(a)); and
  - consider the rationale for significant transactions undertaken outside the normal course of business (ISA (UK and Ireland) 240 paragraph 32(c)), may also be completed as part of the audit of the regularity assertion.
- 80 ISA (UK and Ireland) 240 explains that although fraud is a broad legal concept, for the purposes of the ISAs (UK and Ireland), the audit is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor - misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor of a central government account may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.
- 81 ISA (UK and Ireland) 240 is focussed upon the risks of fraudulent financial reporting and also considers the risks of misappropriation of assets. For the purposes of auditing regularity, fraudulent financial reporting, although it may disguise underlying irregular transactions, is not, itself, irregular. Therefore, it is considered by the central government sector auditor in accordance with ISA (UK and Ireland) 240. However, misappropriation of assets is irregular and risk of material misappropriation of assets due to fraud is considered in accordance with both ISA (UK and Ireland) 240, which places an emphasis on misappropriation by management or employees, and this section of the Practice Note.

Unless all of those charged with governance are involved in managing the entity<sup>8</sup>, the auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. (Paragraph 20)

- 82 The responsibilities of central government sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. The Department of Finance's *Public Financial Procedures* set out the Accounting Officer's responsibility in relation to the proper presentation of financial statements for which he or she is answerable and for ensuring that:
- the transactions of the Department/Office are proper and regular;
  - proper financial procedures are followed;
  - public funds are properly controlled, well managed and safeguarded; and
  - assets are safeguarded and controlled.

<sup>8</sup> ISA (UK and Ireland) 260, "Communication with Those Charged with Governance," paragraph 13.

- 83 Similar responsibilities attach to the accountable persons or organs of non-commercial state sponsored bodies such as boards. These are expressly acknowledged in Statements of Responsibilities accompanying the financial statements.
- 84 Management in all central government entities has the general responsibility of developing and maintaining effective controls to prevent fraud and to ensure that, when it does occur, it is detected promptly.

### **Risk Assessment Procedures and Related Activities**

When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by ISA (UK and Ireland) 315, the auditor shall perform procedures [specified in paragraphs 17-24 of the standard] to obtain information for use in identifying the risks of material misstatement due to fraud. (Paragraph 16)

- 85 The auditor of a central government account considers whether internal and external fraud risk factors are present when obtaining an understanding of audited entities. The risk of external fraud may be particularly high where a body is involved in issuing grants or benefits to the public or collecting tax revenues as there is an increased risk of fraudulent activity by individuals or groups outside of the immediate control of the audited entity, for example fraudulent benefit or prescription claims.
- 86 ISA (UK and Ireland) 240 describes two types of fraud that are relevant to the auditor:
- misstatements resulting from the misappropriation of assets; and
  - misstatements resulting from fraudulent financial reporting.

In the central government sector consideration is also given to the risk of external fraud as explained above.

- 87 A central government sector auditor needs to consider misstatements that may arise from fraudulent financial reporting where the audited body may manipulate its results to meet externally set targets, for example, the achievement of a break-even responsibility.

### **Auditor Unable to Continue the Engagement**

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit the auditor shall:

- (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted and

- (c) If the auditor withdraws:
- (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
  - (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal. (Paragraph 38)

88 In the central government sector, where the appointment is under statute the auditor cannot decline or withdraw from the engagement. Where the auditor of a central government account is not appointed by statute there are still a number of avenues open to the auditor other than withdrawing from the engagement. In most cases a central government sector auditor has the statutory authority to report publicly matters that may otherwise have caused withdrawal from the engagement. For example, in the central government sector such matters can be reported to Dáil Éireann.

### Documentation

The auditor shall include in the audit documentation communications about fraud made to management, those charged with governance, regulators and others. (Paragraph 46)

- 89 In considering whether to report a suspected or actual instance of fraud to a proper authority, the auditor of a central government sector entity has regard to paragraph 43 of ISA (UK and Ireland) 240 and to:
- the provisions relevant to the entity that set out the responsibilities of those charged with governance for the reporting of misconduct, fraud or other irregularity; and
  - the duties under specific legislation<sup>9</sup> requiring the reporting to a third party such as An Garda Síochána or the Office of the Director of Corporate Enforcement.
- 90 Where, in accordance with ISA (UK and Ireland) 240, a duty to report to an outside authority is considered to apply (e.g. because of the implication of those charged with governance in the matter or their refusal to report), the proper authorities to whom instances of suspected or actual fraud are expected to be made may differ. In the central government sector, and depending on the circumstances of the suspected or actual fraud, the supervising department would constitute the proper authority to whom a suspected or actual instance of fraud in a non-commercial state sponsored body is reported. For a central

---

<sup>9</sup> Section 59 Criminal Justice (Theft and Fraud Offences) Act 2001 requires that an auditor report to a member of the Garda Síochána in circumstances where information or documents indicate that certain offences under the Act may have been committed by a client entity, or by its management or employees. Section 74 of the Company Law Enforcement Act 2001 requires instances of the suspected commission of indictable offences under the Companies Acts by a company, its officers or agents to be reported by an auditor to the Office of the Director of Corporate Enforcement.

government department, the Department of Finance is the proper destination for reports of instances of suspected or actual fraud.

- 91 Because the public sector is covered by separate legislation on corruption<sup>10</sup>, the auditor of a central government account considers to whom he may report suspected or actual acts of corruption, irrespective of whether, in his opinion, the consequences of the corruption could have a material effect on the financial statements. In the first instance, the matter is normally brought to the attention of those charged with governance. It is then the responsibility of those charged with governance to report the matter to the proper authorities. If the auditor of a central government entity identifies a suspected or actual instance of corruption, and if, having reported the matter to those charged with governance he is unable to establish whether those charged with governance have reported the matter to the relevant third party, the auditor takes the steps set out in paragraph 43 of ISA (UK and Ireland) 240.
- 92 The auditor of a central government account is also aware of the responsibilities in relation to reporting money laundering offences (see guidance in paragraphs 98 and 99 of this Practice Note), including those relating to ‘tipping-off’. Auditors ensure that they liaise with their Money Laundering Reporting Officer in making any report.

When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 [of the standard] specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud. (Paragraph 26)

- 93 ISA (UK and Ireland) 240 indicates, in paragraphs 26 and A28, that material misstatements due to fraudulent financial reporting often result from an overstatement of revenues (for example, through premature revenue recognition or recording fictitious revenues) or an understatement of revenues (for example, through improperly shifting revenues to a later period). Therefore, the auditor ordinarily presumes that there are risks of fraud in revenue recognition and

---

<sup>10</sup> Specific legislation on corruption applies to Irish public bodies of all descriptions and their agents, where an agent is a person serving under a public body. The generally applicable legislation comprises:

- the Prevention of Corruption Acts 1889 to 2010; and
- the Ethics in Public Office Act 1995 and 2001.

Section 2 of the Prevention of Corruption Act 1916 (as amended) states that:

‘Where in any proceedings... it is proved that any money, gift or other consideration has been paid or given to or received by an office holder or special adviser or a director of, or occupier of a position of employment in, a public body by or from a person or agent of a person holding or seeking to obtain a contract from a Minister of the Government or a public body, the money, gift or consideration shall be deemed to have been paid or given and received corruptly ... unless the contrary is proved.’

The importance of this particular provision is that, where a person employed by a public body has received any money, gift or consideration from a contractor or tenderer, the burden of proof is on that person to establish that such consideration was not paid or received corruptly.

considers which types of revenue, revenue transactions or assertions may give rise to such risks. Those assessed risks of material misstatement due to fraud related to revenue recognition are significant risks. For some central government sector bodies entities this presumption regarding the risk of fraud relating to revenue recognition may not apply due to the immateriality of revenue streams. However, even in these cases, the central government sector auditor still needs to consider whether there is a risk of material misstatement due to fraud related to revenue recognition where the audited body is required to meet externally set targets. For example, within central government departments, income may be an immaterial transaction stream but could be manipulated in order to ensure that net expenditure is within the budget limits.

- 94 In the central government sector, the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period) also needs to be considered. This may arise due to the audited body manipulating expenditure to meet externally set targets. As most central government bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition and so the auditor of a central government account has regard to this when planning and performing audit procedures.

## **ISA (UK and Ireland) 250: Section A - Consideration of Laws and Regulations in an Audit of Financial Statements**

### **Objectives**

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;
- (b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and
- (c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit. (Paragraph 10)

### **Consideration of Laws and Regulations**

- 95 An audit of financial statements in the public sector is similar in scope and nature to an entity in the private sector. The auditor has regard to the risk that financial statements might be materially affected by the entity's non-compliance with laws and regulation. For auditors of central government bodies, there is a specific reporting requirement commonly known as regularity.
- 96 ISA (UK and Ireland) 250 is concerned with laws and regulations that, if not complied with, may materially affect the financial statements of any entity. Such laws and regulations fall into two categories:
- (a) The provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements.

As part of obtaining an understanding of the entity and its environment in accordance with ISA 315<sup>11</sup>, the auditor shall obtain a general understanding of:

- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and

<sup>11</sup> ISA (UK and Ireland) 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment," paragraph 11.

(b) How the entity is complying with that framework. (Paragraph 12)

97 The audit of central government entities carries a specific reporting requirement commonly known as regularity which is discussed in Part B of this Practice Note

### **Reporting of Identified or Suspected Non-Compliance**

If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Paragraph 28)

98 Guidance on the auditor's responsibilities in relation to the anti-money laundering legislation when auditing and reporting on financial statements is provided in *Anti-Money Laundering Procedures Republic of Ireland* issued by the Consultative Committee of Accountancy Bodies – Ireland.

99 The auditor of a central government account considers the offence of tipping off under section 58(1) of the Criminal Justice Act 1994.

## **ISA (UK and Ireland) 260: Communication with Those Charged With Governance**

### **Objectives**

The objectives of the auditor are:

- (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
- (b) To obtain from those charged with governance information relevant to the audit;
- (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
- (d) To promote effective two-way communication between the auditor and those charged with governance. (Paragraph 9)

100 In the central government sector the Accounting Officers or Chief Executive Officer (as accountable person) or equivalent head of the audited organisation is responsible not only for maintaining adequate internal controls, but also for the regularity of the public funds for which they are accountable. The audit of central government entities carries a specific reporting requirement commonly known as regularity which is discussed in Part B of this Practice Note

### **Those Charged with Governance**

The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Paragraph 11)

101 The auditor of a central government account determines who is charged with governance at the outset of the audit. This may be one or more of the Accounting Officer and a group or groups of individuals charged with that role. It may include a Board, council, governing body or another group.

102 The Accounting Officer has personal responsibilities for:

- ensuring that effective management systems appropriate for the achievement of the organisation's objectives including financial monitoring and control systems have been put in place;
- keeping proper accounts;
- ensuring internal audit is established and organised in accordance with appropriate standards; and
- ensuring the regularity and propriety of public finances.

103 When submitting a report on matters arising out of an audit to management, consideration is given to which members of senior management have the power

to act on their findings. The Accounting Officer has both the power and responsibility to act on communications of audit matters. The auditor of a central government account is normally expected to address his communications to the Accounting Officer.

- 104 In other bodies, communication is to the Chief Executive Officer or equivalent who is the person accountable for the transactions of the entity even where:
- the entity is managed by a Board; or
  - the entity has an audit committee.
- 105 In each of these instances the auditor of a central government account ensures that these other parties are made aware of the existence and content of the communication. While the governance of a body is primarily a matter for the Chief Executive Officer and board, or equivalent organ, as a matter of practice the C&AG will communicate matters arising from the audit in appropriate cases to sponsoring departments or in his report on the financial statements.

