Dear members of the Compliance Audit Subcommittee,

We are happy to bring out this second Newsletter of 2019, with updates on the activities of the Subcommittee during 2019. As you will see in the following pages, several important activities are taking place across the INTOSAI community involving standard setting, preparation of guidelines, implementation support, knowledge sharing and capacity building. This edition of the Newsletter also contains an article contributed by the National Audit Office of China on ‘Expanding the Coverage of Compliance Audit of Budget Implementation with Big Data Approach.’

The 16th annual CAS meeting was held in Lisbon, Portugal during 27-28 May 2019 and was hosted by the Tribunal de Contas, the SAI of Portugal. Representatives from 17 out of 20 CAS members participated in the meeting. AFROSAI-E and IDI participated as Observers. The meeting decided to continue the on-going Strategic Development Plan (SDP) projects 2.2 and 2.3 relating to GUID 4900 and guidance on ‘Using ISSAIs in accordance with the SAI’s mandate and carrying out combined audits’. The meeting also decided to partner with IDI in implementing ISSAI 4000, especially on undertaking cooperative compliance audits and providing support for professional education of SAI auditors.

This year witnessed the first Joint Seminar organized by the Forum for INTOSAI Professional Pronouncements (FIPP) with all FIPP members, the INTOSAI Goal Chairs, the Chairs of the INTOSAI Subcommittees and Working Groups, and the INTOSAI General Secretariat in Oslo, Norway, on 2-3 December 2019. Important decisions were taken in this meeting with regard to taking forward the standard setting process.

The 17th annual CAS meeting will be hosted by the Chamber of Accounts of the Republic of Azerbaijan on 11-12 May 2020. You will receive further information in this regard within the next few weeks.

We would like to thank all the members of the Subcommittee, IDI and other INTOSAI partners for their cooperation and collaboration during 2019.

We wish you all a Merry Christmas and a happy New Year.

Best regards,

Vani Sriram
Director General
CAS Secretariat
Detailed presentations were made in this meeting on the progress of SDP project 2.2 (GUID 4900 on providing guidance on compliance audit) of IFPP by the project lead SAI, Norway, and project 2.3 by the project lead SAI, Romania (Using ISSAIs in accordance with the SAI’s mandate and carrying out combined audits). Based on the inputs and feedback provided by the members, a revised exposure draft on project 2.2 and a revised project proposal on project 2.3 were submitted to FIPP in June 2019.

Members considered the changes/revisions to SDP 2017-2019 made by FIPP and discussed the initiatives proposed by CAS for projects to be considered for the new SDP 2020-2025. The Chair provided a brief about the communications received from the Professional Standards Committee (PSC) and FIPP regarding criteria for selection of projects and potential areas of interest. The proposals in this regard were deliberated upon by the members and it was decided to continue the on-going projects 2.2 and 2.3 of SDP during the next SDP as well, unless something new is entrusted by INCOSAI.

As for projects outside the SDP framework, it was decided to partner with IDI on implementation of ISSAI 4000 and cooperation in product development, quality assurance, blended learning programme, pilot and application guidance on professional education of SAI auditors (PESA).

Seven SAIs (Azerbaijan, Brazil, China, European Court of Auditors, India, Mexico and Norway) made presentations on important compliance audits carried out by them in the areas of quality assurance, drinking water project, IT audit and reports in digital format.

**Status of Strategic Development Plan projects of CAS**

Projects 2.2 and 2.3 relating to CAS were considered by FIPP in its meeting held in December 2019 and decided the following.

**Project 2.2:** FIPP tried to find a common ground on the exposure draft of this GUID with the project lead, Ms.Ingvild Gulbrandsen and assured that it would do what is possible to approve the exposure draft by written procedure and suggested that the document should be forwarded through the PSC within February 15th 2020.

**Project 2.3:** FIPP approved the project proposal conditionally with minor changes and decided to be involved during its drafting process to ensure better quality through discussions with the project group and members of the Subcommittees of PSC representing the three audit types.

