

NON-FINANCIAL AND INTEGRATED REPORTING IN THE PUBLIC SECTOR



EUROSAI



Webinar | 28 January 2021 | 16:00- 17:00 (Brussels time)

THE PANELISTS



MELVYN NEATE

ECIIA Public Sector
Committee

Chair



SOLEDAD LLAMAS

Chair EUROSAI-ECIIA
Working Group, Internal
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Corporate Executive
in the office of the
Auditor General



MARTIN DEES

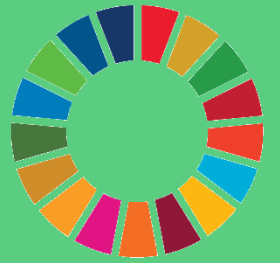
Netherlands Court
of Audit
EUROSAI



BEST PRACTICES ON NON-FINANCIAL AND INTEGRATED REPORTING IN THE PUBLIC SECTOR IN FINLAND

Tytti Yli-Viikari
Auditor General
National Audit Office of Finland

FACTS IN SDG-REPORTING IN THE PUBLIC SECTOR IN FINLAND



- First guide on sustainability reporting was published 9.11.2020
- Agencies and institutions are advised to identify 3 to 5 UN SDG-goals to which they can make the most significant contribution through their own actions
- Reporting on the work to be done will be the focus of SDG-reporting
- Selected goals must be reported to State Treasury by 15.5.2021

THE ROLE OF PUBLIC ADMINISTRATION IN SDG-TARGETS

Resources

- Expertise and know-how in various fields
- National and international cooperation
- Interdisciplinary research

Actions

- Implementation of legislation
- Development of legislation
- Strategic performance management of administrative sectors and concrete substance work

Results

- Positive, neutral and negative effects on environment, society and economy
- Priorities by administrative sectors

Effectiveness



BENEFITS OF INTEGRATED REPORTING

- Accuracy in reporting, focusing on the essentials, reducing reporting burden
- Integrated Reporting brings, in addition to the past, perspectives on future and shared value creation - how strategy, governance, results and future prospects create value in the short, medium and long term
- In practice information provided in annual reports and sustainability reports is combined and improved

HOW COULD INTEGRATED REPORTING BE PROMOTED?

The discourse is closely linked to what is considered important in society, what are goals set for, what is measured and monitored

Define:

- 1) what can be measured and reported, which are the tools and indicators
 - 2) how to compare these indicators, reports, descriptions
 - 3) what is this reporting information used for and what kind of decisions are justified on the basis of them
- Consider financial/non-financial aspects, quantitative/qualitative analysis and information & measurable and unmeasurable targets
 - Financial and economic performance measures: macroeconomic perspective is likely to include more than purely financial perspective

Consistency of integrated reporting would be fairly easily accessible in Finland under the unified and functional guidance of the State Treasury.

Providing information on responsible acts responds to the information needs of stakeholders about the level of sustainability.

Investment in reporting depends in part on the degree of interest in reporting outside the reporting agency.

However, high or reasonable level of assurance is difficult to obtain in the case of integrated reports because of:

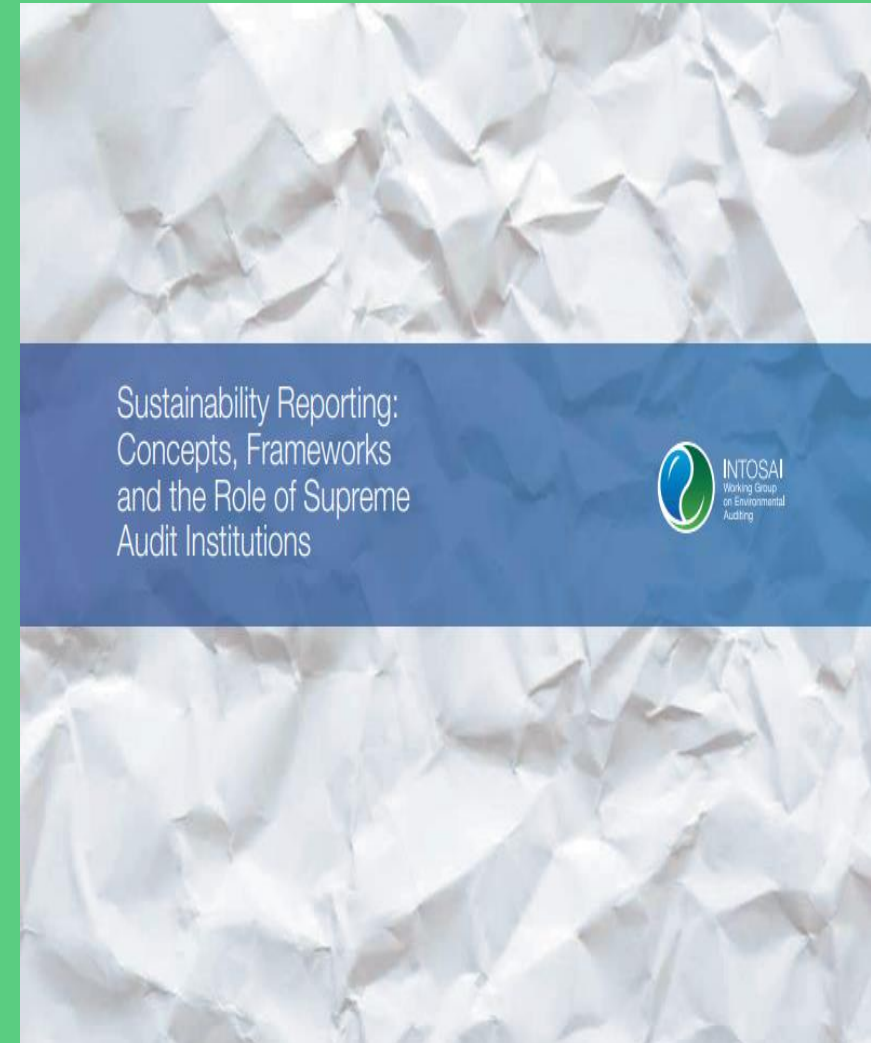
- lack of audit regulations and standards
- lack of actor specific trait of integrated reports
- lack of key performance indicators (KPI's) for non-financial information
- high costs of audit, both in monetary unit and time
- issue of providing assurance for future oriented information

Collaboration of standard setters, especially from the field of audit, is seen as the best way of overcoming the hindrances and providing coherent and effective audit methodologies in the case of non-financial and integrated reporting in the public sector.

