

Public Sector Audits – Grant Audits

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Own experience

- MOORE STEPHENS Austria 10 members in Austria
- Office with 55 people in Vienna
- Public sector work started with compliance audits for small entities
- Tax and management consulting
- Audit of financial statements of public sector entities (non governmental – hospitals, universities, funds, schools, national bank)
- Grant audits

Types of Public Sector Work

- Audit of Government Entities
- Internal Audits
- Corporate Governance and Risk Management Reviews
- Tax and Management Consulting
- Grant Audits

Grant Audits

- Relate to grants where a public entity is either the funder or the managing authority
 - European Commission
 - Directorate General for Research (FRP 6, FRP 7)
 - Funds for Regional Development (EFRE)
 - Funds for Social and Education (Socrates ...)
 - National governments
 - Research, education, social activities regional development often together with EC funding
 - Other Public Sector Entities
- Many different regulations regarding spending and documentation

Funding in your country

- Market research who receives Funding
 - www.welcomeeurope.com
 - <http://cordis.europa.eu>
 - http://ec.europa.eu/grants/index_en.htm
- Search for distributing institutions and control bodies
 - National Agencies of the EC (eg Leonardo)
 - Research institutions and Universities
 - Government agencies
- Research specific Grant Regulations
 - http://cordis.europa.eu/fp7/find-doc_en.html

Regulations for Grants

- Requirement to be familiar with funding conditions and legislation
- Audit programmes have to be developed on basis of the grant conditions
- Documentation has to be kept longer than usually necessary
- Reporting follows given format from the EC or management letter format
 - See sample audit certificate for FP 6, and FP7

General Procedure

- Opening meeting - Engagement letter
 - Follows agreed upon procedures
- Systems description to identify key controls and design
- Risk assessment
- Individual audit plan
- Substantive and analytical tests
- Reporting
 - Engagement context
 - Summary of findings & recommendations
 - Financial findings
 - Management findings
 - Other compliance findings

Financial Audits - Issues

- The contractual basis is important
- Project definition – clear and detailed?
- Budget breakdown & variances (10%)
- Specific eligibility criteria?
- Actual or lump sum costs
- Overheads – variable & fixed
- Use of averages
- Exchange differences
- Period of implementation & settlement
- Original or copy documentation
- Taxation - VAT
- Multi-location – degree of harmonisation
- Cash or accruals basis
- Project accounting
- Provisions & 'balance sheet items'
- Interest
- Asset registers
- Procurement rules

Points of Discussion

- Do you need a certain size to enter public sector work
 - Yes in my opinion it is necessary to have at least 10 people working in audit and /or tax consulting to start public sector work
- Is it necessary to have international partners ?
 - No but it helps to coordinate work and to participate in European tenders
- Is it worth the effort ?
 - Definitely yes if you keep in mind that public activities are more and more reported in accrual based format, funding through European institutions increases every year

Internal Audit

- Different focus from external audit – support for management and independent challenge
- Follows Government Internal Audit Standards (GIAS)
- Commences with assessment of risk management procedures in organisation
- If current risk management is good, the work should focus on identified risks
- Includes both operational, financial and specific project audits
- Typically follows a three year plan to address all key risk areas
- Audits can focus on system design, compliance with controls
- Reporting typically includes Audit Plan, Assignment Reports and Annual Report
- Supports the CEO in their annual review of internal control effectiveness

Corporate Governance and Risk Management Reviews

Government Bodies required to -

- regularly review corporate governance and risk management procedures
- have Audit Committees comprised of Independent Non Executive Directors
- provide ongoing training in risk management to its senior staff.

Our service includes

- Managed workshops with management
- Comparison of current practice against best practice (publicly available)
- Provision of alternative risk register formats
- Consideration of risk in light of corporate objectives
- Consideration of "risk appetite"
- Grading of risks
- Consideration of opportunity management (important in public sector)

Systems Consultancy

- Working with government bodies to evaluate and strengthen internal control systems
- Department for Children, Schools and Families – grant management programme (information gathering and reporting systems)

Audits of Government Entities

- Framework Contract with the UK National Audit Office (“NAO”)
- Central Government Bodies – Departments, Trading Entities and Specific Task Bodies
- All accrual based accounts
- Audits carried out in accordance with International Standards on Auditing
- Regular use of service conditions contracts – PFI/PPP
- Use of Pro-Audit
- Typically 3 stages – planning visits, interim and final audits
- Public sector knowledge is critical – e.g. “Regularity”, legislation and government accounting
- Subject to both “hot” and “cold” review by the NAO
- Can be fully subcontracted out audits or supply of staff into larger teams
- Active participation in Audit Committee meetings