

INTOSAI



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Financial Audit ISSAIs

Practice Notes to ISSAIs 1200-1810

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ISSAI 1200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing

Background

This Practice Note provides supplementary guidance on ISA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing. It is read together with the ISA. ISA 200 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 200 deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with ISAs. Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the ISAs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the ISAs. The independent auditor is referred to as "the auditor" hereafter. The Practice Notes sometimes refer to the "public sector auditor" and this term is equivalent to "the auditor" in the ISAs.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Scope of the ISA
- (b) An Audit of Financial Statements
- (c) Ethical Requirements Relating to an Audit of Financial Statements

Applicability of the ISA in Public Sector Auditing

P2. ISA 200 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 200 contains application and other explanatory material with considerations specific to audits in the public sector in paragraphs 13d, 13o, A8, A11, A59 and A65 of the ISA.

Scope of the ISA

P4. Some ISAs contain considerations specific to audits of smaller entities. In audits of public sector entities and entities that receive government awards, these considerations are usually not applicable, even if the public sector entity has few employees, simple operations, or a relatively small budget. In those situations, the public sector entity may still have complicated transactions, such as transfers from other governments, as well as a need to comply with laws, regulations, policies and systems determined by a higher level of government and a need for accountability for use of taxpayer monies. Therefore public sector auditors carefully consider the relevance of such considerations. The Practice Notes may include additional guidance in this area when considered important to add guidance relevant for audits of smaller public sector entities.

ISSAI 1200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing

An Audit of Financial Statements

P5. Paragraph A8 of the ISA provides examples of financial statements and the content of a complete set of financial statements. A complete set of financial statements for a public sector entity prepared on an accrual basis of accounting may normally comprise:

- A statement of financial position;
- A statement of financial performance;
- A statement of changes in net assets/equity;
- A cash flow statement;
- A comparison of budget and actual amounts either as a separate additional financial statement or as a reconciliation; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

P6. In certain environments a complete set of financial statements may also include other reports such as reports on performance and appropriation reports.

Ethical Requirements Related to an Audit of Financial Statements

P7. ISSAI 30¹ is a relevant ethical code in so far as paragraph 14 of the ISA is concerned.

P8. Paragraph 15 of the ISA requires the auditor to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. The INTOSAI Fundamental Principles of Financial Auditing in ISSAI 200² also address professional skepticism. The concept of professional skepticism enhances and broadens the concept of due care and is fundamental for the planning and performance of the audit.

¹ ISSAI 30, "Code of Ethics"

² ISSAI 200, "Fundamental Principles of Financial Auditing", paragraph 53

ISSAI 1210 – Agreeing the Terms of Audit Engagements

Background

This Practice Note provides supplementary guidance on ISA 210 - Agreeing the Terms of Audit Engagements. It is read together with the ISA. ISA 210 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present. ISA 220¹ deals with those aspects of engagement acceptance that are within the control of the auditor.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Preconditions for an Audit
- (b) Agreement on Audit Engagement Terms
- (c) Acceptance of a Change in the Terms of the Audit Engagement

Applicability of the ISA in Public Sector Auditing

P2. ISA 210 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 210 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A4, A8, A29 and A39.

Preconditions for an Audit

P4. When establishing whether necessary preconditions for an audit are present as required in paragraph 6(a) of the ISA, public sector auditors consider that in the public sector the financial reporting framework may often be prescribed by law and regulation. If public sector auditors determine that the framework prescribed by law and regulation is not acceptable, they apply the requirements of paragraphs 8, 19 and 20 of the ISA, and also consider:

- Informing the legislature; and
- Influencing standard setting by professional or regulatory organizations.

P5. When obtaining the agreement of management and, where appropriate, the legislature and those charged with governance that they acknowledge and understand their responsibility as stated in paragraph 6(b) of ISA 210, public sector auditors take into account the fact that the responsibilities of management and those charged with governance in the public sector may be broader than those responsibilities in the private sector. The form of legislation, as well as management and governance structures may vary widely within the public sector, thereby enhancing the need to formalize the acknowledgement and understanding of such responsibilities.