WHAT COULD THE ROLES OF SAIS AND OTHER EXTERNAL AUDITORS BE?

- In 2013 INTOSAI WGEA published a project on sustainability reporting led by NAO Finland.
- Research paper introduced sustainability reporting to public sector auditors.
- Researchers foresee a stronger role for the state in its regulatory role to ensure a minimum level of disclosure, and gradual integration – resulting in a combination of corporate governance, financial and sustainability reporting into one integrated reporting format.
- Sustainability reporting was defined as a tool to increase transparency and accountability in the issues that traditional financial reporting is not dealing with. These include the linkages between environmental, social and economic issues as long-term perspective.


https://wgea.org/media/2935/2013_wgea_sustainability-reporting.pdf



NAOF AUDITS, CONCLUSIONS AND RECOMMENDATIONS ON IMPLEMENTING SUSTAINABILITY AND SUSTAINABILITY REPORTING

- <https://www.vtv.fi/en/publications/promoting-sustainable-development/>
- <https://www.vtv.fi/en/publications/state-as-a-promoter-of-cleantech-acquisitions/>
- <https://www.vtv.fi/app/uploads/2019/01/17090448/NAOF-Recommendations-3-2019-State-as-a-promoter-of-cleantech-acquisitions-Implementation-of-cleantech-procurements-in-public-administration.pdf>
- <https://www.vtv.fi/en/publications/bioeconomy-as-a-key-government-project-overall-key-project-funding/>
- [Microsoft Word - 5_2017 Steering and implementation of corporate social responsibility in state-owned companies Case Arctia Ltd \(vtv.fi\)](https://www.vtv.fi/en/publications/microsoft-word-5-2017-steering-and-implementation-of-corporate-social-responsibility-in-state-owned-companies-case-arctia-ltd-vtv.fi)



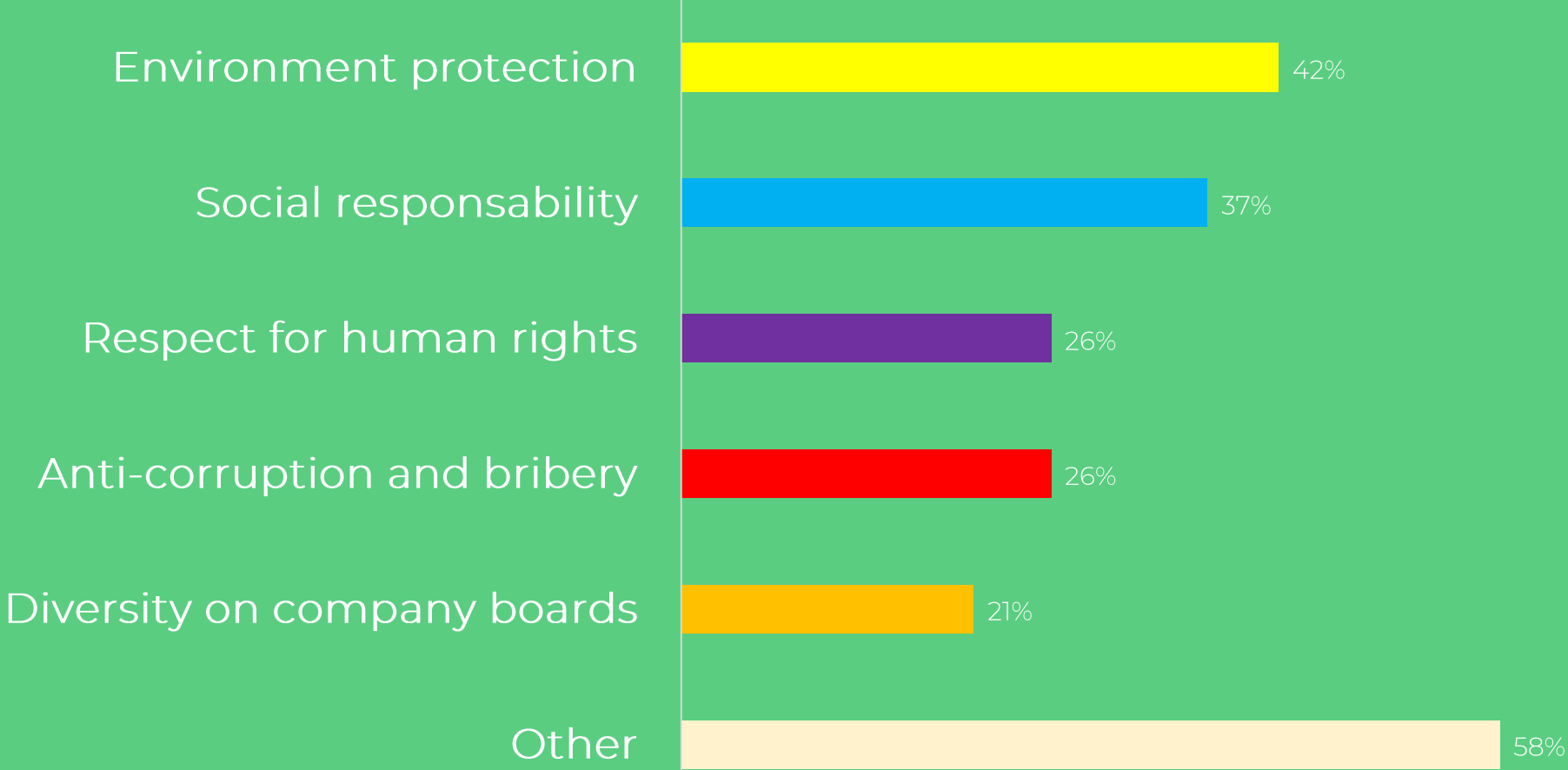


BEST PRACTICES ON NON-FINANCIAL AND INTEGRATED REPORTING IN THE PUBLIC SECTOR: INTERNAL AUDIT ROLE

Soledad Llamas

Chair EUROSAI-ECIIA Working Group,
Internal audit & Risk Director
Canal de Isabel II