**IDI-PASAI Cooperative compliance audit**

In pursuance of the decision taken in the 16th CAS meeting in Lisbon in May 2019, IDI supported PASAI in the first ever ‘cooperative compliance audit of public procurement’ conducted in the PASAI region, which saw the SAIs of the region coming together for the first time to use a common framework to carry out a compliance audit of public procurement.
Apart from using an ISSAI methodology, these audits were also subjected to independent quality assurance reviews.

**Professional Education for SAI Auditors (PESA)**

IDI initiated development of an e-learning courseware and certification programme for providing professional education to SAI auditors on compliance audit, as discussed during the 16th annual CAS meeting at Lisbon. Resource persons from CAS member SAIs of India, Jamaica, Lithuania and South Africa participated in this initiative. In the first workshop in Hyderabad, India in September 2019, roles and responsibilities, course outline, design guides, and work flows were agreed upon and the elements of digital education were discussed.

**PSC Steering Committee Meeting on 5-6 June 2019 at Warsaw, Poland**

At the 16th PSC meeting, the CAS perspective on care in drafting project proposals and the importance of Technical Support Function (TSF), considering the scarcity of resources was highlighted by Mr Vishnukanth from SAI, India, who represented CAS at the meeting. He also conveyed to PSC that CAS considers that more focus should be given to the implementation of current standards, rather than devoting resources to developing new pronouncements.

**CAS participation in Capacity building activities of SAIs**

Ms. Ingvild Gulbrandsen of CAS from SAI, Norway played a leading role in a seminar from 9-13 December 2019 involving capacity building in report writing for 110 auditors (both compliance and performance audits) at the SAI, Myanmar (OAGM) along with two colleagues from SAI, Norway. During the seminar, the participants were provided insights into various aspects of an audit report, and the Dinner Party tool to assess audit evidence.

**Joint seminar organised by FIPP**

The Forum for INTOSAI Professional Pronouncements (FIPP) invited all FIPP members, the INTOSAI Goal Chairs, the Chairs of the INTOSAI Subcommittees and Working Groups and the INTOSAI General Secretariat for a Joint Seminar at Oslo, Norway, on 2-3 December 2019.

The objective of the meeting was to provide comprehensive information on the current roles, responsibilities and processes with regard to the INTOSAI standard setting process, which is undergoing major changes (migration from the ISSAI framework to the new INTOSAI Framework of Professional Pronouncements (IFPP)), to ensure that all participants have the
same level of knowledge, and to reflect on current experiences, lessons learned and opportunities for improvement.

Furthermore, the roles and responsibilities between the FIPP, the Goal Chairs and the INTOSAI subcommittees, working groups and task forces as regards the elaboration of standards and directives were explained.

**Expanding the Coverage of Compliance Audit of Budget Implementation with Big Data Approach - The National Audit Office of China (CNAO)**

In accordance with the Implementation Guidelines on Building a Law-based Government (2015-2020) promulgated by the Chinese government in 2015, audit shall fully cover public funds. The National Audit Office of China (CNAO) has made multiple attempts on big data audit to this end.

When conducting compliance audit, the CNAO is actively promoting the big data audit approach, which features “analysis, detection, verification and research”. Such approach has been working well in key areas concerning sustainable development such as finance, poverty alleviation, natural resources and the environment. In financial audit, for instance, the CNAO has developed a toolkit of automated data collection, recovery and standardization, so as to make sure audit can be conducted efficiently with just one click. Thanks to the deep integration of big data approach and audit, audit philosophies have been transformed, audit coverage expanded and audit supervision improved. The CNAO has realized full coverage on budget implementation of central government bodies.

This article looks at how a provincial audit institution conducted audit on budget implementation, specifically, the compliance audit on official hospitality expense. The article aims to show how the audit institution, by adopting the approach of “analysis, detection, verification and research”, has pinpointed problems and improved audit quality and efficiency.