¹ ISA 220, "Quality Control for an Audit of Financial Statements"

ISSAI 1210 – Agreeing the Terms of Audit Engagements

Agreement on Audit Engagement Terms

- P6.** The terms of an audit engagement in the public sector are normally mandated and therefore not subject to requests from, and agreement with, management. Therefore the requirements in the ISA, when applied in the public sector context, are useful in establishing a common, formal understanding of the respective roles and responsibilities of management and the auditor. Since the public sector auditor is normally engaged by and reports to the legislature, agreements often need to be reached with both the legislature and management.
- P7.** In the public sector, there may be additional matters besides the examples listed in paragraph A24 of the ISA that public sector auditors have to report if they become aware of them during the course of the audit and that may be relevant to the engagement letter, such as:
- **Non-effective performance of operations** – relates to management’s responsibility to undertake activities in an effective and efficient manner;
 - **Instances of non-compliance with authorities** – relates to management’s responsibility to undertake activities, use resources, and fulfill accountability requirements, in accordance with authority granted by the legislature and all other relevant directions;
 - **Waste** – relates to management’s responsibility to obtain and apply resources in an economical manner, without any public money being wasted; and
 - **Instances of abuse** – relates to management’s responsibility to meet the expectations of the legislature and the public as they relate to appropriate standards of behavior. It may also be advisable to describe the arrangements to protect the public sector auditor’s independence.

When relevant, other audit objectives stipulated by the mandate may also be included in the engagement letter.

- P8.** In addition to the points listed in paragraph A26 of the ISA, public sector auditors may also consider it relevant to include any arrangements whereby the audit is contracted out to another auditor.
- P9.** In the public sector, the acceptance and continuance process referred to in paragraph 7 of the ISA is influenced by the fact that public sector auditors may not have the option to decline or withdraw from the audit. However, in cases where management or the legislature imposes a scope limitation prior to the start of the engagement, the effect of which may result in the auditor disclaiming the opinion on the financial statements, public sector auditors consider the situation and how it may impact the risk assessment, the audit approach and the auditor’s report. In some cases it may also be appropriate to report separately to the legislature.
- P10.** Paragraph 8 of the ISA discusses other factors affecting audit engagements acceptance. In a situation where the preconditions for an audit are not present and when public sector auditors do not have the option to decline an audit engagement, an appropriate response in addition to the requirements in paragraphs 19 and 20 of the ISA may include informing the legislature.
- P11.** Paragraph A24 of the ISA recommends that it may be helpful for the auditor to make reference, in the terms of the audit engagement, to the possibility of communicating key audit matters in the auditor’s report. Public sector auditors may be required to or may decide to communicate key audit matters to other parties, such as the legislature, in addition to management or those charged with governance.

Acceptance of a Change in the Terms of the Audit Engagement

- P12.** When considering the requirements in paragraphs 14 to 17 of the ISA, public sector auditors may note that the terms of an audit engagement in the public sector are normally mandated and therefore not subject to requests from, and agreement with, management.

ISSAI 1210 – Agreeing the Terms of Audit Engagements

Appendix 1 - Example of an Audit Engagement Letter in the Public Sector

The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with International Public Sector Accounting Standards. This letter is intended only to be a guide that may be used, but will need to be tailored according to individual requirements and circumstances. It may be appropriate to seek legal advice that any proposed engagement letter is suitable.

Addressee

[To the appropriate representative of management or those charged with governance of the entity]

Date

Dear Sir/Madam

Introduction

The [group] financial statements as of [date] and for the year then ended of the [name of the entity] and the [names of subsidiaries] are subject to auditing by the [Public Sector Audit Organization] in accordance with [relevant legislation]

The purpose of this letter is to outline:

- (a) The terms of the audit engagement and the nature, and limitations, of the annual audit; and
- (b) The respective responsibilities of the auditor and the [appropriate level of management] in the annual audit.

The terms of the audit engagement are set out below. This letter will remain effective until a new audit engagement letter is issued.

Objective(s) of the Audit

The objective(s) of the annual audit are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion; and
- (b) [Additional objectives e.g. related to compliance with authorities or internal controls].