BREAKDOWN NON-FINANCIAL INFORMATION



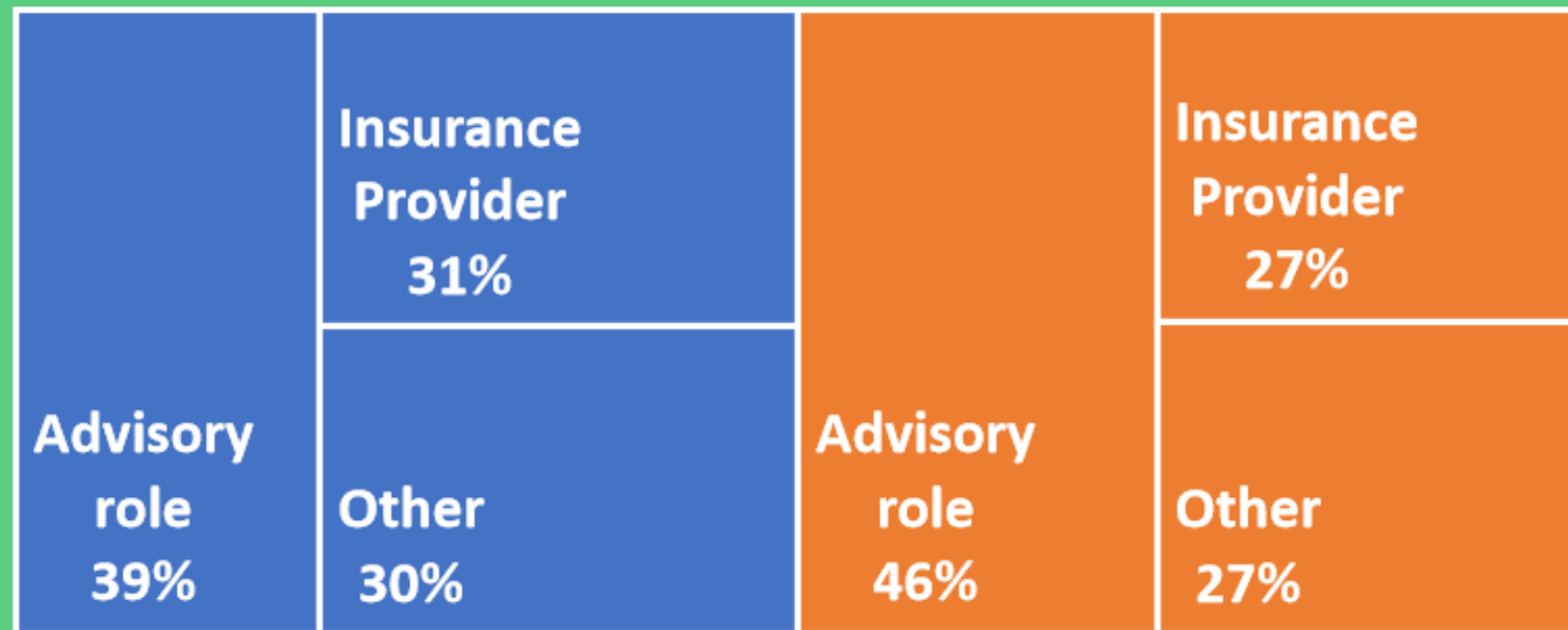
ROLE OF INTERNAL AUDITORS IN NON-FINANCIAL INFORMATION AND THE INTEGRATED REPORT

During implementation	Once implemented
Change management process	Assessing risks
Data information	3 lines
Approaching the project	Ensuring the effectiveness and efficiency



In terms of Integrated Reporting in the public sector, what is the current role in your country by Internal and External Auditors?

