The “dual approach” – an overview of the PSC’s considerations and decisions

The PSC’s “dual approach” is PSC’s overall strategic approach to the use of standards from other standard setters. The “dual approach” has been discussed a number of times by the PSC Steering Committee and has been reflected in a range of different documents by the PSC. The present paper provides an overview of the most important points of reference that defines the dual approach.

The paper contains the following extracts:

1. The original decision of the PSC Steering Committee in 2006
2. The dual approach reflected in the PSC’s mandate 2007-2010
3. The answers on the dual approach in PSC’s survey in 2007
4. The dual approach reflected in the due process for INTOSAI Professional Standards
5. The dual approach discussed in the theme papers on consistency at the Steering Committee meeting in 2009

Ad 1. The original decision

Extract from the minutes of the PSC Steering Committee’s meeting in May 2006:

The Committee concluded that the following lines expressed the view of the Committee and should be included in the minutes:

The PSC Steering Committee agreed that the PSC should strive for a dual approach in fulfilling the goal of developing implementation guidelines to the INTOSAI Auditing Standards approved by INCOSAI in 2001:

INTOSAI’s guidelines should preferably be based on standards that are widely recognized among SAIs. By recognizing, utilizing and building on standards issued by other standard setting bodies to the maximum extent possible and appropriate, PSC will work to harmonize public sector audit internationally. INTOSAI will develop complementary guidance where there is a special need and/or a pressing concern in the SAI environment and will seek to influence international standards to address issues of particular interest to SAIs. In doing so, PSC will look to eliminate any duplication within the framework of INTOSAI’s professional standards.

This dual approach should provide clarity by emphasizing in what aspects private and public sector auditing is alike and in what aspects auditing in the two sectors differs. The approach will allow PSC to concentrate its own efforts in developing guidance in fields where SAIs have special needs due to their status as national authorities within the constitutional systems and the special considerations of public sector auditing.

The Subcommittee on Financial Audit Guidelines will continue its work under the memorandum of understanding with IFAC. Due to the cooperation with IAASB on providing INTOSAI experts in the task forces to develop ISA’s, these can be expected to be applicable to a high degree to public sector auditing as well as private auditing. If there are specific public sector perspectives not covered by ISAs, these will be stated in the Practice Notes, explaining how the public sector auditor may deal with these areas. In areas where there are no ISA’s, the FAS will develop additional guidance in accordance with the scope of the Financial Audit Guidelines.
In the field of compliance audit and performance audit, the Steering Committee encourages the subcommittees to consider existing standards in the further development of guidelines. As a working method the committees should consider if any national, regional or international standards are widely recognized among the SAI’s of the world and could form the basis of the committee’s work. The steering committee invite all SAI’s to forward any standards they might consider relevant, to the subcommittee chairs. Examples of standards could be USA’s yellow book (national), the European Implementation Guidelines to INTOSAI’s Auditing Standards (regional) or IFAC or IIA standards (global). After consideration of these and other standards, the subcommittees should advise the PSC of any standards it believes acceptable to INTOSAI or could be consolidated into suitable guidelines. Should there be no such standards the subcommittee should explain the issues and concerns.

In accordance with the Lima declaration and the INTOSAI Auditing Standards approved by INCOSAI, INTOSAI’s standards and guidelines are not compulsory. As SAIs are national authorities exercising their duties on basis of their legal mandate there is no enforcement mechanism directed at SAIs. The PSC Steering Committee encourages the Capacity Building Committee to consider if peer reviews could provide a voluntary mechanism of establishing compliance with INTOSAI standards and guidelines.

The steering committee will continue to ensure that the mandates, terms of reference and work plans of PSC and the subcommittees are followed. At a coming meeting the steering committee will discuss what mandate to ask for at INCOSAI 2007 in order to further elaborate on INTOSAI’s documents.

Ad 2. The dual approach reflected in the PSC’s mandate 2007-2013

Extract from mandate as approved by INCOSAI:

1. In 2007-2010 PSC should continue to develop and promote the International Standards for Supreme Audit Institutions (ISSAI) by providing practical guidelines on financial audit, compliance audit and performance audit and other areas of importance to SAIs.

In the light of the results of the survey and the results achieved in 2004-2007 the PSC will:

- work to harmonize public sector audit internationally by recognizing, utilizing and building on standards issued by other standard setting bodies and developing supplementary guidance in areas where SAIs have special needs.
- give high priority to ensuring clear and user-friendly guidance on the special role of SAI’s and particular features of public sector auditing - following the principle that where the tasks are the same, the standards should be the same, where the tasks differ the standards should differ.