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with [relevant auditing standards] will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Responsibilities of the Auditors

The Auditing Standards Applied when Conducting the Audit

We will conduct our audit in accordance with the [relevant auditing standards]. The auditing standards require that we comply with ethical requirements. As part of an audit in accordance with [relevant auditing standards], we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

ISSAI 1210 – Agreeing the Terms of Audit Engagements

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with [relevant auditing standards].

[When relevant, public sector auditors consider including information on their responsibilities related to any additional audit objectives]

While our audit is not directed to reporting the following, we will report these items if we become aware of them during the course of the audit:

- (a) **Non-effective performance of operations** – relates to management's responsibility to undertake activities in an effective and efficient manner;
- (b) **Instances of non-compliance with authorities** – relates to management's responsibility to undertake activities, use resources, and fulfill accountability requirements, in accordance with authority granted by the legislature and all other relevant directions;
- (c) **Waste** – relates to management's responsibility to obtain and apply resources in an economical manner, without any public money being wasted; and
- (d) **Instances of abuse** – relates to management's responsibility to meet the expectations of the legislature and the public as they relate to appropriate standards of behavior.

Reporting

The form and content of our report may need to be amended in the light of our audit findings. [Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information in accordance with ISA 720 (Revised).]

Independence

Our ethical requirements require us to remain independent of the [entity type], and we hereby confirm our independence with respect to this audit. This means we are, in both fact and appearance, free of any interest that, whatever its actual effect, might be deemed incompatible with integrity, objectivity and independence. [Clarify any perceived limitations of independence by describing the threats and safeguards to independence.]

ISSAI 1210 – Agreeing the Terms of Audit Engagements

Responsibilities of Management and Those Charged With Governance

[Add the responsibilities of management and, where appropriate, those charged with governance, and identify the applicable financial reporting framework. For the purpose of this example, it is assumed that the auditor has determined that the law or regulation does not prescribe those responsibilities in appropriate terms. The description in paragraph 6(b) of ISA 210 is therefore used. When relevant, information on management's responsibilities related to additional audit objectives needs to be included.]

Our audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledge and understand that they have responsibility:

- (a) For the preparation and fair presentation of the financial statements (or for the preparation of financial statements that give a true and fair view) in accordance with (applicable financial reporting framework);
- (b) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement; whether due to fraud or error; and
- (c) To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ii. Additional information that we may request from management for the purpose of the audit; and
 - iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

Representation Letter

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

Other Relevant Information

[Under this heading it may be appropriate to include information regarding for example:

- Statutory reporting deadlines;
- Ownership of working papers;
- Contractual arrangements with auditors doing work on behalf of the public sector audit organization;
- Fees;
- Relevant contact information, staff accommodation and resources; and
- Any other matters to assist in clarifying the expectation gap and to enhance effective communication]

ISSAI 1210 – Agreeing the Terms of Audit Engagements

Acknowledgement of the Terms of the Engagement

Please acknowledge receipt of this letter and acceptance of the terms of the audit engagement by signing the enclosed copy of this letter in the space provided and returning it to [insert name].

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours sincerely,

Signed

.....

Appointed public sector auditor

The terms of this audit engagement are agreed to and acknowledged by [designation of person signing] on behalf of the [name of entity].

.....

Signed

.....

Name and position

Date

[Appropriate representative of management or those charged with governance]

ISSAI 1220 - Quality Control for an Audit of Financial Statements

Background

This Practice Note provides supplementary guidance on ISA 220 - Quality Control for an Audit of Financial Statements. It is read together with the ISA. ISA 220 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 220 deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer. The ISA is to be read in conjunction with relevant ethical requirements.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) System of Quality Control and Role of Engagement Teams
- (b) Relevant Ethical Requirements
- (c) Engagement Performance

Applicability of the ISA in Public Sector Auditing

P2. ISA 220 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 220 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A7, A9, A12, A31 and A32 of the ISA.

System of Quality Control and Role of Engagement Teams

P4. The ISA is, according to paragraph 2 of the ISA, premised on the basis that the firm is subject to ISQC 1¹ or to national requirements that are at least as demanding. ISSAI 40² included on the second level of the ISSAI structure, may be applied by public sector auditors for all types of audit activities.