## **ISA (UK and Ireland) 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management**

### **Objective**

The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions. (Paragraph 5)

The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. (Paragraph 9)

- 106 The C&AG often has a responsibility to report publicly, including in relation to deficiencies or failings in internal control, whether resulting in financial loss, irregular transactions, issues of propriety or breach of a statutory requirement. For example, under the 1993 Act the C&AG may report significant deficiencies identified from his audit of central government departments and the accounts of vocational education committees to Dáil Éireann.
- 107 Where legislation requires the auditor of a central government account to consider broader internal control-related matters than would be required under ISAs (UK and Ireland), deficiencies in these controls are reported to Those Charged with Governance and Management in accordance with ISA (UK and Ireland) 265. For example, controls related to compliance with legislative authorities, regulations, or provisions of contracts or grant agreements.

## ISA (UK and Ireland) 300: Planning an Audit of Financial Statements

### Objective

The objective of the auditor is to plan the audit so that it will be performed in an effective manner. (Paragraph 4)

- 108 Effective working by the central government sector auditor requires that the evidence needed to satisfy each responsibility and meet each duty (whether laid down in statute or by agreement with the Minister for Finance) is collected and considered in a structured way that contributes with greatest effect to the objectives of the audit considered as a whole. Where the auditor of a central government account has completed work in relation to other responsibilities and duties, he considers whether the work meets the requirements of ISAs (UK and Ireland) before seeking to place reliance on it for the purposes of the audit of the financial statements.

### Preliminary Engagement Activities

The auditor shall undertake the following activities at the beginning of the current audit engagement:

- a) Performing procedures required by ISA (UK and Ireland) 220 regarding the continuance of the client relationship and the specific audit engagement.
- b) Evaluating compliance with ethical requirements, including independence, in accordance with ISA (UK and Ireland) 220; and.
- c) Establishing an understanding of the terms of the engagement, as required by ISA (UK and Ireland) 210. (Paragraph 6)

- 109 Further guidance on declining or withdrawing from engagements in the public sector is provided in paragraph 88 of this Practice Note.
- 110 When establishing an understanding of the terms of the engagement, the auditor of a central government account will need to consider the requirement to provide an opinion on the regularity of transactions. For further guidance on the audit of regularity, see Part B of this Practice Note on regularity.

### Planning Activities

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. (Paragraph 7)

- 111 Where the auditor of a central government account is required to give a regularity opinion, in developing the overall audit strategy a sufficient understanding is obtained of the framework of authorities governing the audited entity and its activities that is sufficient to enable the auditor to identify events, transactions and practices that may have a significant effect on the regularity of

transactions in the financial statements. Guidance on planning the audit of regularity is set out in Part B of this Practice Note on regularity.

- 112 In the central government sector, financial statements may include specific notation, for instance details of expenditure outturn variances or losses, which are required under the applicable reporting framework. In these circumstances, in developing the audit strategy the auditor of a central government account obtains an understanding of the reporting requirements and of the audited entity and its activities sufficient to design audit procedures to obtain assurance in respect of these additional requirements.

## **ISA (UK and Ireland) 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment**

### **Objective**

The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. (Paragraph 3)

The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Paragraph 5)

- 113 This ISA (UK and Ireland) requires the auditor to make risk assessments at the financial statement and assertion levels based on an appropriate understanding of the entity and its environment. In the central government sector, consideration has to be given to the additional assertion of regularity. At the planning stage, the central government sector auditor therefore needs to obtain an understanding of the framework of authorities specific to the entity. For further guidance on obtaining an understanding of the framework of authorities refer to Part B of this Practice Note on regularity.

### **The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control**

The auditor shall obtain an understanding of relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Paragraph 11(a))

- 114 The auditor of a central government account obtains an understanding of the financial reporting framework and regulatory factors under which the financial statements are prepared and their impact on the audit. The financial reporting framework and other regulations for the public sector include those set out in:
- the specific legislation that has established the audited entity and determines its activities;
  - *Public Financial Procedures* for government departments published by the Department of Finance;
  - standards that constitute International Financial Reporting Standards and/or Irish GAAP.

- 115 When considering compliance with the applicable financial reporting framework, the central government sector auditor's procedures are performed in the knowledge that entities have their own legislative framework and accounting provisions that prescribe the form and content of financial statements.
- 116 Where a report is given on statements made by those charged with governance relating to corporate governance, this is outside the scope of the audit of the financial statements, even though it may be based on work carried out for that audit. Whether an opinion is always given by the auditor or by exception, it is based on any specific guidance issued in laws, regulations or codes of practice applicable in Ireland.

### **Nature of the Entity**

The auditor shall obtain an understanding of the following: ...

The nature of the entity, including:

- (i) its operations;
- (ii) its ownership and governance structures;
- (iii) the types of investments that the entity is making and plans to make; and
- (iv) the way that the entity is structured and how it is being financed

to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (Paragraph 11(b))

- 117 In the central government sector this will include obtaining an understanding of the legislative background of the body and the way in which it is funded.

### **Objectives and Strategies and Related Business Risks**

The auditor shall obtain an understanding of ...

The entity's objectives and strategies, and related business risks that may result in risks of material misstatement. (Paragraph 11 (d))

- 118 There are a number of additional factors that may be considered when assessing business risks for central government sector entities. These arise from the particular coincidence in the public sector of a closely regulated regime, a large volume of transactions processed and a public reporting process. These additional factors may arise where:
- major new legislation or expenditure programmes have been introduced;
  - there is the possibility of manipulation by management to achieve performance or other targets;
  - an entity is likely to be wound up, reorganised, merged, sold or privatised;
  - there is political pressure on an entity to complete transactions quickly; and
  - the final form of account does not reflect the underlying management and accounting processes.

- 119 Where entities are required to work to annual limits on resources, the risk of transactions being recorded in the wrong accounting period is increased, since there is a temptation for an entity in surplus to bring forward payments and for an entity in deficit to delay them.

### **Assessing the Risks of Material Misstatement**

The auditor shall identify and assess the risks of material misstatement at:

- (a) The financial statement level; and
- (b) The assertion level for classes of transactions, account balances, and disclosures. (Paragraph 25)

- 120 To assess the inherent risk of a material misstatement occurring, the auditor of a central government account uses judgement to evaluate a range of factors. In the context of the regularity opinion specific factors include those set out in the annex to this section of the Practice Note. Further guidance on the audit of regularity is set out Part B of this Practice Note.

As part of the risk assessment as described in paragraph 25 [of the standard], the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk. (Paragraph 27)

- 121 Possible significant risks in the public sector include the risks that:
- organisations issuing grants may have been subject to fraudulent grant claims;
  - financial reporting and disclosure requirements arising through the issuing of financial and/or statutory guarantees may not be met;
  - the financial statements may have been manipulated to meet externally set targets, such as deliberate understatement of expenditure to meet a net expenditure limit;
  - fixed asset valuations are incorrect;
  - guarantees or other contingent liabilities which are subject to significant change in value; and
  - financial transactions entered into by the entity in the period do not conform to the authorities that govern them (known as "regularity").

If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk. (Paragraph 29)

- 122 For further guidance on possible control procedures relating to the identified risks to regularity refer to the annex to this section of the Practice Note.

## Risks to regularity and possible control procedures

Risk	Description	Mitigating Controls
<b>Complexity of Regulations</b>	The more complex the regulations the greater the risk of error. This may occur either through a misunderstanding or misinterpretation of the regulation or through an error in application.	<ul style="list-style-type: none"> <li>• Formal procedures for the translation of statutory requirements into operating instructions.</li> <li>• Formal control plans prepared and monitored by scheme managers.</li> <li>• Review of scheme control plans and operating manuals by internal audit or some other independent audit.</li> </ul>
<b>New Legislation</b>	New legislation may require the introduction of new administrative and control procedures. This may result in errors in either the design or operation of controls required to ensure regularity.	The controls identified above involving formal procedures for the translation of statutory requirements into scheme rules. Formal control plans and the independent review of operating instructions and control plans will also apply where schemes are introduced following new legislation.
<b>European Union Schemes</b>	Where legislation is developed by the European Commission there is a risk that regulations and guidance may be misinterpreted or omitted from internal instructions.	The mitigating controls identified in connection with the complexity of regulations apply equally to EU funded schemes.

<b>Risk</b>	<b>Description</b>	<b>Mitigating Controls</b>
<b>Services and programmes delivered through third parties</b>	Where programmes are administered by agents, departments lose a degree of direct control and may have to rely on agents to ensure compliance with authorities.	<ul style="list-style-type: none"> <li>• Formal agreements between the entity and the agent defining control procedures to be applied in the administration of services.</li> <li>• Management control and monitoring of third party activities.</li> <li>• Inspection visits by internal audit to third parties to review systems and procedures, including those relevant to regularity.</li> <li>• Independent certification of payments and receipts by the third parties' auditor.</li> </ul>
<b>Payments and receipts made on the basis of claims or declarations</b>	An entity's ability to confirm compliance with authorities may be restricted where, for example, criteria specified for receipt of grant are not subject to direct verification.	<ul style="list-style-type: none"> <li>• Established criteria for making claims, clearly set out in departmental instructions and guidance to claimants.</li> <li>• Standard requirements for documentation evidencing entitlement to be submitted in support of claims. (This may be a condition of payment of grant or a requirement once the activity supported by the grant has been completed).</li> <li>• Physical inspection of claimants' records etc., to confirm eligibility.</li> <li>• Procedures for assessing the financial standing of claimants before awarding a grant and for monitoring continuing solvency.</li> <li>• Independent certification of the application of grant by external auditor.</li> </ul>

## **ISA (UK and Ireland) 320: Materiality in Planning and Performing an Audit**

### **Objective**

The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit. (Paragraph 8)

- 123 The concept of materiality is applied by the auditor of a central government account both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.
- 124 The auditor of a central government account makes an assessment of materiality with reference to the auditor's understanding of the expectations of the users of the financial statements. However, in the consideration of materiality, the assessment remains the auditor's own and is not dictated directly by any explicit or implicit interest expressed by any individual with an interest in the financial statements.
- 125 A central government sector auditor may have other specific responsibilities and duties under statute or be required under the terms of engagement to make reports on matters that do not affect the opinion on the financial statements. Where this is the case, the auditor may adopt a level of significance appropriate to these other responsibilities and duties which differs from the materiality level applied to the audit of the financial statements. There is no necessary connection between the materiality of an item to the financial statements and its significance to one of the auditor's other responsibilities or duties.
- 126 For example, in the course of carrying out work relating to other responsibilities and duties, the auditor of a central government account may detect errors, omissions or weaknesses in accounting arrangements. In these instances the auditor considers the materiality of the findings for the audit of the financial statements and reviews the risk assessments on which the audit was based to ensure that they remain valid.

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Paragraph 10)

- 127 Where the auditor of a central government account has a duty to give a regularity opinion, the qualitative considerations applying to the assessment of materiality may reflect the interests expressed by principal users in the regularity

of transactions. The determination of materiality in the central government sector is therefore influenced by legislative and regulatory requirements, and by the financial information needs of legislators and the public in relation to public sector programmes. The list of matters will vary from audited body to audited body, however considerations may include:

- The need for openness and transparency, for example if there are particular disclosure requirements for senior staff or board members' remuneration;
- Public expectations and public interest which might deem separate disclosure of special payments, write offs and losses necessary; and
- The context in which a matter appears, for example if the matter is also subject to compliance with authorities, legislation or regulations. For example situations where a loss is turned into a deficit or in central government where expenditure limits are exceeded (Excess Vote).