■ External Auditors ■ Internal Auditors





“Unforgettable Moments”
Pandora

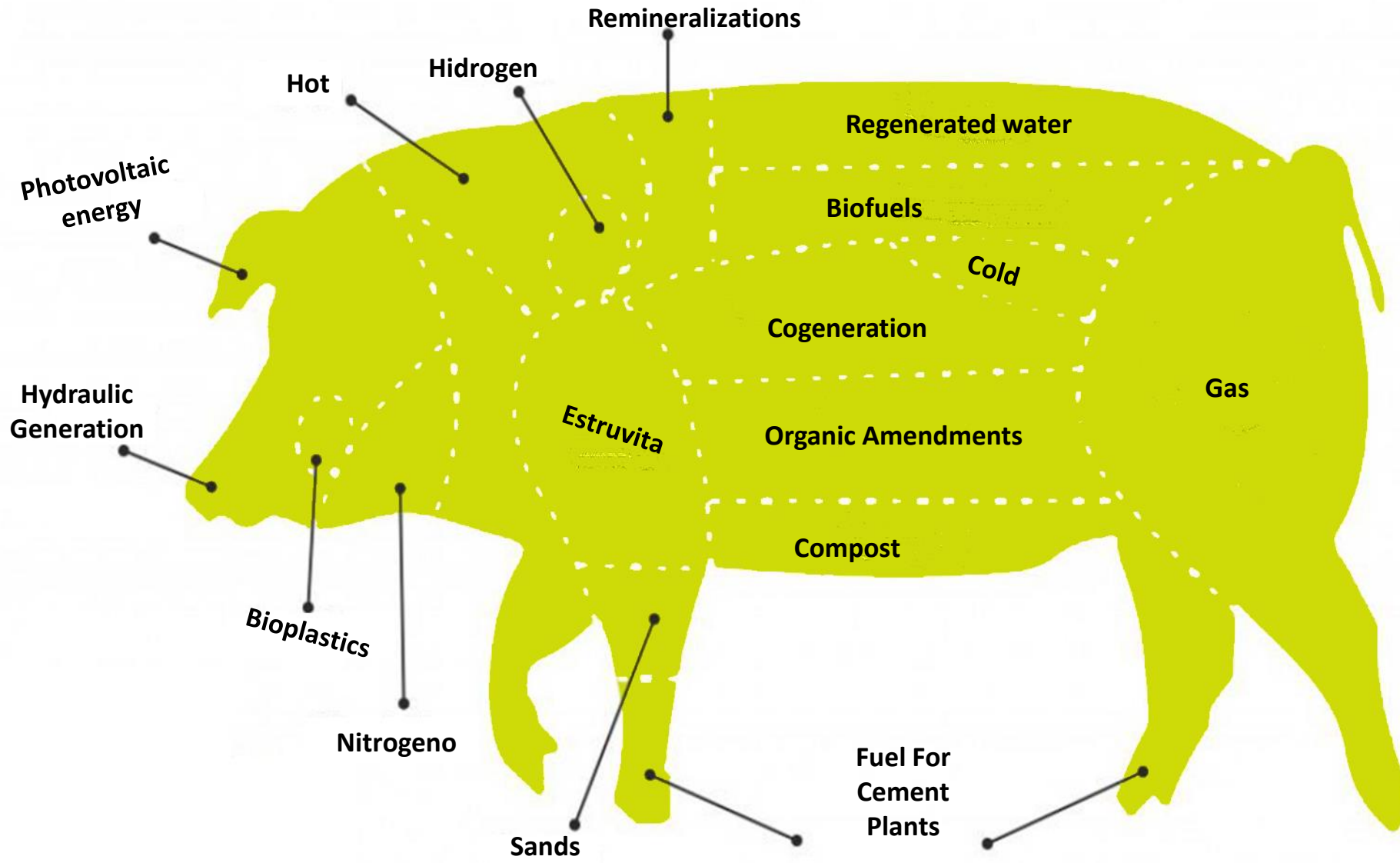




WASTE WATER

CIRCULAR ECONOMY





WASTE WATER

INTERNAL AUDITORS





BEST PRACTICES ON NON-FINANCIAL AND INTEGRATED REPORTING IN THE PUBLIC SECTOR: ROLE OF SAIs

Martin Dees

Netherlands Court of Audit

EUROSAI



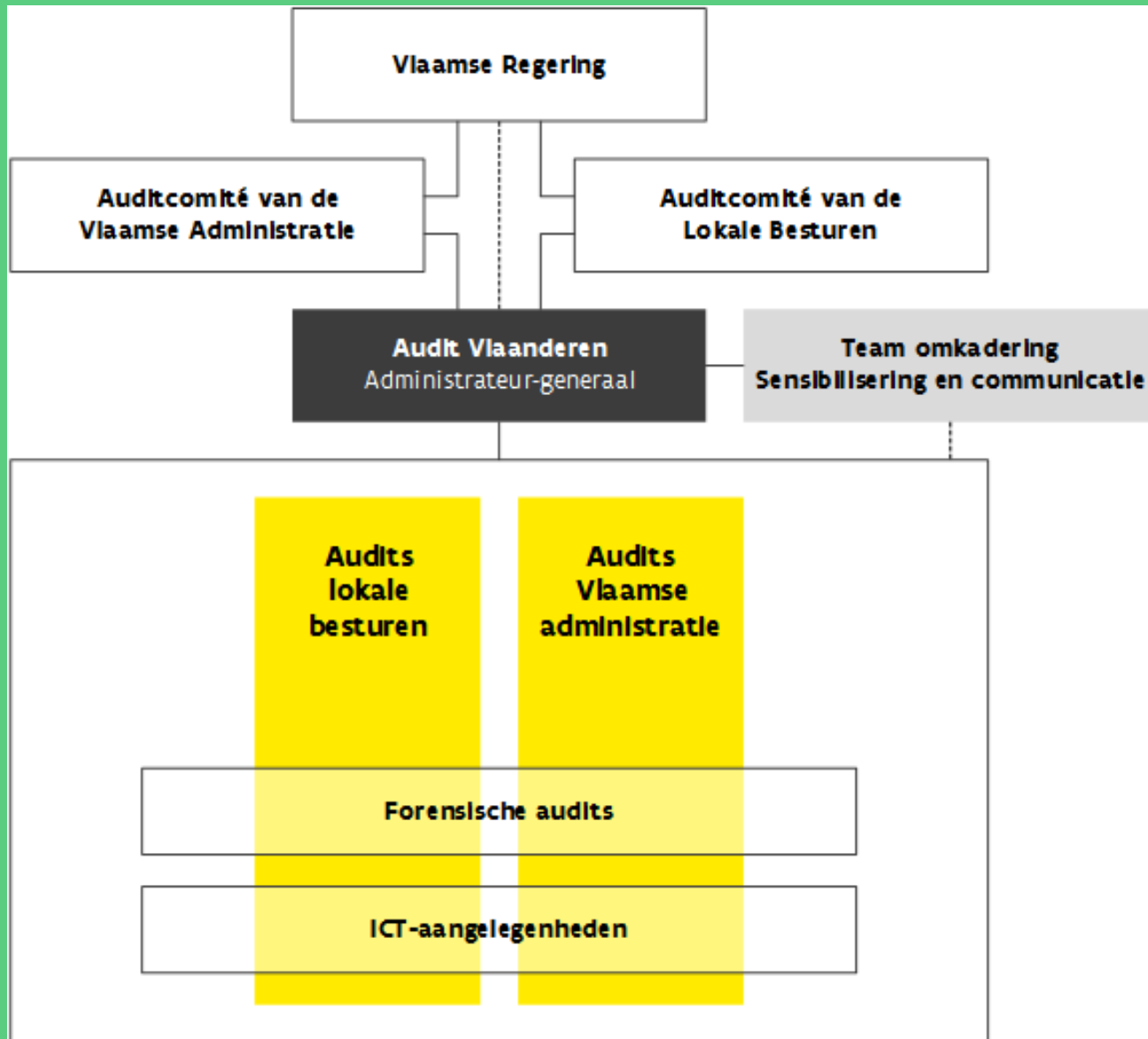
AUDIT FLANDERS

Building blocks for assurance

Mark Vandersmissen

General Manager at Audit Vlaanderen and Audit
Committee Chair at RSVZ

POSITIONING AND ORGANISATION CHART OF AUDIT FLANDERS



- The Flemish government administration: around 46 departments and agencies (since 2001)
- Local authorities > 600 legal entities (since 2014)
 - municipalities;
 - autonomous municipal companies;
 - Public Social Welfare Centres;
 - Welfare associations (with the exception of hospital associations);
 - provinces;
 - autonomous provincial companies.