Relevant Ethical Requirements

P5. Paragraph 7(n) of the ISA defines relevant ethical requirements. In the public sector, relevant ethical requirements may include the INTOSAI Code of Ethics³ or national ethical requirements applicable to public sector auditors provided they are at least as restrictive as the IFAC Code of Ethics for Professional Accountants.

Engagement Performance

P6. In some audit environments, such as a Court of Accounts, the terms used in the paragraph A30 of the ISA should be interpreted in the context of the public sector auditor's governance structure.

¹ ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements"

² ISSAI 40, "Quality Control for SAs"

³ ISSAI 30, "Code of Ethics"

ISSAI 1230 - Audit Documentation

Background

This Practice Note provides supplementary guidance on ISA 230 - Audit Documentation. It is read together with the ISA. ISA 230 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 230 deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. The Appendix in the ISA lists other ISAs that contain specific documentation requirements and guidance. The specific documentation requirements of other ISAs do not limit the application of this ISA. Law or regulation may establish additional documentation requirements.

Content of the Practice Note

- P1.** The Practice Note provides additional guidance for public sector auditors related to:
- (a) Documentation of the Audit Procedures Performed and Audit Evidence Obtained
 - (b) Assembly of the Final Audit File
 - (c) Confidentiality and Transparency Issues
 - (d) Specific Considerations Regarding Documentation for Public Sector Auditors with a Judicial Role

Applicability of the ISA in Public Sector Auditing

- P2.** ISA 230 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

- P3.** Paragraph 8(c) of the ISA requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. Paragraph A8 of the ISA explains that judging the significance of a matter requires an objective analysis of the facts and circumstances, and provides examples of significant matters. Public sector auditors may be required to report on a broad range of significant matters which may not be part of their report on the financial statement audit, or matters that may not result in material misstatement of the financial information or related disclosures. Examples of such matters include lack of compliance with legislation or approved mandate, violations of contract provisions or grant agreements, unauthorized or inappropriate expenditures, execution of the budget, certification of the annual deficit/surplus, assessments of program funding and costs, and information on performance indicators.

Assembly of the Final Audit File

- P4.** Paragraph 14 of the ISA requires the auditor to assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. Paragraph A21 of the ISA explains that not more than 60 days after the date of the auditor's report is ordinarily an appropriate time limit within which to complete the assembly of the final audit file. In the public sector, the finalization process leading up to the date of the auditor's report may be lengthy. This may be as a result of formal consultation procedures with the entity or others. However, this does not preclude assembly of the final audit file on a timely basis.

ISSAI 1230 - Audit Documentation

P5. Paragraph A23 of the ISA makes reference to the International Standard on Quality Control (ISQC) 1¹, which requires audit organizations to establish policies and procedures for the retention of engagement documentation. As paragraph A61 of ISQC 1 indicates, the retention period is ordinarily not shorter than five years from the date of the auditor's report. In the public sector, there may be requirements to retain audit documentation for shorter or longer periods. These requirements may be due to the historical significance of certain types of documents which, for example, may require indefinite retention in the country's national archives. There may also be additional requirements related to national security classifications, including how documentation is stored. Public sector auditors familiarize themselves with applicable legislation in regard to retention of documentation.