128 Further guidance on the interaction between the regularity aspects and the audit of the financial statements is given in Part B of this Practice Note on regularity.

## **ISA (UK and Ireland) 330: The Auditor's Responses to Assessed Risks**

### **Objective**

The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. (Paragraph 3)

### **Audit Procedures to Address Risks of Material Misstatement at the Assertion Level**

If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details. (Paragraph 21)

- 129 Paragraph 121 in this Practice Note outlines the issues the central government sector auditor considers when assessing significant risks. The annex to the guidance in this Practice Note on ISA 315 (UK and Ireland) provides further guidance on possible control responses by management to risks to regularity. Where the auditor has identified a risk that expenditure may have been misstated to meet externally set targets, the auditor performs audit procedures to address this risk such as analytical procedures to identify anomalies in results, reviewing unusual transactions and reviewing significant judgements made by those charged with governance when preparing the financial statements.

## **ISA (UK and Ireland) 402: Audit Considerations Relating to an Entity Using a Service Organisation**

### **Objective**

The objectives of the user auditor, when the user entity uses the services of a service organisation, are:

- (a) To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and
- (b) To design and perform audit procedures responsive to those risks. (Paragraph 7)

130 Central government sector entities may use shared service providers, often in a pooled arrangement, across a sector or departmental group. For example, transaction processing or payroll services may be outsourced to another entity, which could be private sector, another public sector organisation, or a joint venture between the two sectors.

### **Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control**

When obtaining an understanding of the user entity in accordance with ISA (UK and Ireland) 315, the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, ... (Paragraph 9)

131 The responsibilities of an auditor of a central government account go beyond those in the private sector by virtue of statutory or other prescribed duties and obligations. This includes the need to give an opinion on the regularity of expenditure. This may require the central government sector auditor to inspect records maintained by service organisations in relation to activities undertaken on behalf of public sector entities. Guidance on the audit of regularity is set out Part B of this Practice Note on regularity.

When obtaining an understanding of internal control relevant to the audit in accordance with ISA (UK and Ireland) 315, the user auditor shall evaluate the design and implementation of relevant controls at the user entity that relate to the services provided by the service organisation, including those that are applied to the transactions provided by the service organisation. (Paragraph 10)

132 Consideration is given in particular to how the user organisations oversee the performance by the provider, and consider whether this, itself raises the risk of misstatement. Also, where the auditor of a central government account is the auditor of more than one user organisation for a service provider, an understanding is obtained of how each user entity is affected by the service organisation, and individual assessments are made of risk and impact on the audit approach for each user entity.

- 133 ISA (UK and Ireland) 402 in itself is not sufficient to secure access rights for the central government sector auditor, and it is important that such access rights and the purpose of such rights are recognised and provided for in the contract between the service organisation and the central government sector entity.
- 134 The Comptroller and Auditor General has the right of access under section 10 of the 1993 Act to every document relating to an entity subject to audit by him as he may reasonably require. The C&AG also has inspection rights under section 8 of the 1993 Act to the books of individuals or organisations who receive 50% or more of their funding from the Exchequer, either directly or indirectly. The Department of Finance *Compendium of Clauses for a DBFOM<sup>12</sup> Contract* specifies that an access clause for the Comptroller and Auditor General be included in all Public-Private Partnerships.

---

<sup>12</sup> Design, build, finance, operate and manage

## ISA (UK and Ireland) 500: Audit Evidence

### Objective

The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. (Paragraph 4)

- 135 In the central government sector, sufficient audit evidence is obtained to support the regularity assertion. Entities will usually have established internal controls designed to secure the regularity of transactions. However, where the audited entity is responsible for giving grants or other financial assistance to other parties, it is often the case that the regularity of the transaction will depend on the other parties satisfying the criteria and meeting the terms for receiving assistance. Evidence might then be required on the entity's exercise of its responsibilities to satisfy itself about the transactions of these other parties. Guidance on audit evidence for regularity work is set out Part B of this Practice Note on regularity.
- 136 In the central government sector financial statements may also include specific notation which are required under the relevant applicable reporting framework. Where the entity makes non-GAAP disclosures in accordance with the applicable framework then this is subject to audit testing.

## ISA (UK and Ireland) 510: Initial Audit Engagements – Opening Balances

### Objective

In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:

- (a) Opening balances contain misstatements that materially affect the current period's financial statements; and
- (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. (Paragraph 3)

137 All of the requirements of ISA (UK and Ireland) 510 are relevant to the central government sector auditor. However, the variety of circumstances in which ISA (UK and Ireland) 510 will apply will be different from that in the private sector. New legislation and changes in Government policies mean that new audit appointments will arise from the imposed breaking-up or bringing-together of existing public sector entities or changes in public sector audit arrangements.

138 ISA (UK and Ireland) 510 is concerned with the opening balances for initial engagements. This can occur when the financial statements for the prior period were audited by another auditor, but is also relevant for “machinery of government changes” that transfer functions from one part of the public sector to another as a going concern.

139 For machinery of government changes, the following additional considerations may be relevant:

Nature of Opening Balances	Additional Guidance
Opening balance amounts are clearly identifiable from the preceding period's audited financial statements for the transferring entity	The auditor of a central government account adopts the requirements in paragraphs 6 and 7 of ISA (UK and Ireland) 510.
Opening balance amounts are not identifiable from the preceding period's audited financial statements for another entity, but have been derived from balances contained in those statements.	<p>If relevant, the auditor of a central government account discusses with the auditor of the predecessor organisation whether information is available that would provide substantive evidence for the opening balances.</p> <p>In the absence of such evidence, the auditor of a central government account carries out substantive testing of opening balances to confirm they have been brought-forward appropriately in</p>

	accordance with the terms of the transfer, at an appropriate valuation in line with the accounting policies of the receiving body.
Opening balances have been calculated as part of a separate disaggregation/merger exercise, subject to a separate specific review and report by an auditor	<p>The auditor of a central government account considers the scope and outcomes of that separate review, and considers whether the conclusions can be relied on in accordance with ISA (UK and Ireland) 500.</p> <p>Where the work from the separate specific review cannot be used, the auditor of a central government account considers carrying out substantive testing of opening balances, in line with the box above.</p>
Opening balances have been calculated as part of a separate disaggregation/merger exercise, but not subject to separate specific review and report	<p>The auditor of a central government account considers carrying out substantive testing of opening balances.</p> <p>Completeness of assets and liabilities, together with appropriate valuation can be risks in a disaggregation exercise, and engagement with the audited body is made at an early stage.</p>

- 140 Where, after performing the procedures described in paragraph 6 of ISA (UK and Ireland) 510 and the table above, the auditor of a central government account is unable to obtain sufficient appropriate audit evidence concerning the opening balances of the entity, the auditor considers the implications for the auditor's report.

### **The Audit of Opening Balances by the Incoming Auditor**

- 141 In the audit of central government sector entities, the incoming auditor to a new audit assignment is normally able to obtain audit evidence about the opening balances from the procedures outlined in the guidance supporting ISA (UK and Ireland) 510.
- 142 Paragraph 6 of ISA (UK and Ireland) 510 indicates that when the prior period's financial statements were audited by another auditor, the current auditor may be able to obtain sufficient audit evidence regarding opening balances by inter alia, reviewing the predecessor auditor's working papers. In the central government sector, in the interests of efficiency and reducing the audit burden, the predecessor auditor is expected by the auditor of a central government account to adopt a co-operative approach in dealing with enquiries and requests for information from the incoming auditor.

## ISA (UK and Ireland) 520: Analytical Procedures

### Objectives

The objectives of the auditor are:

- (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and
- (b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. (Paragraph 3)

143 All central government sector entities produce a comprehensive range of information and data. Much of the information is consolidated and published by Government entities and other bodies, particularly performance indicators. The auditor of a central government account can use this information both in performing analytical procedures that compare the activities of a single entity from one year to another and in making comparisons between similar entities. Auditors, however, validate the reliability and independence of data to form expectations in analytical procedures as outlined in ISA (UK and Ireland) 520 paragraphs 5 and A12. Data validation procedures could potentially be linked to data quality work carried out by auditors at specified entities.

### Data Relationships

- 144 Relationships between individual financial statement items traditionally considered in the audit of business entities may not always be relevant in the audit of government or other non-business public sector entities. The central government sector auditor however, also considers relationships:
- between elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as staff costs; and
  - where expenditure and income are expected to conform to a demand pattern that can be deduced from other related data, such as the number of people within a certain age range.
- 145 The central government sector auditor may also divide the financial information considered into two classes:
- programme expenditure and income; and
  - administrative expenditure and income.
- 146 Each has a number of essential features that influence the nature of the analytical procedures that may be undertaken.
- 147 Programme expenditure and income relate to the actual function of the audited entity, and are disclosed in the financial statements as, for example,

appropriations in aid, grant payments and healthcare treatments. Features of such transactions are that:

- they may be closely related to non-financial information such as the number of bodies in receipt of grant or persons receiving hospital treatment;
- they may not always be directly comparable to prior periods because of changes in eligibility rules and Government policy; and
- they are comparable to published departmental/entity strategy and expenditure plans.

148 Administrative costs relate to the running of the audited entity and can be distinguished from programme expenditure because they are:

- usually closely related to comparable information for prior periods and are less likely to experience significant fluctuation owing to changes in Government policy and the entity's strategy;
- closely related to information such as number of locations, number of employees and size of buildings; and
- usually directly comparable to other entities with similar establishment sizes.

149 Analytical procedures are unlikely, on their own, to provide the auditor of a central government account with sufficient appropriate evidence in support of a regularity opinion. They may nevertheless, in certain circumstances, assist the auditor in assessing whether amounts recorded in financial statements are consistent with expectations. For example, where allowances under a scheme are subject to a maximum value and the number of recipients is known the auditor may use analytical procedures to identify whether the permitted maximum may have been breached.

## **ISA (UK and Ireland) 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**

### **Objective**

The objective of the auditor is to obtain sufficient appropriate audit evidence about whether:

- (a) accounting estimates, including fair value accounting estimates, in the financial statements, whether recognized or disclosed, are reasonable; and
  - (b) related disclosures in the financial statements are adequate,
- in the context of the applicable financial reporting framework. (Paragraph 6)

### **Management Bias**

The auditor shall review the judgements and decisions made by management in the making of accounting estimates to identify whether there are any indicators of possible management bias. Indicators of possible management bias do not themselves constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual accounting estimates. (Paragraph 21)

- 150 In the central government sector, management decisions on accounting estimates can be influenced by financial factors that fall outside the scope of the financial reporting framework. For example, central government departments must adhere to Department of Finance budgetary controls, and so valuation of estimates within the financial statements can be influenced by the impact they have on departmental expenditure limits or the administration budget. In other sectors, statutory limits or targets can influence management decisions.
- 151 The auditor of a central government account therefore needs to understand these influences, some of which come from elsewhere within a departmental or sector group, when considering the appropriateness of accounting estimates and the assumptions applied by management.

### **Third Party Estimates**

- 152 Some central government sector entities may be reliant on accounting estimates provided by other entities within the public sector. The auditor of a central government account understands how these estimates have been derived, and may need to communicate with the auditors of the entities compiling the accounting estimates relied on.

## ISA (UK and Ireland) 550: Related Parties

### Objectives

The objectives of the auditor are:

- (a) Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:
  - (i) To recognize fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and
  - (ii) To conclude, based on the audit evidence obtained, whether the financial statements, insofar as they are affected by those relationships and transactions:
    - a. Achieve fair presentation (for fair presentation frameworks); or
    - b. Are not misleading (for compliance frameworks); and
- (b) In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the framework. (Paragraph 9)

153 Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. Where the applicable financial reporting framework establishes such requirements<sup>13</sup>, the auditor of a central government account has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

154 The related parties of central government sector entities are subject to either a statutory or non-statutory framework<sup>14</sup> which regulates their conduct and the relationships that they can enter into with the entity. The framework restricts practices that might be permissible in relationships outside the public sector.

