

Compliance Audit Subcommittee Meeting Copenhagen 6-7 April 2006

— Minutes —

Opening of the meeting

The third meeting in the INTOSAI Compliance Audit Subcommittee was held in Copenhagen, Denmark 6-7 April 2006. Denmark's representative in the subcommittee Rolf Elm-Larsen welcomed other members from India, Lithuania, Namibia, Norway, Slovakia, Sweden, Tunisia, Ukraine, Denmark and the European Court of Auditors. The European Court of Auditors had very recently been invited to become a member of the subcommittee, and looked forward to taking part in the work. The participants each presented themselves.

Kelly Ånerud from the Norwegian chair gave an introduction to the work on developing INTOSAI guidelines for compliance audit and emphasized the need for a close cooperation between the Compliance Audit Subcommittee (CAS) and the Financial Audit Guidelines Subcommittee (FAS). The former working groups are now subcommittees under the Professional Standards Committee (PSC). PSC will thus have a coordinating role.

Discussion of Preliminary Draft INTOSAI Compliance Audit Guidelines

After an introduction by Rolf Elm-Larsen and Kelly Ånerud the subcommittee discussed a not yet completed Preliminary Draft Compliance Audit Guidelines. The draft was adapted to the outline of the new ISAs, in accordance with the approved Issues Paper.

The draft consisted of an Introduction, with subheadings *Scope of the Guidelines* and *Application of the Guidelines*, Objectives to be achieved, Definitions, Recommendations (instead of *requirements* in the ISAs, since the guidelines do not have mandatory application), and Application Material (which is intended to provide further explanation and guidance on the recommendations, and may identify and describe other procedures or actions relating to the activities of the auditor).

Both the Recommendations and the Application Material sections had subheadings on *Planning and Designing Compliance Audit*, *Executing Compliance Audit*, *Reporting Compliance Issues*, and *Follow-up on Reported Audit Findings* (which is intended to elaborate on the need for assessing the audited entity's follow-up of the reported audit findings, and for further reporting on the issue).

The meeting emphasized the importance of the Scope, Objectives and Reporting parts of the guidelines, and provided important input on further coordinating these sections with the corresponding development of the scope of FAS' financial audit guidelines, and on the relationship to INTOSAI Auditing Standards, Lima Declaration, etc., and on particularities for

SAIs of the court type. It was pointed to that the definition of compliance audit could be further elaborated on in relation to the description of objectives, etc., and on the continuum between financial, compliance and performance audit. The reporting section should include various reporting options, depending on the SAIs mandate, reporting to Parliament, to the audited entity, etc., and include reporting incorporated in or linked to the annual reporting on audit of financial statements, or separate reporting on compliance issues. The members were asked to send examples of their SAI's reporting to the Norwegian chair, including information on how the reporting is dealt with in the SAI's mandate, etc. In addition, specifically Ukraine was asked to present examples of the SAI's assessing and further reporting on the audited entities' follow-up of reported audit findings.

In the main the meeting approved of the structure of the draft, but was of the opinion that at this stage of the work it was most important to arrive at an appropriate text. It should then be decided later which part of the text should, e.g., be included in the Recommendations and which part in the Application material. The distinction between recommendations and application material is not so easily drawn as between requirements and application material. Still more detailed material could be considered included in appendices.

The suggested use of the word "may" ("the auditor may etc") in the recommendations section – in order to be consistent with the use in FAS' Practice Notes to the ISAs – makes the distinction between recommendations and application material further vague. The use of the word "may" should be further discussed, in coordination with FAS. The present tense could be an alternative to the use of "may".

It was indicated that it could be an idea to reflect on the consideration of fraud and corruption related to compliance audit.

Further analysis of the overview of different mandates

An analysis of compliance audit in SAI mandates coordinated by Ibrahim Albaghdadi, Saudi Arabia was presented to the meeting. The analysis shows that for the analysed mandates compliance audit to a considerable degree overlaps with financial audit. The meeting acknowledged the analysis which will be available on the PSC website. A listing of compliance criteria mentioned in the analysed mandates will be considered as an appendix in the prospective compliance audit guidelines.

Comments on the preparation of glossary of relevant terms/definitions related to compliance audit

Hennadiy Shakh and Sergiy Kovalchuk, Ukraine gave a briefing on the preparation of the glossary which is to be based on the terms used in the guidelines. The meeting agreed that key words or terms used in the prospective draft guidelines – and which are not clearly defined – should be identified for presentation at the next meeting, and defined subsequently. The subcommittee will discuss with PSC the possibility of establishing a common INTOSAI glossary.

Professional Standards Committee – Draft Framework of Professional Standards

The subcommittee's comments on the PSC Draft Framework were briefly presented, and the meeting was informed on the dialogue between CAS and FAS prior to the PSC meeting in May.

Cooperation and coordination between the Compliance Audit Subcommittee and the Financial Audit Guidelines Subcommittee

The meeting emphasized the need for a continuous cooperation and coordination of the work of CAS and FAS. CAS appreciated that FAS Project Director Jonas Hällström took part in the meeting as one of Sweden's representatives, and approved FAS' idea of appointing a FAS reference panel (2-3 people) for communicating with CAS.

The need for adjustments in the Work Plan

The meeting noted that the development of Compliance Audit Guidelines to be presented at INCOSAI 2007 was somewhat behind the schedule stipulated in the Work Plan. There is still a lot of work to do before the preliminary draft is completed, and it will not be possible to have a First Read Draft ready for presentation at the PSC meeting 4-5 September 2006.

The subcommittee expects to have its next draft ready somewhat later in September, and plans to hold its next subcommittee meeting discussing the draft the first week of October (*See note below*). The first PSC meeting thereafter is planned to take place in spring 2007. The chair is expected – during July and August – to discuss and sort out with the PSC what consequences the delay will have for presenting the guidelines to INCOSAI 2007, and to present a revised Work Plan to the subcommittee meeting in October. The procedures for translating the guidelines to all the five INTOSAI languages should already be included in the PSC discussions.

The next meeting

The subcommittee was informed on the plan to hold the next subcommittee meeting the first week of October 2006, probably in India. The second next meeting was planned to take place in February-March 2007, probably in Tunisia.

Subcommittee Meeting Participants
Copenhagen, Denmark
6-7 April 2006

Representatives

Anresh Kumar Thakur	Director General (India)
Rimantas Bruzgulis	Mr. (Lithuania)
Dirk Kotze	Director (Namibia)
Maria Kysucka	Director (Slovakia)
Jonas Hällström	Project Director FAS (Sweden)
Marie Örtengren	Audit Director (Sweden)
Amel Elloumi Baoueb	Magistrate (Tunisia)
Hennadiy Shakh	Director of Department (Ukraine)
Sergiy Kovalchuk	Senior Officer (Ukraine)
Manuel Lourenco	Mr. (European Court of Auditors)
Rolf Elm-Larsen	Director (Denmark)
Lene Boisen	Adviser (Denmark)
Kelly Ånerud	Deputy Director General (Norway)
Leif Egil Berland	Senior Audit Adviser (Norway)