Confidentiality and Transparency Issues

- P6.** While ISA 230 does not address the issues of confidentiality, safe custody, integrity, accessibility and retrievability of documentation at the engagement level, they are dealt with in ISQC 1 in the context of an audit organization's responsibilities. Paragraph A56 of ISQC 1 requires that relevant ethical requirements establish an obligation for the personnel of the audit organization to observe at all times the confidentiality of information contained in engagement documentation, unless specific authority has been given by the entity to disclose such information, or there is a legal or professional duty to do so.
- P7.** A fundamental difference between the private and public sector is that there may be specific legislative requirements in the public sector related to confidentiality on the one hand, and access by third parties on the other hand. There is an ongoing need in the public sector to balance confidentiality with the need for transparency and accountability.
- P8.** The balance between confidentiality and transparency requires professional judgment to ensure that documentation of a confidential nature is clearly identified and treated as such, while at the same time granting access as appropriate. It is therefore important to be familiar with the public sector auditor's policies and procedures addressing confidentiality. Such procedures might include types of audit documentation to be considered confidential, types of audit documentation to be made available to the public, clearly defined lines of responsibility for authorizing disclosure of audit documentation and routines for making such information available if required.
- P9.** Furthermore, public sector auditors may have additional statutory responsibilities related to confidentiality. These responsibilities may be based on the mandate of the particular public sector auditor, or legislation related to official secrets or privacy. Such legislation, for example, could relate to audits of defense, health, social service or tax agencies. Public sector auditors familiarize themselves with the particular local requirements related to confidentiality to which they are bound.
- P10.** Public sector auditors also familiarize themselves with any legislation that grants public access to audit correspondence, for example where electronic or other post journals are open to public scrutiny. This type of correspondence may include letters to and from the audited entity, or other parties, related to the gathering of audit evidence, as well as considerations and judgments related to audit issues.
- P11.** It is not unusual in the public sector to have to respond to requests from outside parties to obtain access to audit documentation. This can be especially sensitive when the outside party attempts to obtain information indirectly from the audit organization that it is unable to obtain directly from the audited entity.
- P12.** As a matter of principle, when the audited entity has a statutory obligation to gather and retain certain information, requests from outside parties for such information are normally referred to the audited entity.

¹ ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements"

ISSAI 1230 - Audit Documentation

- P13.** In situations where public sector auditors consider granting access to audit documentation, they normally consult with relevant parties (such as the audited entity to whom the request relates) prior to the information being disclosed. In such cases the public sector auditor ensures that those with access adhere to at least the same level of confidentiality as the public sector auditor.
- P14.** In some environments, public sector audit work is contracted out by the public sector auditor to other auditors. The acceptance of such appointments normally requires the auditor performing the work to acknowledge that audit documentation may be subject to inspection by the public sector auditor that appointed the other auditor. The audit documentation may also be subject to inspection by review agencies that have statutory rights of access to information relevant to the auditor's duties.

Specific Considerations Regarding Documentation for Public Sector Auditors with a Judicial Role

- P15.** In some public sector environments, such as in a Court of Accounts environment, public sector auditors may be subject to laws and regulations requiring the auditors to understand and follow precise documentation procedures related to rules of evidence. Public sector auditors familiarize themselves with policies and procedures describing additional requirements relating to audit documentation and that are designed to ensure compliance with applicable rules of evidence. The following matters may affect documentation and are considered by the auditor:
- Legislation imposing additional audit documentation requirements;
 - The scope of such requirements (i.e. are they to be imposed on every document from the audit assignment or on specific documents relating to certain audit issues);
 - Additional processing, formalities or requirements to which audit documents are subject;
 - The purpose of each additional requirement with respect to the due process of law; and
 - Any further impairment that may be placed upon audit documentation due to the specific ways it has been collected and/or produced.
- P16.** For public sector auditors with a judicial role, such as a Court of Accounts, documentation forms part of the basis of the official ruling. In such an environment, due process of law may establish specific and strict requirements to be adhered to in regard to confidentiality of documentation in connection with the proceedings of a case. Additionally, as decisions may result in a legally binding public credit, there may be additional documentation retention requirements to which public sector auditors adhere.
- P17.** Public sector auditors operating in such environments addressed in paragraph P15 above familiarize themselves with relevant laws and regulations in this respect.

ISSAI 1240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Background

This Practice Note provides supplementary guidance on ISA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. It is read together with the ISA. ISA 240 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically, it expands on how ISA 315 (Revised)¹ and ISA 330² are to be applied in relation to risks of material misstatement due to fraud.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Definitions
- (c) Professional Skepticism
- (d) Discussions Among the Engagement Team
- (e) Risk Assessment Procedures and Related Activities
- (f) Identification and Assessment of the Risks of Material Misstatement Due to Fraud
- (g) Responses to the Assessed Risks of Material Misstatement Due to Fraud
- (h) Auditor Unable to Continue the Engagement
- (i) Communications to Management and with Those Charged with Governance
- (j) Communications to Regulatory and Enforcement Authorities

Applicability of the ISA in Public Sector Auditing

P2. ISA 240 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 240 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A6, A57 and A67 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the public sector auditors found any instances of non-compliance with authorities including budgets and accountability frameworks and/or reporting on the effectiveness of internal control. However, even where there are no such additional objectives, there may be general public expectations for public sector auditors to report any non-compliance with authorities detected during the audit or to report on effectiveness of internal control. These additional responsibilities and the related fraud risks need to be considered by the public sector auditor when planning and performing the audit.