<sup>13</sup> Specific accounting and disclosure requirements for related party relationships, transactions and balances are established in accounting standards and in law and regulations.

<sup>14</sup> The statutory framework covers public and civil servants as set out in Ethics legislation. Additional procedures and practices are set out in corporate governance guidance issued by the Minister for Finance.

## ISA (UK and Ireland) 560: Subsequent Events

### Objectives

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework; and
- (b) To respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report. (Paragraph 4)

### Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (Paragraph 6)

155 In addition to the further procedures described in paragraph 7 of ISA (UK and Ireland) 560, the auditor of a central government account considers matters arising from relevant proceedings of the Oireachtas which the auditor may have become aware of during the course of the audit as being scheduled to take place at or after the period end, the outcome of which may have an impact on the audited entity.

### Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Financial Statements are Issued

- 156 In interpreting the requirements of ISA (UK and Ireland) 560, the financial statements of central government entities are considered to be "issued" where one of the following circumstances applies:
- for financial statements where the statutory responsibility of laying the financial statements before the Oireachtas rests with the C&AG, the financial statements are deemed to be issued when they are dispatched to the Houses of the Oireachtas;
  - for financial statements where the statutory responsibility for laying them before the Oireachtas rests with a Minister of the Government, then the financial statements are deemed to be issued when the audited entity dispatch them to the Minister;

- where there is no statute or requirement to lay the financial statements before the Oireachtas the statements are deemed issued when they are published by the audited entity or other relevant authority.

157 In all cases, the date on which the financial statements of central government entities are laid before the Houses of the Oireachtas is the date on which they are received in the library of the Houses of the Oireachtas following their dispatch by the C&AG or Minister of the supervising department.

158 The impact of subsequent events which come to audit attention and occur between the date of the audit report and the date on which the financial statements are issued, is considered

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- (a) Discuss the matter with management and, where appropriate, those charged with governance;
- (b) Determine whether the financial statements need amendment and, if so,
- (c) Inquire how management intends to address the matter in the financial statements. (Paragraph 10)

159 If the Accounting Officer or Chief Executive decides not to amend the financial statements, where the auditor of a central government account believes that they need to be revised, the auditor considers taking appropriate steps on a timely basis to prevent reliance on the auditor's report. Such steps could take the form of a statement reporting the specific public accountability concerns to the relevant supervising Department or body in the light of any legal advice taken. In certain instances the C&AG has the power under legislation to report the matter to the Houses of the Oireachtas.

160 Where the subsequent event occurred after the date of the auditor's report, the auditor may, in addition to seeking legal advice, discuss the matter with the entity's Chief Executive and with the sponsor department to establish whether it might be possible to withdraw the auditor's report before the financial statements are laid before the Houses of the Oireachtas.

### **Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued**

The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter(s) paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor. (Paragraph 16)

- 161 In the central government sector, the issue of the auditor's statutory audit opinion marks the end of the audit and once the financial statements have been issued they cannot be revised and the auditor's report cannot be re-issued.
- 162 If a matter that needs to be drawn to the attention of stakeholders arises once the financial statements have been issued, the auditor has other mechanisms available for making a public statement. For example, in the central government sector the Comptroller and Auditor General can issue a report and have it laid before the Houses of the Oireachtas.

## ISA (UK and Ireland) 570: Going Concern

### Objectives

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements;
- (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- (c) To determine the implications for the auditor's report. (Paragraph 9)

- 163 Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern. The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.
- 164 Under some circumstances, the management of an audited body may not have made a formal assessment of the body's ability to continue as a going concern. Under these circumstances the auditor of a central government account discusses the going concern assumption with management and documents the considerations around the going concern assumption arising from that discussion.
- 165 The central government sector auditor may have other responsibilities relating to going concern different from those to which ISA (UK and Ireland) 570 is directly relevant. As a matter of practice the Comptroller and Auditor General reviews the entity's arrangements for maintaining its general financial health and in appropriate cases reports to those charged with governance, the sponsor department or in his report on the financial statements.
- 166 Where central government entities prepare financial statements on a cash basis, ISA (UK and Ireland) 570 does not apply to the audit as the going concern basis is not used in the preparation of the statements. However, the audit still considers whether there are any matters affecting the audited entity's ability to continue as a going concern. Where such matters are identified, the need to report separately to the Oireachtas on those matters and the inclusion of an emphasis of matter paragraph in the audit report is considered. The audit opinion is not, however, qualified on the proper presentation of the financial statements.

## **Risk Assessment Procedures and Related Activities**

When performing risk assessment procedures as required by ISA (UK and Ireland) 315, the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern ... (Paragraph 10)

- 167 To apply ISA (UK and Ireland) 570 in the central government sector, the auditor considers the circumstances in which a central government sector entity may cease to continue in its operational existence.
- 168 It is not uncommon in the central government sector for entities to spend more in one year than they have resources to cover or to become overstretched in their commitments, such that they might have a deficit of income over expenditure or an excess of liabilities over assets. However, it is less common that the operational existence of a central government sector entity will cease or its scale of operations be subject to a forced reduction as a result of an inability to finance its operations or of net liabilities (although this is possible where a central government entity operates at arm's length from Government, particularly in a trading capacity). The reasons for this are:
- entities which carry out essential functions may be revenue-raising bodies (without a specified limit on revenue-raising powers), and have the possibility, on application, of recovering losses over a period;
  - there is a general assumption that no part of the central government sector will be allowed to cease operations other than by deliberate closure by government, announced in advance; and
  - ultimately government departments can act to avoid financial failures by individual entities in central government and other parts of the public sector and thus secure continuation of the delivery of public services (although this may require Oireachtas authority).
- 169 In the central government sector it is not uncommon for statutory bodies to give guarantees which, if called upon, can not be met by the resources currently available to the organisation. In such circumstances, the auditor of a central government account considers if the matter needs to be referred to in an emphasis of matter paragraph within the audit report.
- 170 Cessation is most likely to result from a Government policy decision. A policy decision may be taken to:
- wind up and dissolve an entity in its entirety where the Government determines that its functions are no longer required;
  - wind up and dissolve all or part of an entity, but transfer some or all of its functions to another entity in the same sector or another sector;
  - merge the entity, or some part of it, with another in the same sector; or

- privatise an entity, or some part of it, where the Government decides that certain functions would be better delivered by the private sector.

171 In each of these cases the operational existence of all or part of the entity ceases, but only in the case of dissolution without any continuation of operations would the going concern basis cease clearly to be appropriate. In the other cases the auditor of a central government account considers the basis on which the activities are transferred, from the viewpoint of the entity that is relinquishing the assets and liabilities at the accounting date.

*Consideration of the foreseeable future*

172 ISA (UK and Ireland) 570 specifies that, in assessing whether the going concern assumption is appropriate, those charged with governance take into account all available information for the foreseeable future, which is at least twelve months from the balance sheet date. If the period to which those charged with governance have paid particular attention in assessing going concern is less than one year from the date of approval of the financial statements, and those charged with governance have not disclosed the fact, the auditor of a central government account complies with the requirements of paragraph 17-1 of ISA (UK and Ireland) 570.

*Auditor's responsibilities for the consideration of the appropriateness of the going concern basis*

173 In forming a view on the entity's ability to continue its operations, the audit consideration of going concern embraces two separate, but sometimes overlapping, factors:

- the risk associated with changes in policy direction; and
- the less common operational, or business, risk (for example, where an entity has insufficient working capital to continue its operations at its existing level).

174 To minimise the risk of it not coming to the auditor's attention that the Government has made, or is likely to make, a decision on policy direction which could impact on the going concern assumption, the auditor ascertains whether:

- the Government has a known intention to review an area of policy affecting the audited entity, for example as a result of a manifesto commitment;
- a review has been announced and is in progress;
- a review has indicated that the audited entity could be rationalised or that an entity's future may be re-examined; or
- there is a known intention to privatise the activities of the audited entity.

175 When the auditor of a central government account becomes aware of information which indicates that the Government has made, or plans to make, a policy decision which is likely to impact on the entity's continued operational existence, the auditor first establishes whether the entity's operational activities are likely to be transferred elsewhere in the public sector. If they are,

irrespective of whether the entity will continue to operate, the going concern basis of preparation of the financial statements is likely to remain appropriate. If not, then in considering the going concern assumption, the auditor may decide to request that the audited entity secures from the relevant department or executive body a letter of financial support, confirming that the entity continues to have financial backing to utilise its assets and meet liabilities as they fall due.

- 176 Some central government sector bodies may have a duty to break even. The existence of such a requirement may influence the scope and nature of audit procedures, for instance it may be appropriate to consider the financial performance of the entity, including the effectiveness of financial recovery plans.

### **Additional Audit Procedures When Events or Conditions are Identified**

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

- (a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- (b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action:
  - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
  - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (e) Requesting written representations from management or, where appropriate, those charged with governance, regarding their plans for future action and feasibility of these plans. (Paragraph 16)

- 177 In certain circumstances, the evidence of the likelihood of continued financial support may be available from other sources including records relating to the estimates process and proceedings of Oireachtas committees.
- 178 Where the auditor of a central government account judges that the going concern basis is appropriate for the preparation of the entity's financial statements substantially on the basis of third party confirmations received from the department or body responsible for providing financial backing, the auditor considers whether this is a matter of such significance that the confirmations are

referred to in the financial statements and in the audit report as being relevant to a proper understanding of the basis of the audit opinion.

- 179 If no appropriate representations or confirmations can be obtained, the auditor of a central government account considers whether there is a limitation on the scope of the audit work that requires a qualified opinion or a fundamental uncertainty that requires an emphasis of matter paragraph in the audit report.

## **Illustrative Examples of Audit Procedures and Auditor's Reports**

### **Example – A Non-Commercial State Sponsored Body where the Minister of the parent department has announced a review of its operations**

#### Situation 1

- *The auditor considers that the probability of any change in the nature of operations is remote.*
  - *An unqualified auditor's report without an added emphasis of matter paragraph.*
- 180 When planning the audit, the auditor of a central government account becomes aware of the following matters:
- the Minister of the parent department has recently announced a review of the entity's operations. The review will examine the services provided by the entity and consider whether, together with the services provided by two other entities, they could be better provided by one entity; and
  - the Chief Executive believes that the entity's services would be more expensive to provide under the new proposed arrangements and that the review is unlikely to recommend any significant change in operations.
- 181 The auditor's initial assessment might be that there is some uncertainty about the ability of the entity to continue as a going concern. The auditor plans to monitor the progress of the review by liaising with the Chief Executive and reconsider the position when the auditor has completed the audit.
- 182 Having completed all other aspects of the audit, the auditor of a central government account considers the progress of the review:
- the Chief Executive knows that the review is almost completed and the department has begun to consider its findings. The Chief Executive has been told that it is unlikely that the Minister will recommend the closure of the entity;
  - the auditor informs the Chief Executive that the auditor intends to contact the department to confirm this understanding;
  - on behalf of the Accounting Officer, the Finance Officer of the parent department gives a written representation to the auditor that, while the recommendations arising from the review have not been finalised, it is now unlikely that the entity would be significantly affected by them; and
  - the auditor therefore considers that the probability of the entity not being a going concern is remote.

183 The Chief Executive considers that no special disclosures are required in the financial statements. The auditor of a central government account agrees and accordingly does not consider it necessary to qualify the audit opinion or to add an emphasis of matter paragraph to the auditor's report.