**Analysis**

Audit on budget implementation has been around in China for a while, therefore much experience has been gained. By selecting auditors from audit institutions at municipal and county (district) levels, this provincial audit institution formed a data analysis team to carry out analysis over all the financial data at provincial, municipal and county (district) levels, with the help of the integrated online audit platform developed by audit institutions. Such analysis is based on the query big data audit analysis model, which is built upon above mentioned prior knowledge and SQL statements among other execution languages. At the beginning of the audit assignment, auditors found some audit experience from the database of audit
experts experience to check the compliance of official reception expenditure, process and accounting. Auditors hence developed several query big data analysis models. With the help of these models, auditors could analyze the difference between the budget of official reception fees and the amount executed, the share of adjusted budget in the whole budget and the actual payment and content of budget.

Detection

The footprint of audited entities in using financial funds can be traced in their financial records and the budget management database of fiscal authorities. When checking the compliance of official hospitality expense, since standards are unified and electronic data is structured, auditors are able to analyze data of the whole province with the help of data analysis models, so as to unveil problems across the board. When conducting this audit assignment, auditors looked at the compliance of internal approval process, content of expenditure, expenditure standards, way of payment and accounting records. Auditors obtained many clues from audited entities across the province. These clues cover problems including the lack of internal approval process, per capita expenditure exceeding national standard, wrong financial accounting items, loss of accounting documents and improper contents in accounting documents, etc.

Verification

These doubtful points could not be directly written into the audit report, and audit evidence needed to be verified and completed. Considering the number of doubtful points and audited entities involved and the limit of time and human resources in auditing, auditors adopted two approaches in verifying doubtful points, namely prioritized verification and the combination of self-verification by audited entities and re-verification by auditors. Auditors ranked these doubtful points in their order of significance. Two types of doubtful points were prioritized. The first one involves large amount of money. Take one government entity as an example: a large share of its official hospitality expenses was unauthorized. The other is severe in nature. For instance, official hospitality expenses were paid to unqualified service provider. Such prioritized doubtful points account for one third of the total. Auditors must go to audited entities to verify on the spot and collect evidence, by checking accounting documents, going through business materials, double-checking with people involved and reaching entities receiving payments. For doubtful points that don’t need prioritized verification, auditors would require audited entities to send verification evidence to the audit team. For instance, when the invoice of a small-amount office reception is incomplete, the audited entity needs to provide other evidence to auditors to show the authenticity of this payment.

Research

Through verification on the spot, the abnormality of some doubtful financial data was justified, while most doubtful points were validated and written into the audit report. For instance, one organization violated financial rules by spending an official hospitality expense
without approval; unduly expanded the scope of expenditure from the budget for official hospitality. At the same time, big data audit with full coverage can help to unveil universal problems. For instance, in the province in question, it is a common practice that official reception fees are approved by the head of the financial sector in a government body instead of the head of the body. It was therefore suggested by the audit team that the province should improve its control system and clarify the expenditure approval process. In addition, heads of government bodies and financial staff should be subject to tailored training to ensure they comply strictly with financial rules. Those suggestions, after being written into the audit report, have been heeded by this province. It was found by audit of the next year that the lack of expenditure approval process, a common problem in the past, almost disappeared.

These cases went well because structured data was used. In other audit areas, however, audit institutions have been acquiring more and more semi-structured and non-structured data from various sources. How to realize correlation analysis, deep digging and integrated use of data from multiple sources with the help of cutting-edge technologies? At the stage of verification, how to put in place a working mechanism, which facilitates the interaction and cooperation between the data analysis team and the on-site verification team and ensures full communication between the two teams? On research, how to establish an interdisciplinary team to better play audit’s supervisory role and address priorities of the government? All of these problems require us to break new ground in big data audit and put in place an effective model of big data audit.

We have every reason to believe that, technologies are invaluable in improving audit organization, efficiency and quality. Only by embracing new technologies and creating new approaches can audit institutions achieve full coverage and play a more important role in improving national governance.