USE OF SDG'S AS FRAMEWORK

- Translation of the SDGs into Flemish objectives for 2030
 - Implementation monitored by set of indicators
 - Framework and set of indicators: 53 goals and 111 indicators
 - Yearly overview of the state of play of the indicators
 - Approved by Flemish Government in April 2019
- Framework also used by municipalities
 - Goals integrated in long term planning

MONITORING AND REPORTING

- Global report on Flemish level and integration in Belgian reporting
- Evolution in reporting on entity level – from budget reporting to integrated reporting
 - Local governments: budget + performance, also more attention for SDG's in internal working and reporting
 - Flemish government: budget + performance, (performance)indicators mandatory in 2022

BUILDING BLOCKS FOR ASSURANCE - SINGLE AUDIT

- **Different roles, same goals**
 - Working together on better and stronger government organisations
- **Align efforts**
 - No duplication, coördination of efforts
 - Sharing of information and reporting lines (shared in a tool)
 - Build on each other's work
- **Align strategy, planning and share methodology**
 - Steering committee single audit – 4 times a year
 - Court of audit (SAI), Institute of public accountants, Inspection of Finance, Department of Finance & Budget, Audit Flanders
 - Roles and responsibilities in integrated reporting Flemish government (2021-2022)

BUILDING BLOCKS FOR ASSURANCE – RISK MANAGEMENT

- Basis for efficient and effective internal control/organisational control
 - Enhancement of realisation of goals – including sustainability goals
 - Importance of integration in strategy process – have to be clearly defined
 - Enhancement reliability of information – must be taken in account in RM
- Basis for coordination of efforts
- Systematic audit of the risk management and working with a maturity model
 - Yearly updated and reported to entity and supervisory minister
 - Part of the annual evaluation of the leading official

		Score
Risk identification and evaluation	Objectives and risk cascade	2
	persons involved	3
	methodology risk identification	2
	Methodology risk evaluation	2
	Employees, roles and responsibilities	2
	periodicity of the risk analysis	1
	documentation of the risk analysis	2
	Weighted average maturity level	2,1

		Score
Control of risks	Risk strategy	3
	Risk response	2
	Architecture and operational effectiveness of the control measures for the core processes	2
	Architecture and operational effectiveness of the control measures for the supporting processes	2
	Employees, roles and responsibilities	2
	Weighted average maturity level	2,2

Legende



Overzicht maturiteit risicomangement (vgl. eind 2017 - 2018)	Entiteit A		Entiteit B		Entiteit C		Entiteit D		Entiteit E		Entiteit F		Entiteit G		Entiteit H		Entiteit I		Entiteit J		Entiteit K		Entiteit L		Entiteit M		Entiteit N	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Risico-identificatie & -evaluatie	1,0	1,9	2,5	3,0	2,2	2,2	1,1	2,3	2,2	2,4	2,1	2,3	2,0	2,0	3,7	3,7	3,2	3,3	1,5	2,2	2,5	2,6	2,7	2,7	1,3	1,4	2,1	2,2
Risicobeheer	1,2	1,5	2,2	3,0	1,8	1,8	1,4	2,2	2,0	2,0	1,8	1,8	2,3	2,3	3,2	3,2	3,6	3,6	1,2	2,2	2,1	2,6	1,6	1,8	1,7	1,8	2,3	2,3

Overzicht maturiteit risicomangement (vgl. eind 2017 - 2018)	Entiteit O		Entiteit P		Entiteit Q		Entiteit R		Entiteit S		Entiteit T		Entiteit U		Entiteit V		Entiteit W		Entiteit X		Entiteit X		Entiteit Z	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Risico-identificatie & -evaluatie	2,7	2,9	2,5	2,5	4,1	4,0	2,5	2,7	2,7	2,8	3,3	3,3	3,1	3,3	2,7	2,7	2,9	3,1	2,5	2,7	1,5	1,7	2,9	3,2
Risicobeheer	2,4	2,6	2,3	2,4	3,2	2,9	2,3	2,3	1,6	1,6	2,5	2,5	2,7	3,1	2,6	2,6	2,7	2,8	1,4	1,8	1,5	1,5	2,0	2,6

BUILDING BLOCKS FOR ASSURANCE – ASSURANCE MAPPING

- Pooling of resources
- Insight in control activities and enhancing efficiency and effectivity of the audit and control processes

Assurance map organisatie X		1ste lijn			2de lijn					3de lijn					
Controledoelstelling/ Proces/ thema	Score	Management reviews	Control Self Assessments	Interne controle-activiteiten / organisatie beheersing	Risicobeheer	Kwaliteits-reviews	Conformiteits reviews (Compliance)	Informatie-veiligheidsinitiatieven	Anderen organisatiefuncties	Interne Audit (intern)	Interne Audit (Audit Vlaanderen)	Rekenhof	Inspectie van Financien	Bedrijfs-revisor	Inspectie-dienst
Kernproces A		MEDIUM	GEEN	LAAG	LAAG	GEEN	LAAG	HOOG	NVT	NVT	HOOG	GEEN	LAAG	GEEN	LAAG
Kernproces B															
Kernproces C															
...															
...															
Ondersteunend proces A / Thema organisatiebeheersing X															
Ondersteunend proces B / Thema organisatiebeheersing Y															
Ondersteunend proces C / Thema organisatiebeheersing Z															

NVT	Proces of thema is niet van die aard dat risicobeheer mogelijk is door de betreffende actor, of de actor bestaat niet voor de organisatie
GEEN	Proces of thema is op geen enkele (formele) manier het onderwerp geweest van risicobeheer door de betreffende actor
LAAG	Proces of thema is summier (formeel) onderwerp geweest van risicobeheer door de betreffende actor
MEDIUM	Proces of thema is deels (formeel) onderwerp geweest van risicobeheer door de betreffende actor
HOOG	Proces of thema was formeel het hoofdonderwerp van risicobeheer door de betreffende actor

BUILDING BLOCKS FOR ASSURANCE – FOCUS ON THE COMMUNAL PROCESSES AND SYSTEMS

- If we can rely on the first and second line (and in some cases third line) for the entity's own internal control, we can focus on the shared systems or overarching control systems
 - Audit of the Flemish Statistical Authority (2019)
 - Audit of the monitoring processes local authorities (2021)
 - ...