#### Situation 2

- *The auditor considers that there is significant uncertainty as to the future of the entity, but as yet the Minister has made no decision on the entity's future.*
- *An unqualified auditor's report with an added emphasis of matter paragraph.*

184 The circumstances and audit work are as in Situation 1 except as follows.

185 Having completed all other aspects of the audit, the auditor of a central government account considers the progress of the review:

- the Chief Executive knows that the review is almost completed and the department has begun to consider its findings. He does not know what the Minister's recommendation might be on the future of the entity;
- the Chief Executive arranges a meeting between himself, the auditor and officials of the parent department to discuss the situation;
- the departmental officials indicate that preliminary studies showed a merger might result in efficiencies and that a further cost benefit study is ongoing. Its results will not be known for some months; and
- in view of this uncertainty, the parent department's Finance Officer, acting for the Accounting Officer, is not willing to provide any written representation about the future of the entity.

186 The auditor believes there is significant uncertainty as to the future of the entity and discusses the concerns with the Chief Executive. The Chief Executive has already decided to make appropriate disclosures in the financial statements as follows.

#### **Extract from the notes to the financial statements**

##### *Note 1 Basis of preparing financial statements*

On 1 September 20XX the Minister for XXXX announced a review of the operations of the entity which would examine the different ways in which its current services can be provided in the future. The review is considering several options, including the possible merger of the entity with other entities. The Minister has not yet announced the outcome of the review and therefore the Chief Executive considers that it is appropriate to prepare financial statements on the going concern basis. The financial statements do not include any

adjustments that would result from a decision to alter the operations of the entity, or to transfer its activities to another entity.

187 In these circumstances, the auditor of a central government account considers an audit opinion can be formed but has a significant level of concern about the ability of the entity to continue as a going concern. Hence, while the auditor does not qualify the audit opinion, the auditor includes a suitable emphasis of matter paragraph when setting out the basis of the opinion, as set out below.

188 Paragraph 19 of ISA (UK and Ireland) 570 requires that:

“the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor’s report to: a) highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity’s ability to continue as a going concern; and to b) draw attention to the note in the financial statements that discloses the matters set out in paragraph 18.”

In this example, the auditor of a central government account does not disagree with the preparation of the financial statements on the going concern basis.

#### **Extract from the auditor’s report**

##### *Going concern*

In forming my opinion, I have considered the adequacy of the disclosures made in Note 1 of the financial statements concerning the uncertainty as to the continuation of the entity in its present form. In view of the significance of this uncertainty to the financial statements, I consider that it should be drawn to your attention, but my opinion is not qualified in this respect.

#### Situation 3

- *The Minister has announced that the entity will cease operations at the end of the next financial year and its activities will be transferred to a new entity.*
- *The auditor is satisfied that the agency has made appropriate adjustments to, and disclosures in, its financial statements.*
- *An unqualified auditor’s report without an added emphasis of matter paragraph.*

189 The circumstances and audit work are as in Situation 2 except as follows.

190 During the audit the Minister announces that the review has been completed and that the entity will cease operations and be wound up at the end of the next financial year. Its activities will be transferred to a new entity, together with the activities of two other entities.

- 191 The auditor of a central government account obtains further details of the restructuring plans through the Chief Executive. The auditor ascertains that all assets and liabilities will be transferred for nil consideration to the new entity. The majority of staff will be transferred to the new entity, but a number will be made redundant. The costs of redundancy will be borne by the entity in the next financial year. All operating leases will be transferred to the new entity for nil consideration and there are no other contingent liabilities.
- 192 The Chief Executive considers that the entity cannot prepare financial statements on the going concern basis. The financial statements therefore show:
- full provision for the redundancy and early retirement costs expected to be incurred over the next year and the fact that the decision has been communicated to employees before the year-end; and
  - all fixed assets written down to the fair value at which they will be taken into the new entity's books. The Chief Executive's budget for the next financial year shows the entity will break even and so no provision for future losses need be considered.
- 193 The auditor of a central government account reviews these treatments and audits the values attributed to fixed assets and the provision for redundancy costs. The auditor concludes that appropriate adjustments have been made.
- 194 The financial statements contain the following note.

**Extract from the notes to the financial statements**

*Note 1 Basis of preparing financial statements*

On 1 July 20XX the Minister for XXXX announced that the entity would be wound up on 31 December 20XX and its activities transferred to a new entity, the JKL Centre. The operations of the entity will not transfer to the JKL Centre as a going concern and the Chief Executive considers it inappropriate for the financial statements to be prepared on a going concern basis. Appropriate adjustments have been made to the values of fixed assets to bring them into line with the bases of measurement applicable to the new entity (see Note Z) and full provision has been made for the cost of redundancy and early retirement for staff who will not transfer to the JKL Centre.

- 195 The auditor of a central government account concludes that the entity has made appropriate disclosures in the financial statements. The auditor issues an unqualified opinion in the auditor's report.

Situation 4

- *As for situation 3, except that the auditor is not satisfied as to the appropriateness of adjustments and disclosures made and considers that the financial statements are materially misstated.*

- *A qualified auditor's report - disagreement with accounting treatment.*

- 196 The circumstances and audit work are as in Situation 3 except as follows.
- 197 The Chief Executive believes it is inappropriate to adjust the values of fixed assets, as they are being transferred with all other assets and liabilities for nil consideration. The Chief Executive does not believe it appropriate to provide for redundancy costs on the grounds that the entity will receive specific additional funding in the following financial year.
- 198 The auditor of a central government account disagrees, as the audit determines:
- some fixed assets will be surplus to the requirements of the new entity and will have no value to it; and
  - the decision on making some staff redundant was taken and communicated before the year-end and therefore full provision is made.
- 199 If the auditor of a central government account cannot persuade the Chief Executive to make appropriate adjustments to the financial statements, the auditor will qualify the audit opinion on the grounds of disagreement. As the opinion has been qualified, there is no need to include an emphasis of matter paragraph.

## ISA (UK and Ireland) 580: Written Representations

### Objectives

The objectives of the auditor are:

- (a) To obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor;
- (b) To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations if determined necessary by the auditor or required by other ISAs (UK and Ireland); and
- (c) To respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or if management or, where appropriate, those charged with governance do not provide the written representations requested by the auditor. (Paragraph 6)

### Written Representations about Management's Responsibilities

The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement. (Paragraph 10)

- 200 In addition to the representations made relating to the financial statements in accordance with ISA (UK and Ireland) 580 the auditor of a central government sector entity may be required to meet other responsibilities additional to giving a true and fair opinion on the financial statements. For example, the auditor may be required to report by exception on the regularity of transactions entered into by the entity. The auditor may wish to obtain representations relevant to these additional responsibilities in the same letter or statement from the entity.

The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Paragraph 9)

- 201 The auditor of a central government account takes care to ensure that representations are only accepted from those competent to give them, such that:
- acknowledgement of the responsibilities of "directors" for the financial statements is made by those in whom the responsibilities are vested; and
  - management representations on matters material to the financial statements are made by persons who have knowledge of the facts or who are authorised to make the judgement or express the opinion (for instance, a legal officer may be best placed to make representations about contingent liabilities) –

this may be particularly relevant where the financial statements comprise a consolidation of information from lower tier accounts.

- 202 In government departments and offices, representations will usually be obtained from the Accounting Officer who has the role and responsibilities which are similar to that of the directors and, because the Accounting Officer has a personal responsibility for preparation and signing of the financial statements, the auditor of a central government account expects representations to be signed by the Accounting Officer. For non-commercial state sponsored bodies, boards, committees and funds the senior full-time official (Chief Executive Officer or equivalent) is responsible for the financial statements and as such is normally the accountable person for purposes of accountability to Dáil Éireann. However, the financial statements of such entities are formally adopted by their boards and the letter of representation is then signed on the board's behalf by the Chairman and Secretary.
- 203 Where the auditor of a central government account has a responsibility to give a regularity opinion (by exception), it may be necessary to obtain representations about knowledge and opinions relevant to the duty, such as the application of any grants or other financial assistance given by the audited entity to other parties and confirmation that all facts have been disclosed to the auditor, such as losses, write-offs and known or suspected frauds.

## **ISA (UK and Ireland) 600: Special Considerations – Audits of Group Financial Statements (Including the work of Component Auditors)**

### **Objectives**

The objectives of the auditor are:

- (a) To determine whether to act as the auditor of the group financial statements; and
- (b) If acting as the auditor of the group financial statements:
  - (i) To communicate clearly with component auditors about the scope and timing of their work on financial information related to components and their findings; and
  - (ii) To obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. (Paragraph 8)

- 204 Generally, the situations in which the central government sector auditor may encounter another auditor and become group auditor, such that the requirements of ISA (UK and Ireland) 600 need to be considered will be limited to where he audits an entity that consolidates or summarises the financial statements of lower tier or other bodies. This situation may occur where a State entity has established a subsidiary company under the Companies Acts audited by separate auditors and the subsidiary company results are consolidated in group financial statements of the entity.
- 205 Where the auditor of a central government account audits an entity that has contracted out services to another party outside of the entity or group, the requirements of ISA (UK and Ireland) 402 apply. In this situation, whether the auditor of a central government account needs access to the contractor and/or to the contractor's auditor depends on the particular nature of the service provided, the information available at the principal entity and the terms of engagement of the other auditor. The guidance on ISA (UK and Ireland) 402 discusses the requirements of an auditor in this position.
- 206 Where the auditor of a central government account has a duty to give a regularity opinion (by exception), it will be necessary to obtain assurance about the application of any material grants or other financial assistance given by the audited entity to other parties for example by using the work of the grantee's auditor and reducing the extent of his own audit procedures

### **Understanding the Component Auditor**

If the group engagement team plans to request a component auditor perform work on the financial information of a component, the group engagement team shall obtain an understanding of the following:

- (a) Whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit and, in particular, is independent.
- (b) The component auditor's professional competence.
- (c) Whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.
- (d) Whether the component auditor operates in a regulatory environment that actively oversees auditors. (Paragraph 19)

207 Where the C&AG arranges with a person or firm for the performance of audit work on his behalf in accordance with the 1993 Act, the appointed person or firm will have had to demonstrate professional qualifications, experience and resources. Whilst this does not mean that the principal auditor can then assume the competence of this auditor, it provides a clear framework within which the assessment required by paragraph 19 can be made.

## ISA (UK and Ireland) 610: Using the Work of Internal Auditors

### Objectives

The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are:

- (a) To determine whether, and to what extent, to use specific work of the internal auditors; and
- (b) If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit. (Paragraph 6)

208 A distinctive feature of internal audit in the central government sector is that it is normally a mandatory element of any entity's framework of internal control. Details of the role and responsibilities of internal audit, and applicable internal auditing standards and practices are set out in paragraph 211.

### Determining Whether and to What Extent to Use the Work of the Internal Auditors

The external auditor shall determine:

- (a) Whether the work of the internal auditors is likely to be adequate for purposes of the audit; and
- (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures. (Paragraph 8)

209 Where the auditor of a central government account has other responsibilities in relation to systems of internal control, the work of internal audit may be considered as a part of that framework. An assessment of the internal audit function may be carried out for such purposes, even if the auditor considers that it may not be possible or desirable to rely on its work in specific areas for the purpose of the external audit of the financial statements. For example, where the auditor has a responsibility to report by exception on the Statement on Internal Financial Control and has assessed internal audit's work in this area, the auditor may rely on the Head of Internal Audit's annual assurance report.