Ad 3. The dual approach in the PSC Survey 2007

Extract from the survey report:

The questionnaire stated that the Professional Standards Committee’s ‘Dual Approach’ implies that INTOSAI standards and guidelines should preferably be based on standards from other standard-setting bodies that are widely recognized among SAIs. By recognizing, utilizing and building on standards issued by other standard setting bodies to the maximum extent possible and
appropriate, PSC will work to harmonize public sector auditing world wide. INTOSAI will develop complementary guidance where there is a special need and/or pressing concern in the SAI environment (For example on performance audit) and INTOSAI will seek to influence international standards to address issues of particular interest to SAIs.

97 SAIs answered the question, as to whether this was an approach they could support. 2 answered that they disagreed with the approach, while 81 answered that the approach was appropriate. 14 chose instead to give a more extensive answer. While these were generally supportive, some emphasised the importance of improved audit guidance tailored to SAIs and some emphasised the importance of harmonisation between public and private sector standards. A few also called for a strengthening of INTOSAI’s standard setting process.

There was broad consensus that there are some differences between public and private sector auditing and that there is therefore a need for special guidance for public sector auditing. As shown in fig. 7, 14 SAIs indicated that their needs include guidance on SAI institutional issues only. 61 SAIs answered that there are also differences in the auditing tasks that calls for specific guidance. 9 find almost no similarities between public and private sector auditing in their country, why internal guidance on all aspects of public sector auditing would be helpful.

To shed further light on the issue, the SAIs were asked how the role of a SAI differs from private sector auditing. Generally, auditing standards covers the auditor’s conduct throughout the process of carrying out audit engagements. The questions therefore concerned the different aspects of the process.

In 81 of the participating countries, the general purpose of auditing in the public sector is to some extent different from auditing in the private sector. The differences most frequently
mentioned concern the constitutional role of a SAI as a mechanism of democratic control and the relationship to parliament. Compliance and performance auditing are also mentioned. Some have explained that compliance audit has a very different meaning in the public sector than in the private sector. Other mentions that public auditing facilitates improvements in the administration and that unlike the private sector it is not possible to measure the efficiency of public sector entities by their profit. A few have pointed to more specific areas. Corruption may thus be issues of concern in the public sector, while tax law is of importance in private sector auditing.

75 SAIs have answered that the nature of the audited accounts and activities in the public sector differ in some aspects from the private sector. Most frequently mentioned is the use of cash-based accounting in the public sector as opposed to accrual based in private firms. A few SAIs have also mentioned areas that are of special importance in the public audit, e.g. audit of grant schemes and social payments, public investments and constructions, public procurements and public debt.

75 indicate that the reporting procedure of public sector auditing in their country differs from private sector auditing. In most cases these are related to the fact that SAIs report to parliament in accordance with national rules or practices while auditing firms issue certifications on accounts on the basis of international standards. In addition, some SAIs mention that they cannot reject to issue an opinion, some that their reports are public and some that their reports must be more comprehensive than those issued by other auditors.

65 SAIs have answered that there are differences between public and private sector auditing with regard to the relationship between the auditor and the audited entity. Common to their answers is that the concerns and safeguards of independence are different in the public and the private sector. SAIs are public authorities and determine on the basis of their legal mandate and budget, how to best carry out their audits of a fixed number of entities within their remit. In contrast, clients pay for the services of private auditors and are free to choose and replace their auditors at will. Some also mention that SAIs primarily report to parliament while private auditors normally report to their clients (e.g. a board of directors). A few SAIs also point to their strong legal powers, when requesting information from clients.
There are more divergent views on whether there are differences in the methods and principles used in the auditing. 43 SAIs found that this is the case for compliance audit. 38 SAIs did not, and 19 gave no opinion on this question. Among those to whom a difference exists, some explain that even though the same word - ‘compliance’ auditing - is used by private auditors and SAIs the word is used in very different meanings. Others indicate that compliance audit is much less important or does not exist in the private sector in their country. Some emphasize that compliance audit is an integrated part of the SAI’s audit and comprises the total body of applicable public law while private auditor’s tasks will usually be of more limited scope. It is also mentioned that reviews of compliance with administrative procedures and regulations serve to safeguard public funds.