THE VALUE OF NON-FINANCIAL REPORTING

Jan van Schalkwyk

Corporate Executive | Office Auditor General South
Africa

BACKGROUND

- Value proposition in South-African environment, including public sector
- Public sector uptake
 - Performance reporting in public sector
 - SOEs
 - AGSA
 - ✓ Auditing NFR
 - ✓ Leading by example
- Practical lessons
 - Credibility of frameworks of reporting
 - Users of non financial information – ability to understand and utilise
 - Broader duty by auditors
 - ✓ Whole-of-government reporting
 - ✓ Private v public sector
 - Potential gaps
 - ✓ Reporting and related assurance v the experience of citizens
 - ✓ The value of other sources of assurance (e.g. social audit)

A CASE STUDY FOR DETERIORATING ACCOUNTABILITY



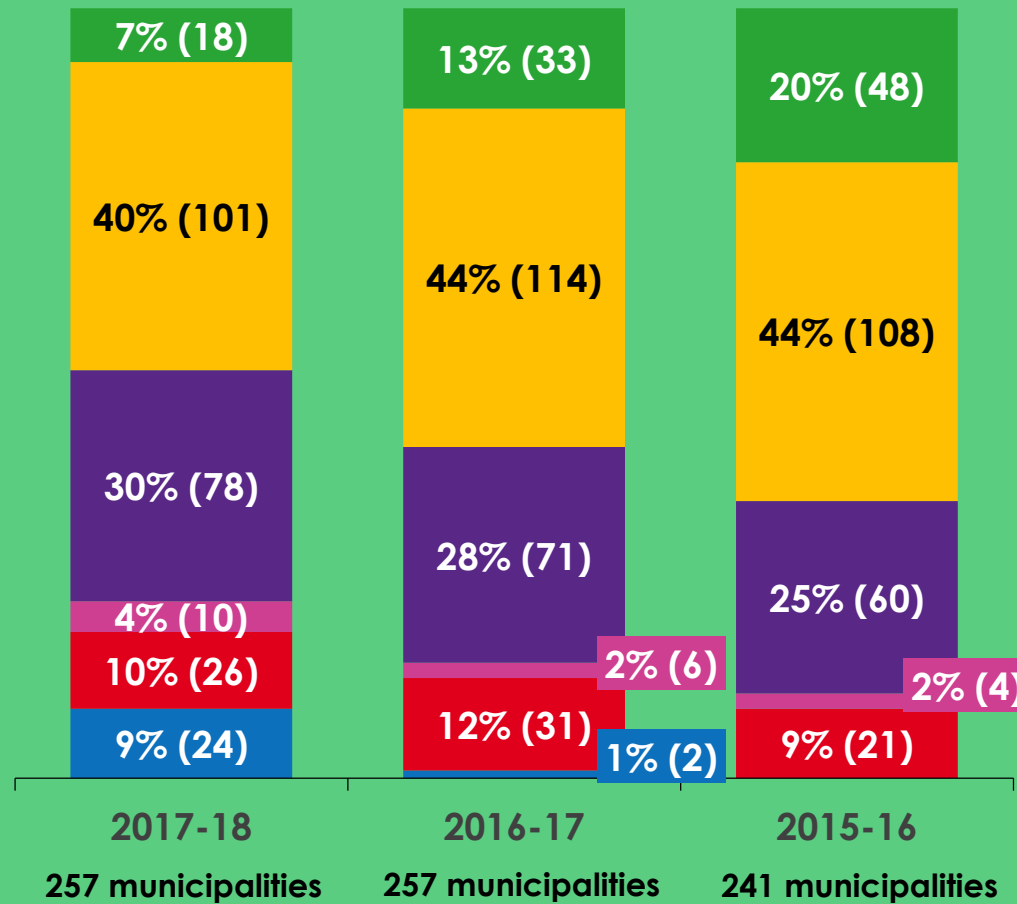
Indicators of deteriorating accountability

Impact of deteriorating accountability

Root causes

Addressing deteriorating accountability

IN THE SECOND YEAR OF THE CURRENT MUNICIPAL ADMINISTRATION, AUDIT OUTCOMES CONTINUE TO REGRESS



Movement	
	22
	63
	148
Outstanding audits	24

Indicators of deteriorating accountability



ACCOUNTABILITY AND TRANSPARENCY NOT ENABLED THROUGH CREDIBLE FINANCIAL AND PERFORMANCE REPORTING



Financial statements

Target

Submission of financial statements by legislated date (all municipalities)

Movement



2017-18

89%

2016-17

90%

Quality submission for auditing



19%

23%

Quality of published financial statements



51%

61%

32% achieved unqualified opinions only because they corrected all misstatements identified during the audit