210 The work of internal audit may also be considered in relation to the other responsibilities of the auditor of a central government account. The auditor of a central government account takes care to ensure that, where matters come to his attention relating to the work of internal audit in relation to his other responsibilities, these findings are properly reviewed in accordance with ISA (UK and Ireland) 610 for their potential impact on the audit of the financial statements.

In order for the external auditor to use specific work of the internal auditors, the external auditor shall evaluate and perform audit procedures on that work to determine its adequacy for the external auditor's purposes. (Paragraph 11)

211 Roles and responsibilities of internal audit, and applicable internal auditing standards and practices:

	<b>Roles and responsibilities of internal audit</b>	<b>Internal auditing standards and practices</b>
Central government entities	<p>The precise responsibilities of an internal audit unit are determined by the head of a department as Accounting Officer . These include, the provision of assurance on risk management, internal control and governance established by management to:</p> <ul style="list-style-type: none"> <li>• achieve the entity's objectives;</li> <li>• ensure the economical, effective and efficient use of resources;</li> <li>• ensure compliance with established policies, procedures, laws and regulations;</li> <li>• safeguard the entity's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and</li> <li>• ensure the integrity and reliability of information and data.</li> </ul>	<p>An Accounting Officer is charged with making arrangements for internal audit to accord with the objectives, standards and practices set out in the Internal Audit Standards. The guidelines relating to the standards to be followed are outlined in the Department of Finance’s publication <i>Internal Audit Standards</i>. Internal audit is also covered in Sections 3.6–3.14 of the December 2003 Department of Finance Memorandum for Accounting Officers – The Role and Responsibilities of Accounting Officers. Departments may also refer as appropriate to the standards and guidelines issued by the Institute of Internal Auditors (IIA) – UK and Ireland and other appropriate professional bodies.</p>

	<b>Roles and responsibilities of internal audit</b>	<b>Internal auditing standards and practices</b>
<p>Non-Commercial State Bodies, Universities and Third Level Educational Institutions and Health Sector Bodies.</p>	<p>Applicable Codes of Practice set out the principles under which the internal audit function should operate within bodies including the responsibility for the Board (or equivalent) in ensuring that there is a properly constituted internal audit function which reports directly to the Board Audit Committee. Internal audit functions are agreed by the Board and set out in a written charter. The role of internal audit would be broadly similar to those set out above.</p>	<p>The internal audit function should serve the best interests of the body as a whole and carry out its work in a manner that is consistent with the Standards for the Professional Practice of Internal Auditors, published by the Institute of Internal Auditors (IIA) –UK and Ireland and other appropriate professional bodies.</p>

## **ISA (UK and Ireland) 700 (Revised): The Auditor's Report on Financial Statements**

### **Objectives**

The objectives of the auditor are to:

- (a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- (b) Express clearly that opinion through a written report that also describes the basis for the opinion. (Paragraph 7)

212 The APB has not mandated the application of the clarified ISAs (UK and Ireland) 700, 705 and 706 (the auditor's reporting standards) in the Republic of Ireland. This is because there are expected to be changes to Irish Company law that will affect the auditor's report. However, the C&AG considers the application of the clarified auditor's reporting standards to be appropriate for audits of central government financial statements in the Republic of Ireland and accordingly has adopted them.

### **Basic Elements of the Auditor's Report**

The auditor's report shall be appropriately addressed as required by the circumstances of the engagement. (Paragraph 13)

213 ISA (UK and Ireland) 700 requires the title of an auditor's report to identify the person or persons to whom it is addressed. This is normally the person or persons on whose behalf the audit is undertaken.

214 The accounts of each entity together with the Report of the Comptroller and Auditor General are transmitted to the relevant House or Houses of the Oireachtas either directly by the C&AG or by a designated Minister of the Government. The audit reports of the C&AG are addressed to the Oireachtas. Accordingly reports are entitled 'Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas.

The auditor's report shall include a statement that those charged with governance are responsible for the preparation of the financial statements and a statement that the responsibility of the auditor is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and International Standards on Auditing (UK and Ireland). The report shall also state that those standards require the auditor to comply with the APB's Ethical Standards for Auditors. (Paragraph 15)

215 For central government sector entities, the responsibilities equivalent to those of directors may lie with different individuals or groups.

- in the case of government departments and offices, responsibility for the financial statements rests with the Accounting Officer; and

- in the case of other central government entities, the responsibility for the financial statements rests with the board members or other organ, as designated by law, of the entity.
- 216 The financial statements are required to include a statement of those responsibilities. Where such accounting responsibilities are not set out in the financial statements or other statutory report, a separate statement of responsibilities is prepared.
- 217 In all cases the statement sets out
- the accounting provisions laid down by law in respect of the entity;
  - the person or body upon whom responsibilities for preparing financial statements, maintaining accounting records and ensuring the regularity and propriety of public finances, rests
- 218 Example disclosures in a central government sector entity's Statement of Responsibilities are set out in Annex I to this section of the Practice Note.
- 219 Where the requirement to audit an entity's financial statements is provided for under statute, the audit report refers to the relevant legislation in the introductory paragraph.

The opinion paragraph of the auditor's report shall clearly state the auditor's opinion as required by the relevant financial reporting framework used to prepare the financial statements, including applicable law. (Paragraph 17)

When expressing an unqualified opinion on financial statements prepared in accordance with a true and fair framework the opinion paragraph shall clearly state that the financial statements give a true and fair view. It is not sufficient for the auditor to conclude that the financial statements give a true and fair view solely on the basis that the financial statements were prepared in accordance with accounting standards and any other applicable legal requirements. (Paragraph 18)

- 220 For government departments and offices these requirements are set down in statute<sup>15</sup> and the Department of Finance's *Public Financial Procedures*. For other central government entities these requirements may be set out in specific standards approved by a sponsoring government department or accounting standards promulgated by the accountancy bodies in Ireland.
- 221 Across the central government sector, most financial statements include an opinion as to whether the financial statements give a true and fair view. However, there are instances where the auditing framework requires an opinion as to whether the financial statements present fairly or properly present the entity's transactions or balances. Whichever wording is used for the opinion on the financial statements, this will not have an impact on the extent to which the auditor observes the requirements of Auditing Standards.

---

<sup>15</sup> Comptroller and Auditor General Acts, 1866 to 1998  
Ministers and Secretaries Act 1924

*Illustrative report*

- 222 Audit reports are issued on a wide variety of central government sector accounts. Annex II sets out an illustrative report for statutory corporate entities. While variations occur due to the regulatory provisions applying to different entities this report provides a basis for the audit reports on other central government sector accounts. These variations can arise out of the terms of establishing legislation in the case of statutory corporate bodies or in instances where the provisions of company law have been modified by legislation for bodies initially incorporated by a process of registration under the Companies Acts

*Special considerations which apply to audit by the CA&G*

- 223 The audit of central government sector bodies is planned and performed to take into account the special considerations which apply to these bodies by virtue of the fact that they are established by legislation or are in receipt of substantial funding from the Exchequer. Special considerations refer to the matters of regularity and propriety.

*Published reports other than audit opinions*

- 224 The C&AG considers the need for reporting other than through the audit opinion where the audit opinion is qualified as a consequence of a material irregularity. The purpose of a separate report is to provide the Oireachtas with a detailed explanation beyond that given in the audit opinion and which could form the basis of a hearing by the Committee of Public Accounts.
- 225 In central government departments and offices a separate report will always be required where there is an Excess Vote on an Appropriation Account. An excess constitutes a breach of parliamentary control and, regardless of the amounts involved, the Committee of Public Accounts has to be informed of the background and reasons. In such circumstances the Oireachtas must be requested to give retrospective approval to the additional expenditure.
- 226 The C&AG has the statutory authority to report on value for money issues and general matters arising from his audits and where matters come to his attention in the course of the audit which he believes merit a public report, he considers the implications for his report and opinion on the statutory accounts. For example, he may wish to refer in the opinion section of his audit report to the fact that he intends to publish a separate report on a particular matter.

## **CONTENTS OF STATEMENT OF RESPONSIBILITIES**

The examples in this Annex are based on particular assumptions about the adequacy of the disclosures made in the financial statements about the responsibilities of the entity, directors and officers for keeping accounting records and preparing the financial statements. Where these disclosures are not adequate, then the sections for respective responsibilities in the example auditor's reports might need to be extended.

Statements of responsibilities includes disclosures with regard to the following matters:

### **Responsibility for:**

- 1 Proper accounting records that disclose with reasonable accuracy at any time the financial position of the entity and enable the entity to ensure that financial statements are prepared to comply with statutory requirements
- 2 Safeguarding the assets of the entity and for taking reasonable steps for the prevention and detection of fraud and other irregularities
- 3 Preparation of financial statements for each financial year that give a true and fair view of/present fairly the state of affairs of the entity and its performance for that period
- 4 In preparing financial statements:
  - selecting suitable accounting policies and then applying them consistently;
  - making judgements and estimates that are reasonable and prudent;
  - stating whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
  - preparing the financial statements on the going concern basis, unless it is inappropriate to presume that the entity will continue in business.
- 5 Where a regularity opinion is given, responsibility for the regularity of the public finances for which the Accounting/Accountable Officer is answerable

## **ILLUSTRATIVE AUDIT REPORT**

### **Example – Audit Report on a State Sponsored Agency**

#### **Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas**

##### *Name of Entity*

I have audited the financial statements of the [name of entity] for the year ended [year-end date] under the [specify legislation/basis for audit]. The financial statements, which have been prepared under the accounting policies set out therein, comprise [list primary financial statements] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the accounting standards issued by the Accounting Standards Board (generally accepted accounting practice in Ireland).

##### *Responsibilities of the [Board or equivalent of the Entity]*

The Board [or equivalent] is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the state of the [entity]'s affairs and of its income and expenditure, and for ensuring the regularity of transactions.

##### *Responsibilities of the Comptroller and Auditor General*

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to [State bodies **or** bodies in receipt of substantial funding from the State] in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland). These standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

##### *Scope of Audit of the Financial Statements*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the [name of entity]'s circumstances, and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

- I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

[In addition, I read all the financial and non-financial information in the [describe the annual report] to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.]

***Opinion on the Financial Statements***

In my opinion, the financial statements, which have been properly prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the state of the [entity]'s affairs at [year end date] and of its income and expenditure for the year then ended.

In my opinion, proper books of account have been kept by [name of entity]. The financial statements are in agreement with the books of account.

***Matters on Which I am Required to Report by Exception***

I report by exception if:

- there was any material instance where moneys have not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- I have not received all the information and explanations I required for my audit, or
- [the information given in [the entity]'s Annual Report for the year for which the financial statements are prepared is not consistent with the financial statements, or]
- the Statement on Internal Financial Control does not reflect the [entity]'s compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

***[Otherwise insert detail if reporting is warranted]***

**Comptroller and Auditor General**

**[Date]**

## **ISA (UK and Ireland) 720: Section A - The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements**

### **Objective**

The objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report. (Paragraph 4)

The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements. (Paragraph 6)

### **The Annual Report**

227 In the case of non-commercial state sponsored bodies, boards, committees or funds an annual report often accompanies the financial statements and where the body is also a company a Director's Report is published. Where there is a requirement to produce an Annual Report an additional paragraph is inserted into the report outlined in the example in Annex II to the section on ISA (UK and Ireland) 700 of this Practice Note.

### **Other Information**

228 Part C of this Practice Note deals with Statements on Internal Financial Control and outlines the guidance applicable for entities in different central government sectors when preparing these statements. The auditor of a central government account reviews these statements and reports the results of his review 'by exception' i.e. he only reports where there is a material departure from the applicable guidance. This review is not to provide assurance on the statement, but to:

- consider the completeness of the disclosures in meeting the requirements of the applicable corporate governance guidance;
- identify whether the disclosures are misleading; and
- identify any inconsistencies between the disclosures and the information that the auditor is aware of from audit work.

