ISSAI 400

Fundamental Principles of Compliance Audit

Compliance Audit Subcommittee

Vilnius, Lithuania
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Mona Paulsrud, CAS harmonization team
ISSAI 400 presentation

1. The approach of the CAS harmonization team to ISSAI 400
2. Structure and contents of ISSAI 400
CAS’ contribution to the development of public sector auditing
The purpose and authority of ISSAI 400

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AIM OF ISSAI 400

To provide a coherent, high level framework of Compliance Audit in the public sector, covering both ISSAI 4100 and ISSAI 4200.
CAS’ approach in developing ISSAI 400

- Financial audit – the cradle of the audit profession and audit theory
- Defines basic concepts and terminology of auditing
CAS’ strategy in developing ISSAI 400

- Build upon existing contents and terminology of the ISSAI 4000 series
- Create a coherent story of Compliance Audit
- High, generic level of concepts and principles
- Dual approach – updated IFAC terminology
ISSAI 400 – Basic structure

1. Introduction
2. Purpose and authority of ISSAI 400
3. The nature of Compliance Audit \( \text{Story of CA} \)
4. Elements of Compliance Audit \( \text{Audit theory} \)
5. Principles of Compliance Audit \( \text{Requirements} \)
6. Making reference to the ISSAIs
The nature of Compliance Audit

The independent assessment of whether a particular subject matter is in compliance with established criteria.
The nature of Compliance Audit

Origins of cash flow in the public sector are the decisions and premises of the legislature.
Public sector context of the SAI

THE LEGISTALURE

THE EXECUTIVE

THE ENTITY

Compliance Audit
The elements of Compliance Audit

 Authorities

 Subject matter

 The three parties

 ISSAI 4100 or ISSAI 4200?
Authorities and criteria

AUTHORITIES

CRITERIA
SUBJECT MATTER

Underlying subject matter

Subject matter information
The three parties of Compliance Audit

- THE LEGISLATURE
- THE GOVERNMENT
- THE SAI
- PRACTITIONER
- RESPONSIBLE PARTY
- ELEMENTS OF AN AUDIT
- INTENDED USER

Elements of an Audit:

- Intended User
- Responsible Party
- Practitioner
- The SAI
- The Legislature
- The Government
Assurance in Compliance Audit

**Forms of assurance**
- Attest engagements
- Direct reporting audits

**Levels of assurance**
- Reasonable assurance
- Limited assurance
Forms of reporting

- Long form reporting
- Short form reporting
- Findings
- Opinions & various forms of conclusions
The elements of Compliance Audit

 Authorities

 Subject matter

 The three parties

 SAI

 ISSAI 4100 or ISSAI 4200?
Principles of Compliance Audit

Principles: at the level of an individual audit

Planning → Gathering evidence → Concluding and reporting
Principles of Compliance Audit

Principles = «should statements»

Able to fit all variations of Compliance Audit.

To be translated into «shall statements» when level 4 is to be used as authoritative standards.
1. General principles:

   to be considered prior to commencement and at more than one point throughout the audit process

2. Principles related to the audit process:

   related to steps in the audit process itself
General principles

1. Legal basis
2. Ethics and independence
3. Quality control
4. Audit team management and skills
5. Audit risk
6. Materiality
7. Professional judgment and skepticism
8. Documentation
9. Communication
Audit team management and skills

... includes an understanding of and practical experience of the type of audit being undertaken; an understanding of the applicable standards and authorities; an understanding of the entity’s legal basis and operations; and the ability and experience to exercise professional judgement.

ISSAI 400 para. 54
Audit risk in Compliance Audit covers both attestation and direct engagements.

inherent risk - control risk - detection risk

The degree to which these components are relevant to the audit is affected by the nature of the subject matter, whether the audit is performed as a reasonable assurance or limited assurance audit and whether it is a direct or an attestation engagement.

ISSAI 400 para. 56
Materiality in Compliance Audit consists of both quantitative and qualitative factors.

... An essential part of determining materiality is to consider the importance of compliance for the intended users and the consequences of potential or identified instances of non-compliance.

ISSAI 400 para. 58
Principles related to the audit process

1. Planning and designing a compliance audit
   - Subject matter and criteria
   - Audit scope
   - Understanding the entity
   - Risk assessment
   - Understanding internal control and control environment
   - Risk of fraud
   - Audit strategy and audit plan

2. Gathering audit evidence

3. Evaluating audit evidence, concluding and reporting
   - Evaluating audit evidence and forming conclusions
   - Reporting
   - Follow up
Planning and designing a compliance audit

1. Subject matter and criteria

2. Audit scope
3. Understanding the entity
4. Risk assessment
5. Internal control and control environment
6. Risk of fraud
7. Audit strategy and plan
Gathering audit evidence

Sufficient and appropriate audit evidence.
Evaluating audit evidence, concluding and reporting

- Evaluating audit evidence and forming conclusions
- Reporting
- Follow up