Performance report

Target

Preparation of performance reports

Movement



2017-18

97%

2016-17

98%

Quality submission for auditing



11%

10%

Quality of published performance report



35%

38%

Reliable reporting of achievements



47%

48%

Usefulness of performance indicators and targets



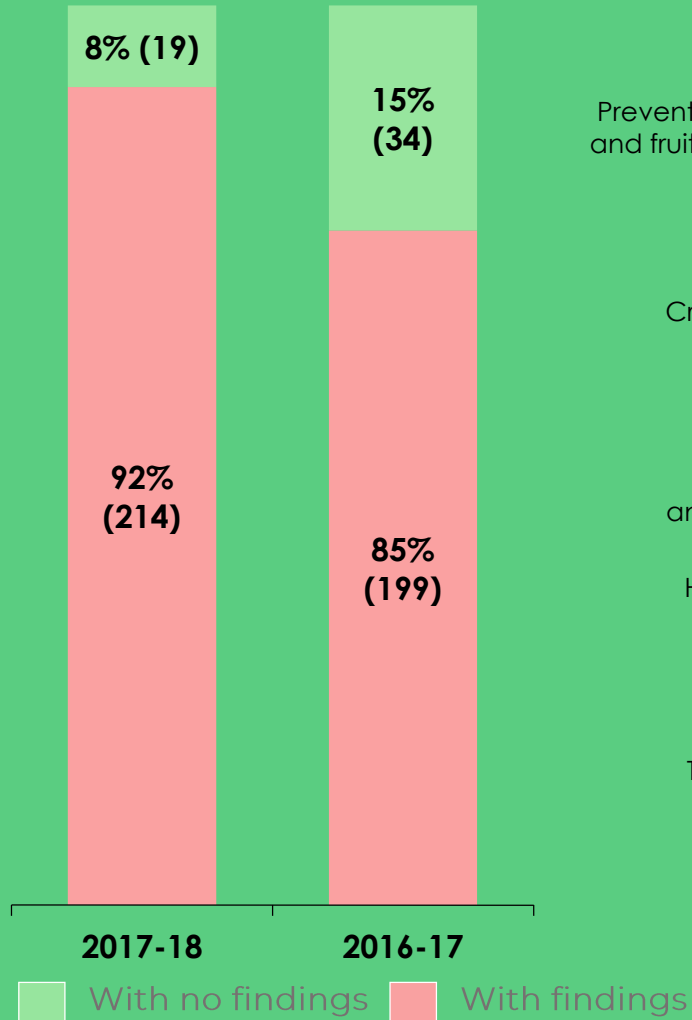
45%

43%

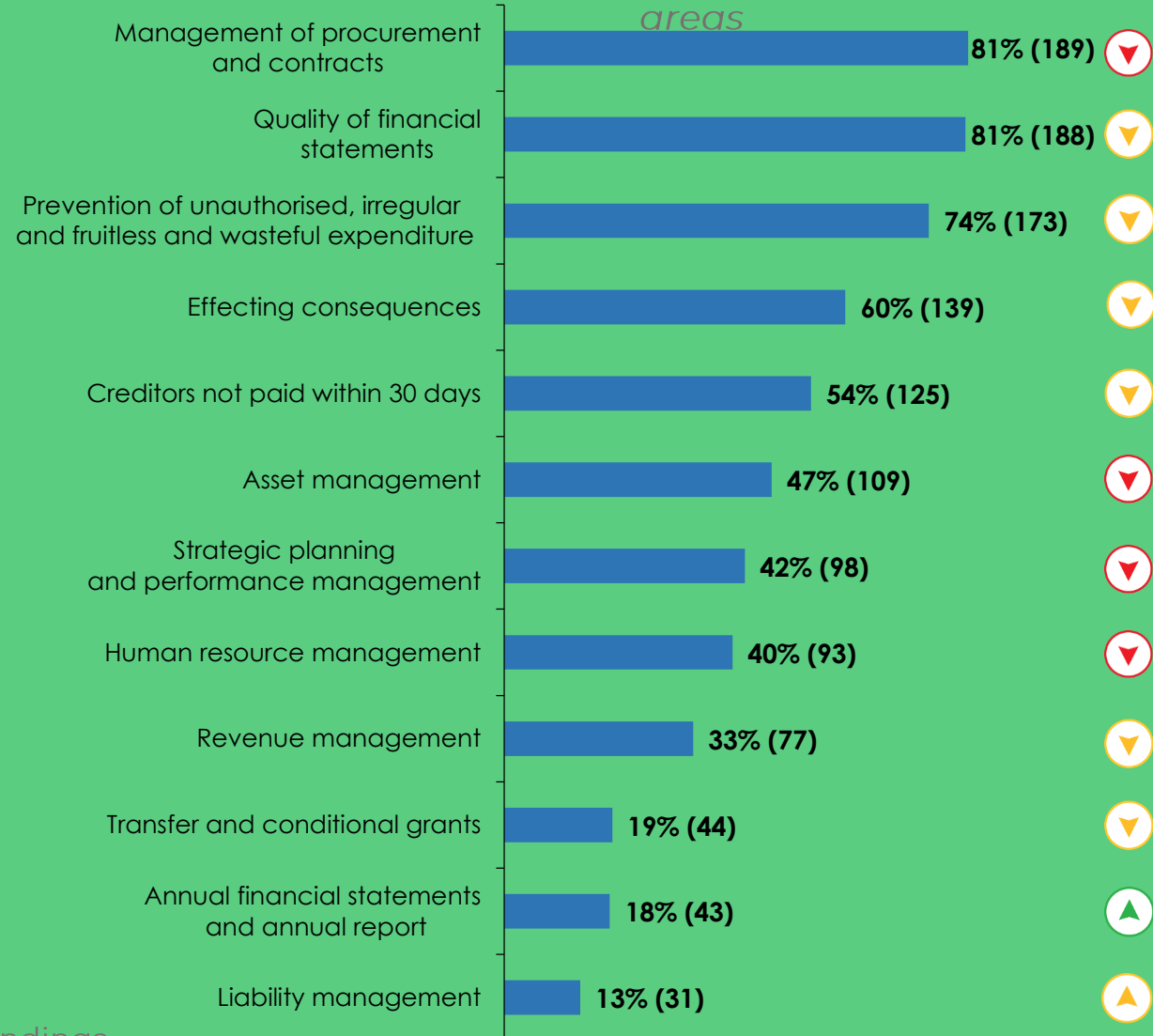
24% had no material findings only because they corrected all misstatements identified during the audit