In addition, as part of his review he is not required to consider whether the entity's statement covers all risk and controls, or to form an opinion on the effectiveness of the entity's corporate governance procedures or its risk and control procedures

If, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact, the auditor shall discuss the matter with management. (Paragraph 14)

If, following such discussions, the auditor still considers that there is an apparent material misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor shall consider the advice received. (Paragraph 15)

If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall notify those charged with governance, unless all of those charged with governance are involved in managing the entity, of the auditor's concern regarding the other information and take any further appropriate action. (Paragraph 16)

229 Where the auditor of a central government account:

- identifies an inconsistency between the other information and corresponding or related amounts or disclosures in the audited financial statements; and
- concludes that, under the circumstances, the other information needs to be amended,

the auditor considers whether to take action as recommended by ISA (UK and Ireland) 720.

230 In taking action, the auditor of a central government account is concerned to ensure that the credibility of the financial statements and the related auditor's report is not undermined. Possible steps that might be taken to protect the auditor's report include:

- no further action - subject to management agreeing to amend the other information, either after communicating concerns to the responsible officer or, where appropriate, to the sponsoring government department or other entity to which the entity might be accountable - requests might also be made that the responsible officer consults an appropriate third party if disagreement persists;
- consider the implications for the auditor's report - the impact on the opinion itself will only be considered where doubt remains that an amendment might be required to the financial statements themselves; or
- resigning from the appointment.

231 Where audits are conducted under statute the resignation option is not available and the auditor's reports may include an explanatory paragraph if the information is not corrected.

## Part B - The Audit of Regularity

- 232 The Foreword notes the importance of regularity to the financial framework of the central government sector and the responsibility of the auditor of a central government account to provide assurance regarding regularity on accounts subject to audit by him.
- 233 The concept of regularity relates to the substance of transactions. It is concerned with the legal authority of central government entities to effect the transactions in question and the legal entitlement of recipients to the funds disbursed. The overall objective of the audit of the regularity of transactions included in a central government account is to gain assurance that moneys have been applied for the purposes intended and in accordance with the governing legal authority. There are analogous objectives in the area of receipts.
- 234 This section provides the auditor of a central government account with practical guidance on the audit of regularity and expands the guidance contained in this Practice Note on the areas of:
- ***obtaining a sufficient understanding of the framework of authorities.*** The auditor of a central government account needs to identify laws and regulations and the financial framework that are specific to the entity and obtain a broad understanding sufficient to enable identification of transactions or events that may have a significant effect on the regularity of transactions in the financial statements.
  - ***testing for regularity.*** Tests on regularity are usually integrated with those relating to the audit of the financial statements and involve tests to detect transactions or classes of transaction where the regularity assertion cannot be sustained and when necessary tests on the operating effectiveness of controls in preventing, or detecting and correcting material misstatements of the regularity assertion.
  - ***reporting on regularity.*** The auditor of a central government account reports in any material case where the entity has failed to comply with regularity requirements. This reporting by exception is done through his opinion on the financial statements.

### Obtaining a Sufficient Understanding of the Framework of Authorities

- 235 The governing authorities which the auditor of a central government account considers when obtaining a knowledge of the entity's activities and identifying the framework of authorities will be drawn from a variety of sources including:
- the founding legislation establishing the functions, powers and limits of the transactions and fee levying authority of the central government entity;
  - legislation governing entitlement to funding from a scheme, programme or project administered by the central government entity;
  - general legislation governing specific central government entities including the Ministers and Secretaries Acts and, in particular, the statutory

requirements to get Department of Finance approval whether in specific form or on foot of global delegation for expenditure;

- legislation governing the appropriation of funds including the annual Appropriation Act and the Central Fund (Permanent Provisions) Act 1965;
- Statutory Instruments relevant to the entity.

236 Apart from direct reference to the above, other sources of guidance in identifying the framework of authorities include:

- the Department of Finance's Public Financial Procedures;
- directions issued under legal authority by the sponsoring department for other entities in the central government sector;
- documentation produced by the entity, for example, in a complex environment documents which outline the translation of authorities into relevant rules and procedures;
- discussions with personnel in the entity; and
- previous experience with the entity or similar entities.

### **Testing for Regularity**

237 The principles and procedures applied to obtain sufficient appropriate evidence to support an opinion on the regularity of transactions recorded in the financial statements of an entity in the central government sector are the same as those applied to the audit of any other financial statement assertion.

238 In general, audit assurance is sought by a combination of 'top down' reviews of the framework of authorities governing classes of payments and 'bottom up' reviews of transactions. In this respect regularity is a key assertion in the course of all central government sector audits. The extent of the audit work on regularity will depend on the nature and complexity of the relevant legislation and other authorities.

239 Central government sector entities will usually have installed internal controls to ensure regularity in the course of transaction processing. These controls often operate alongside procedures which from the audit perspective provide evidence regarding other assertions. In testing controls embedded in the entity's systems, the auditor of a central government account considers how the entity's management ensures compliance with the framework of authorities and seeks to mitigate the risk of material irregularity through those controls. The consideration of controls to prevent or detect irregular transactions involves assessing the general control environment at the entity level and control procedures relating to individual transaction streams. The annex to the guidance in this Practice Note on ISA (UK and Ireland) 315 provides further guidance on possible control responses by management to risks to regularity.

240 Particular considerations may arise in the design of audit procedures in relation to the regularity assertion. For example:

- Testing controls over regularity may involve:
  - examining the design of the system, the process for translating statutory requirements into rules and operational procedures, and the control activities established within the system;
  - transaction authorisation mechanisms within the entity.
- Testing the regularity of individual transactions may involve:
  - examining the payment scheme to determine whether the purpose and rules are consistent with legislative and other authorities;
  - examining transaction streams or account categories in order to identify transactions that may be outside the intention of Dáil Éireann;
  - determining that expenditure has remained within specified limits;
  - examining vires and entitlement.

241 To audit the regularity assertion where the audit is of an account of a central government entity which has paid a grant to another entity, the auditor of a central government account may use the work of the grantee's auditor and reduce the extent of his own audit procedures. In some cases he does not have a right of access and will use the work of the Local Government Audit Service or other auditors. Examples of this situation include the grants paid by departments to fund State-sponsored bodies which are not audited by the C&AG and the grants paid by the Department of the Environment, Heritage and Local Government to local authorities.

242 The auditor of a central government account approaches the audit of regularity of receipts, including revenues from taxation and other sources, in the same way the auditor would approach the audit of the regularity of expenditure. There may, nevertheless, be particular considerations when auditing the regularity of fees and charges levied by central government sector entities for example:

- reviewing the relevant primary legislation to confirm that it provides appropriate authority to levy fees and charges;
- confirming that fee orders and other types of Statutory Instrument issued under the governing legislation are in accordance with those authorities;
- for vote funded activities, confirming that the Appropriation Act provides the appropriate authority for the receipts to be applied in aid of expenditure.

### **Regularity and Reporting**

243 In Ireland, while regularity is a key assertion tested in the course of every audit and a specific statutory obligation in government departments and certain other bodies the form of reporting adopted is 'by exception' in each case. This is based on the existing statutory provisions which require the C&AG to report in his certificate of opinion any material instance where the entity has failed to apply expenditure recorded in the financial statements for the purposes intended or where the transactions do not conform to the authority under which they purport to have been carried out.

- 244 Cases of irregular transactions will usually be reported to the management of the entity to allow corrective action to be taken, for example, by recovering overpayments of grant. In addition, in appropriate cases separate reports are made to supervising departments on the regularity of the activities and the transactions of those entities under their aegis. In the audit of a central government department the 1993 Act outlines the process to be undertaken including the reporting thereof where the C&AG believe that the department has incurred expenditure not properly chargeable or incurred material expenditure which was not authorised.
- 245 For other central government sector entities where it is not possible for the entity to take corrective action the auditor of a central government account may encourage it to disclose the non-compliance in its financial statements by outlining the circumstances and the possible extent of irregular transactions. Even where a breach of regularity is disclosed, the auditor of a central government account will still consider the implications for the audit opinion on regularity and the need to present a separate report on the matter. In doing so, the auditor of a central government account considers the materiality of the matter at issue.

## **Part C - Statement on Internal Financial Control**

### **Introduction**

- 246 This part of the Practice Note provides additional guidance on the auditor's responsibilities in relation to statements on internal financial control in the central government sector.
- 247 Applicable guidance for Accounting Officers and other accountable persons in the central government sector is derived from:
- The Code of Practice for the Governance of State Bodies (the Code of Practice) which introduced corporate governance guidance for central government entities excluding government departments;
  - The Report of the Working Group on the Accountability of Secretaries General and Accounting Officers which made recommendations regarding enhanced governance arrangements in government departments. These have been implemented under the general direction of the Department of Finance.
- 248 Among the corporate governance requirements introduced by this guidance were:
- the establishment of audit committees;
  - ensuring that an internal audit function operates in the entity;
  - the introduction of an annual Statement on Internal Financial Control (SIFC).
- 249 In addition, the Chairperson of each State body must report annually to the relevant Minister on compliance with the Code of Practice.

### **Audit Responsibility**

- 250 By agreement with the Minister for Finance the auditor of a central government account is required to:
- review the SIFC to confirm that it reflects the entity's compliance with the applicable guidance on corporate governance; and
  - consider if that statement is misleading or inconsistent with other information of which he is aware from his audit of the financial statements.
- 251 The auditor of a central government account reports 'by exception' in instances where the entity has not complied with these requirements.
- 252 The auditor of a central government account has no other additional responsibilities arising out of these governance arrangements. In particular, while it is open to him to do so, he is not required to consider whether the entity's statement covers all risks and controls, or form an opinion on the effectiveness of the entity's corporate governance procedures or its risk and control procedures. In this regard it is a matter of practice for the C&AG to report, in appropriate cases, to Dáil Éireann or sponsoring departments on

matters arising from his financial audit including any material concerns relating to governance arrangements.

### **Statements on Internal Financial Control**

- 253 The Accounting Officer of a government department and the Chairperson or equivalent of any other body in the central government sector is required to submit along with the financial statements a Statement on Internal Financial Control. For government departments the format of the SIFC has been promulgated by the Department of Finance. In the case of other central government sector entities the format of the SIFC is set out in Appendix V of the Code of Practice.
- 254 Each SIFC is required to outline the key procedures put in place by entities designed to provide effective internal financial control, including:
- steps taken to ensure an appropriate control environment;
  - processes used to identify risks (including business risks as appropriate) and to evaluate their financial implications;
  - details of major information systems in place;
  - the procedures for addressing the financial implications of major business risks;
  - the procedures for monitoring the effectiveness of the system of internal financial control.
- 255 The entity also confirms that a review of the effectiveness of the system of internal financial control has taken place. Where a deficiency in controls has led to a material loss, contingency or uncertainty being disclosed in the financial statements the matter and any remedial action taken may be reported in the SIFC or in the audit report on the financial statements, or in both.

### **Responsibilities of the Auditor of a Central Government Account**

#### *Scope and limitations of audit work*

- 256 The extent of the responsibility of the auditor of a central government account is limited to a *review* of whether the SIFC *reflects* the entity's compliance with applicable guidance on corporate governance. The auditor of a central government account considers whether the SIFC presents the information:
- specified by the Department of Finance for government departments, or
  - required at Appendix V of the Code of Practice.
- 257 The auditor of a central government account also considers whether the SIFC reflects the process undertaken by the entity in reviewing the internal control system, and also whether there is appropriate evidence for the disclosures made in that statement.