Within financial auditing, 40 SAIs find that there are differences in the methods and principles of auditing. However, a majority of 50 SAIs see no such differences. The comments given by the SAIs seem to suggest agreement that common methods and principles in the public and private sector are desirable in principle, while the disagreement seems to concern whether it would be possible to eliminate all differences. Some answers reflect that differences in the relevant considerations of materiality and the kind of risks involved, may give rise to different auditing approaches. It is also mentioned that financial audit of a SAI is closely tied to the appropriation control and audit of legality of transactions. The audited public accounts should thus provide assurance that means are used with due care as decided by parliament, while an auditor’s certification of company accounts should provide assurance regarding information that may impact the value of the company.

Because performance audit is a concept of INTOSAI and is not comparable to concepts in private sector auditing the PSC steering committee has decided not to include a similar question on the principles and methods of performance audit.

The majority of SAIs answer that there are no differences between public and private sector when it comes to the documentation requirements. 31 SAIs, however, indicate that there are some differences in their country, as requirements of their documentation are regulated by public law or a more detailed documentation is required in the public sector.
4. The dual approach reflected in the due process for INTOSAI Professional Standards

Extract from the draft the PSC Steering Committee after the Governing Board meeting, January 2010:

Stage 1: the project proposal

Before development of new ISSAIs or INTOSAI GOVs that are not part of a previously approved project is initiated, the subcommittee/group carries out an initial assessment. The purpose of the initial assessment is to determine the categories of auditing or other tasks that will be covered by the document, to consider the differences among SAIs that must be accommodated and to ensure consistency with existing ISSAIs and INTOSAI GOVs. In the initial assessment, it is determined to what extent 1) it will be possible and desirable to build on guidance from other international, regional or national standard setters and if so, 2) to what extent supplementary guidance is needed in order to meet the needs and concerns of the INTOSAI community.

5. The dual approach in the theme papers on consistency, 2009

Extract from the meeting materials discussed by the PSC Steering Committee:

In line with the PSC’s due process it is suggested that the initial assessment maintains the dual approach as its working method. The assessment should especially consider how guidance from other sources may be incorporated:

How to draw on auditing guidance from other standard setters?

"Inspiration": Consider a variety of documents from different sources but draw up an original new text.
"Patchwork": Merge concepts and text of standards or guidance documents from more than one source in order to arrive at a new text.
"Cover version": Use the concepts and texts from a single source and elaborate or modify in order to arrive at a new text.
"Commenting": Refer explicitly to a specific set of documents and elaborate further on these by drafting additional and detailed guidance.
"Gate keeping": State a few general principles and leave it to another standard setter to provide further standards which are to apply unless they are in conflict with the principles.
"Reference": State as a principle that any standards supplied by a specific standard setter should apply.

The way in which standards from external sources are integrated into the ISSAIs at level 3 will have consequences in terms of the level of control by INTOSAI over the recommendations provided as well as the workload to develop and maintain the ISSAIs.

The initial assessment should therefore consider the choice of the sources drawn on as well as the choice of the way in which the standards are being integrated into the ISSAIs. It is suggested that the following criteria should be referred to:

Criteria for the consideration of standards from other standard-setting bodies

Applicability: The “external” standards should be fully applicable to the category of assignments for which the PSC attempts to provide guidance. If not, it may be relevant to make a distinction between assignments which clearly fall within the scope of application of the “external” standards and assignments that are outside the scope of application.

Relevance: The “external standards” should provide a set of concepts which are – at least for the main part - relevant for the formulation of the recommendations that the PSC wishes to give.

Usefulness: The “external standards” should also provide recommendations on auditing which are compatible with the recommendations that the PSC wishes to give. The fewer modifications or further elaborations required, the more useful the standards will be as a basis for the ISSAIs.

Languages and user concerns: The “external standards” should be as brief and easily understandable as possible in light of the recommendations that the PSC wishes to give. External standards that are available in at least the 5 official...
languages of INTOSAI are preferable to single language standards. The benefits related to building on standards from other sources are undermined if the PSC has to translate the standards before issue.

**Reciprocity:** The source of the external standards should recognise the ISSAI to the same extent as the ISSAI recognises the external standards. If the PSC is to give up full control of the recommendations given by the ISSAI by referring to other standards, the PSC should in exchange have some level of influence on future revisions of these standards. This may involve extensions of the current MoUs with IFAC and the IIA, as well as considerations of the mutual representation between the PSC and other standard-setting bodies.

**Wide recognition:** The standards should preferably be widely known and recognised within the INTOSAI community as well as among INTOSAI’s external stakeholders. This will facilitate implementation as well as the international harmonisation of standards.