DISREGARD FOR COMPLIANCE WITH LEGISLATION CONTINUES

Findings on compliance with key legislation



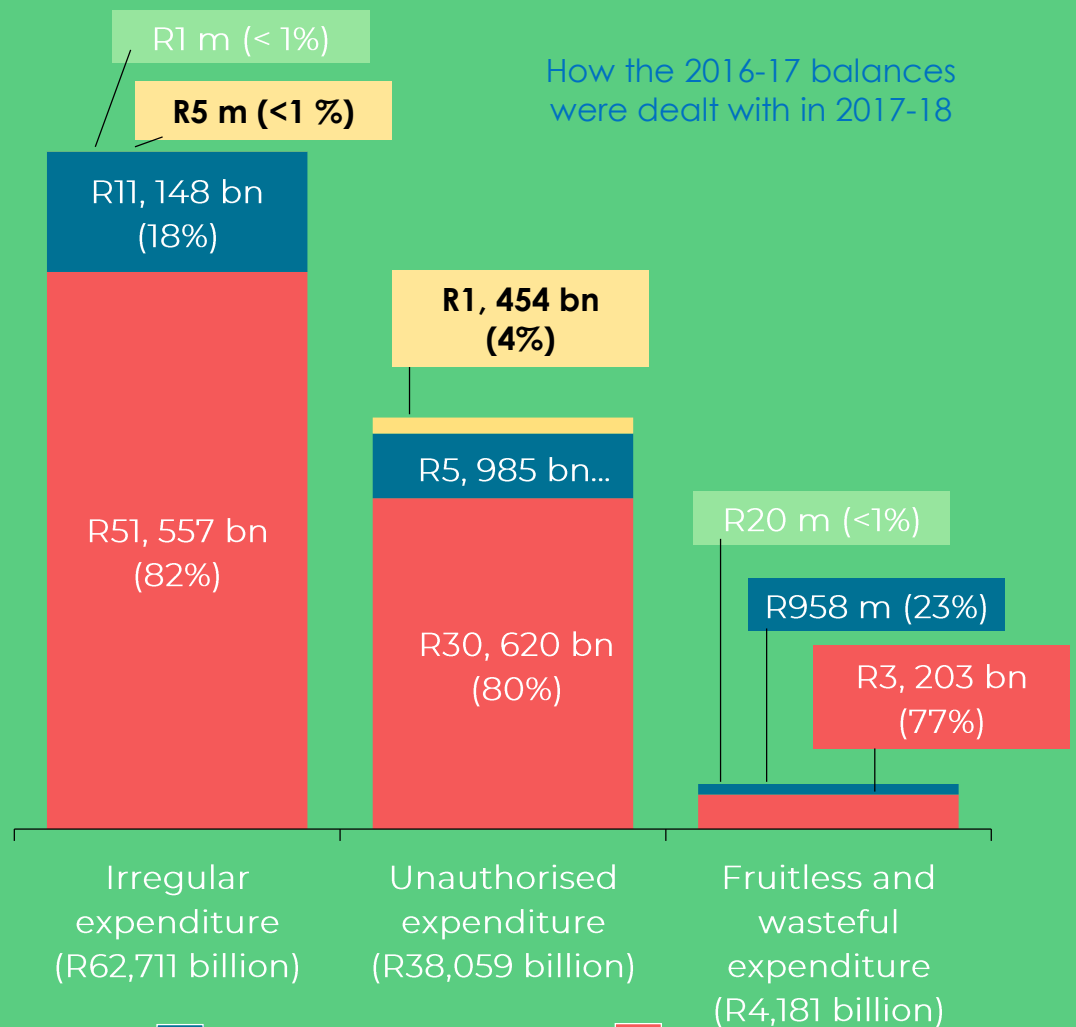
Most common non-compliance areas



MATERIAL NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES INCREASED FROM 54% TO 60%

Most common findings were that unauthorised, irregular and/or fruitless and wasteful expenditure were not being investigated:

- Irregular expenditure – 125 municipalities (54%)
- Fruitless and wasteful expenditure – 117 municipalities (50%)
- Unauthorised expenditure – 108 municipalities (46%)



■ Money recovered
 ■ Condoned or authorised
 ■ Written off by council
 ■ Not dealt with by council

MUNICIPAL INFRASTRUCTURE PROJECTS AND MAINTENANCE ARE AFFECTED

Planned targets / key milestones not achieved by 25% of the projects that we audited



Water infrastructure

- Irregular expenditure on projects audited amounted to R747 million
- SCM findings at 28% of the projects audited
- 30% did not assess the condition of water infrastructure
- 48% had no policy on water maintenance
- Water losses not disclosed at 9% of municipalities
- Water losses below/equal to 30% at 52% of municipalities
- Water losses above 30% at 39% of municipalities



Sanitation infrastructure

- Irregular expenditure on projects audited amounted to R1 241 million
- SCM findings at 31% of the projects audited
- 31% did not assess the condition of sanitation infrastructure
- 49% had no policy or policy was not approved on sanitation maintenance



Road infrastructure

- Irregular expenditure on projects audited amounted to R297 million
- SCM findings at 20% of the projects audited
- 23% did not assess the condition of road infrastructure
- 26% did not develop or approve a priority list for roads infrastructure maintenance projects
- 13% of the projects audited were not properly accounted for in the AFS

THE ROOT CAUSES OF THE ACCOUNTABILITY FAILURE



⚠️ Slow or no response

- Management (municipal managers and senior management), political leadership (mayors) and oversight bodies (municipal councils and portfolio committees) do not respond with the required urgency to our messages about addressing risks and improving internal controls – this slow response from management was evident at 97% of auditees with unfavourable outcomes



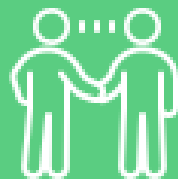
⬆️ Instability/vacancies/competencies

- Vacancies and instability slow down systematic and disciplined improvements
- Inadequate skills lead to a lack of oversight by council (including the mayor), and insufficient implementation and maintenance of financial and performance management systems by administration
- Political infighting at council level and interference in administration weaken oversight, hinder the effecting of consequences, and make local government less attractive for professionals to join
- Leadership's inaction/ inconsistent action creates a culture of 'no consequences', often due to inadequate performance systems and processes



⬆️ Inadequate consequences

- Blatant disregard for controls, compliance with legislation and AGSA recommendations
- Focus is on unqualified financial statements by using consultants and auditors, at great cost and to the detriment of credible reporting on performance and compliance with legislation



ACCOUNTABILITY



=

**INSTABILITY, SKILLS GAPS,
POLITICAL INTERFERENCE
AND CORRUPTION**



ADDRESSING ACCOUNTABILITY – NEW AG POWERS

material
irregularity

- Any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty ...
- identified during an audit performed under this Act that resulted in or is likely to result in ...
- a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities



Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

REFLECTION

- **WHAT IS THE VALUE-ADD OF NFR AND IR FOR ORGANISATIONS?**
- **WHAT IS THE IMPACT ON THE STRATEGY AND GOVERNANCE OF THE ORGANISATION?**
- **HOW TO PROMOTE NFR IN THE ORGANISATION?**

ENABLING GLOBAL DEVELOPMENT AGENDAS



WHOLE-OF GOVERNMENT AUDITING AIMED AT STRENGTHENING ACCOUNTABILITY

“...the failure to be disciplined in the way you use public resources, would not only attract consequences, but serious consequences...”
(Chief Justice of South-Africa)



Q&A



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