- 258 The auditor of a central government account obtains *appropriate evidence* to support the statement made by the entity. Appropriate evidence is usually obtained from the following sources:
- reviewing relevant documentation (minutes and other supporting documents prepared for management/board/audit committee meetings);
  - making enquiries of senior officials or directors;
  - meetings of the audit committee;
  - requesting the directors or in government departments, the responsible officials to provide written confirmation of oral representations made during the course of the review.
- 259 A key assertion attaching to the SIFC is that the entity has reviewed its controls. While the scope of this review may extend to operational and compliance control systems, the current requirement is to report only on its assessment of internal financial controls. The examination by the auditor of a central government account of the consistency of information contained in the statement with his own understanding from the audit is, therefore, limited to the internal financial controls.
- 260 Where the auditor of a central government account becomes aware of material misstatements or inconsistencies in the SIFC he takes the appropriate steps outlined in the guidance contained in this Practice Note on ISA (UK and Ireland) 720. However, the auditor of a central government account is not expected to assess whether the entity has addressed all risks and controls or that risks are satisfactorily addressed by internal controls (this is clarified in the auditor's report on the financial statements, using wording such as that shown in the illustrative report in Annex II to the section of this Practice Note that addresses ISA (UK and Ireland) 700).
- 261 Neither is the auditor of a central government account expected to actively search for misstatements or inconsistencies in the statement. The auditor of a central government account is not giving an opinion on the effectiveness of the entity's system of internal financial controls.
- 262 The SIFC covers the year under review and the period up to the date of approval of the financial statements (and annual report if applicable) and therefore the review by the auditor of a central government account must be consistent with this timeframe.
- 263 Because of the limited nature of the auditor's review and in order to avoid the possibility of misunderstandings arising, it is considered good practice:
- where a letter of understanding is issued to the client, that such letter explain the scope of the review by the auditor of a central government account;
  - prior to the release of the annual report and financial statements, the auditor of a central government account communicates and discusses with the entity the factual findings of his review.

*Programme of work*

- 264 In addition to gathering evidence from the sources of evidence referred to above the following procedures are undertaken:
- enquiries of the directors or senior officials in order to obtain an understanding of the process defined by the management or board for its review of the effectiveness of internal control;
  - examination of relevant documentation, including management or board minutes and any other material prepared by or for the managers or directors and which evidences this process;
  - review of the SIFC in order to determine that it is in the required format;
  - evaluation of whether or not the evidence examined provides sound support for that statement;
  - considering whether the information contained in the SIFC is consistent with auditor's knowledge obtained during the audit of the financial statements.
- 265 In carrying out the review of the SIFC, the auditor of a central government account has regard to the knowledge of the entity obtained from the audit of the financial statements. To enable him to perform the audit and express an opinion on the financial statements, the auditor of a central government account is required by auditing standards to understand the entity's control environment and to assess the components of audit risk. Such an assessment may extend to the auditor's review of control risk to the extent that he has relied on such an assessment in order to reduce the extent of substantive audit procedures.
- 266 In the unlikely event that the SIFC describes procedures of which the auditor of a central government account is unaware, he satisfies himself through enquiry sufficient to allow him to conclude that the SIFC is not misleading. The auditor of a central government account does not necessarily review the operation of such procedures.
- 267 The audit report discloses the scope of the audit work in terms such as those set out in the example in Annex II to ISA (UK and Ireland) 700 of this Practice Note.

*Communication of significant deficiencies discovered during audit*

- 268 ISA (UK and Ireland) 265 requires the auditor to communicate significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. Significant deficiencies include those which in the opinion of the auditor of a central government account could lead to a material loss. Consequently, the auditor of a central government account does not wait until the financial statement audit has been completed before reporting such deficiencies. In this way, the management or directors are made aware of the deficiencies that the auditor has identified and are able to take account of them when preparing the SIFC.

*Significant internal financial control issues*

- 269 Where appropriate, the entity is requested to disclose relevant information about deficiencies or weaknesses in internal financial control which have resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements (or auditor's report) and also a description of the action taken or intended to be taken to correct the deficiencies. Where no action is proposed an explanation is given.
- 270 The responsibility of the auditor of a central government account in situations where deficiencies in internal controls have resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements (or auditor's report), consists of:
- discussing with the entity the steps that have been taken to determine the significant deficiencies resulting in material loss, contingency or uncertainty being disclosed; and
  - assessing whether disclosures made in the SIFC of the processes applied to deal with such deficiencies appropriately reflect those processes.
- 271 The auditor of a central government account is not required to assess whether the action proposed by the entity will, in fact, remedy the deficiency described.
- 272 If the auditor of a central government account is aware of a material loss, contingency or uncertainty being disclosed in the financial statements (and annual report) but the entity has not disclosed any related internal control deficiency, the auditor of a central government account discusses the position with the entity. If the auditor of a central government account is not able to agree with the directors or other relevant persons as to how the matter should be resolved he considers the consequences for the audit report.

*Failure to conduct a review*

- 273 Where the entity has not conducted an annual assessment as required by the Code of Practice, the chairperson should state that fact and provide an explanation in the SIFC. In these circumstances, the auditor of a central government account determines appropriate wording for the audit report.

*Groups of entities*

- 274 The SIFC covers the parent undertaking and all subsidiary undertakings. Accordingly the assessment of the system of internal financial control is made from the perspective of the group as a whole. Thus the auditor of a central government account considers materiality as it applies to the group and not to individual undertakings.
- 275 Where material joint ventures and associated companies have not been dealt with as part of the group when applying the Code of Practice, the board should disclose this fact. The auditor of a central government account assesses, based

on his knowledge of the group, obtained during the audit of the financial statements, whether any material joint ventures or associated companies have not been dealt with and, therefore, if such a disclosure is necessary.

### **Reporting the Results**

276 Based on his work the auditor of a central government account reports on any material instance where the SIFC does not comply with the applicable guidance or where it is misleading or inconsistent with other information which he is aware of from the audit of the financial statements. Where he is satisfied that there is material compliance he does not refer to the matter in his report.

#### *Reporting by exception*

277 If the auditor of a central government account concludes:

- that the description of the key procedures designed to provide effective internal financial control is either not supported by or does not appropriately reflect the auditor's understanding of the process undertaken;
- that the information disclosed about those deficiencies in internal financial control that have resulted in material losses, contingencies or other uncertainties being disclosed either in the financial statements or the audit report, is not consistent with his understanding;
- that no disclosure has been made by the entity of its failure to conduct an assessment of the system of internal financial control;
- that the explanation by the entity of the circumstances where it has not assessed the system of internal control is not consistent with the auditors' understanding; or
- that no disclosure has been made by the entity that a material joint venture or associated company has not been dealt with as part of the group,

the audit report states this in the opinion section.

278 However, as this does not give rise to a qualified audit opinion on the financial statements, such comments are included under the sub heading 'Other Matter' in the audit report.

## Appendix

### *GLOSSARY OF TERMS*

**Accountable person** - is the Chief Executive Officer or other appropriate person in central government entities other than government departments and offices who is given responsibilities similar to an Accounting Officer, although not formally designated as such.

**Accounting Officer** - the Civil Service head of a department or office administering a Vote is normally appointed Accounting Officer on the premise that he/she alone is in a position to account for all the moneys entrusted to his/her department. An Accounting Officer is personally responsible for the regularity and propriety of transactions, the economy and efficiency of the Department in the use of its resources and the systems procedures and practices employed by the Department for the purpose of evaluating the effectiveness of the operations. The appointment of an Accounting Officer is in accordance with the Exchequer and Audit Departments Act 1866 and his/her responsibilities are set out in the C&AG (Amendment) Act 1993. The detailed responsibilities of an Accounting Officer are further elaborated in the Department of Finance publication “Public Financial Procedures” and PAC guidelines for Accounting Officers appearing before that Committee.

Legislation establishing a public entity such as a non-commercial State sponsored body may also designate the chief officer of that body as the Accounting Officer.

**Appropriation Account** - is the account prepared for each voted service. It shows the outturn for the financial year against the amount provided by Dáil Éireann and also provides an outline of the services financed from the Vote. In addition to providing the statutory financial information on a cash basis of accounting the Appropriation Account also sets out some accrual-based information.

**Audit report** - is a report expressing an auditor’s opinion on the truth and fairness, fair presentation or proper presentation of financial statements and on the regularity of the financial transactions included in them. In the central government sector, the audit report may also be referred to as a Certificate.

**Cash account** - is any set of financial statements which records receipts and payments on a cash basis. It would not normally disclose assets and liabilities, although, the Appropriation Accounts do so by way of memorandum information.

**Central Bank of Ireland** - is responsible for the formulation and implementation of monetary policy in Ireland. It manages the government bank accounts and maintains the registers of government stock and acts as custodian of the official external reserves. As banker to the government the Central Bank holds the Exchequer Account together with the accounts of the Paymaster General and the main accounts of the Revenue Commissioners.

**Central Fund** - is the amount standing to the credit of the Exchequer Account which is kept at the Central Bank of Ireland. It is the destination of all State revenues and the source of all government spending except where otherwise provided by law.

**Central government account** - includes the financial statements of the Exchequer, government departments, activities administered through departmental funds, non-commercial state sponsored bodies, third level educational institutions, and non-elected regional and local authorities. It does not include the financial statements of local authorities or commercial state sponsored bodies. See also voted funds, departmental funds and non-commercial state sponsored bodies.

**Certificate** - is the term reserved for the formal mandatory audit report of the C&AG on financial statements audited under statute where there is a statutory requirement for his examination to be certified.

**Dáil Éireann** - lower house of parliament.

**Departmental funds** - refer to funds, the majority of which have been established by statute to enable the State to administer moneys, whether public or private, entrusted to it.

**Entities** - is the generic term used in the Practice Note for any central government sector body or legal persons.

**Estimates** - for the Supply Services must be presented to Dáil Éireann and circulated to members not less than seven days before the annual budget and not later than the 30th day of the financial year. The Estimates are published in the Book of Estimates. This publication contains a separate Estimate of the cost of each Departmental function for which Dáil Éireann will be asked to appropriate money by way of a separate Vote. When an Estimate is passed by Dáil Éireann it is technically known as a Vote.

**Finance Accounts** - are detailed annual accounts presented by the Minister for Finance to the Houses of the Oireachtas, containing analysis and classification of receipts and issues of the Central Fund as well as details relating to the National Debt.

**National Treasury Management Agency (NTMA)** - was established in 1990 to borrow moneys for the Exchequer and to manage the National Debt on behalf of the Minister for Finance.

**Non-commercial state sponsored bodies** - are non-trading entities which in the main are charged with promotional, developmental, training or regulatory functions.

**Oireachtas (Houses of the)** - Seanad Éireann and Dáil Éireann, the upper and lower houses of parliament.

**Propriety** - is concerned with the way in which public business is conducted including any conventions agreed with Dáil Éireann, and any guidance issued on governance and ethics.

**Public Financial Procedures** - the principles of Government accounting are mainly derived from the Constitution and from the institutional and financial relationships between parliament and the executive which have been developed over the years. The Public Financial Procedures is a guide which sets out these principles, as well as the more important ways they are applied in the day-to-day operations of government departments and offices.

**Regularity** - is concerned with the application of money under governing authority for the purpose intended. While the statutory requirement refers only to expenditure it is equally applicable to income.

**Third level educational institutions** - include universities and Institutes of Technology.

**Voted funds** - refer to money for the general service of departments or offices which is voted by Dáil Éireann on an annual basis.