¹ ISA 315 (Revised), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment"

² ISA 330, "The Auditor's Responses to Assessed Risks"

ISSAI 1240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

P5. Paragraphs 2 and 3 of the ISA deal with the characteristics of fraud. Three conditions are normally present when fraud occurs. These conditions are often present in various ways in the public sector. These include:

- **Incentive or pressure** (placed on or perceived by management or employees giving them a reason to commit fraud) – public sector employees are often under pressure to deliver high quality services with few resources and to meet budget expectations. This may be especially relevant in difficult economic conditions where there is pressure to maintain user charges and tax rates, resulting in incentives to overstate revenues and understate expenditures. There may also exist incentives to spend the available budget by the end of the financial year;
- **Opportunity** (characteristics or circumstances related to an entity allowing for the perpetration of fraud) – a difficult recruitment environment or a lack of sufficient qualified personnel may be more prevalent in the public sector. Such situations may often result in deficiencies in internal control creating the opportunity for fraud. The widespread use of high volume, low value cash transactions in certain public sector entities such as cash transactions at police departments or health clinics may add to those risks. Although monetary values may be small, such situations may lead to violation of public trust, expectations and accountability; and
- **Rationalization or attitude** (behavior, character or ethical values that allow individuals to justify their reasons for committing fraud)- generally lower salary levels in the public sector compared to the private sector may lead employees to believe that they can justify misuse of funds. As above, this may violate principles of public trust, expectations and accountability.

Definitions

P6. As stated in the INTOSAI Lima Declaration, I General, Section 1³, “The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent—or at least render more difficult—such breaches”. Public sector auditors therefore remain alert throughout the audit for occurrences of abuse. In this context, the Practice Note adds an additional definition:

Abuse - Involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement. Abuse is a departure from the concept of propriety, which relates to the general principles of sound public sector financial management and conduct of public sector officials.

Professional Skepticism

P7. The auditor’s responsibility to maintain an attitude of professional skepticism throughout the audit, as provided for in the ISA, is addressed by ISSAI 200⁴ and ISSAI 1200⁵.

³ ISSAI 1, “The Lima Declaration”

⁴ ISSAI 200, “Fundamental Principles of Financial Auditing”

⁵ ISSAI 1200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing”

ISSAI 1240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

P8. In the public sector, threats to maintaining an attitude of professional skepticism throughout the audit, as described in paragraphs 12 to 14 of the ISA, may exist and include:

- The nature of personal or professional relationships as a result of the political process/environment;
- The public sector audit organization's exclusive mandate, resulting in the lack of audit competitors; and
- In some environments, the lack of requirements to rotate auditors regularly.

Therefore public sector auditors take appropriate action to reduce such threats. Such actions may include introducing safeguards as addressed in ISSAI 1220.

P9. When information is obtained indicating that abuse may have occurred, public sector auditors consider whether such possible abuse could significantly affect the financial statements. Such abuse may be considered from both a qualitative and quantitative perspective. Public sector auditors do not provide reasonable assurance of the detection of abuse, but consider the need to report such instances as deemed appropriate.

Discussion among the Engagement Team

P10. Paragraph 15 of the ISA requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion. In the public sector, the discussion may also cover the additional objectives and related risks of material misstatement, as discussed in paragraph P4 above. Public sector auditors may include auditors engaged in performance audits and other audit activities of the entity in such a discussion.

Risk Assessment Procedures and Related Activities

P11. When considering the requirement in paragraph 17(c) of the ISA, public sector auditors may also inquire as to management's communication with other government bodies as appropriate.

P12. When considering the requirements to make inquiries of those charged with governance as stated in paragraph 21 of the ISA, public sector auditors may also include responsible officials of for example a ministry, board members, or members of relevant legislative committees.

P13. According to paragraph 22 of the ISA, the auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud. In the public sector, in addition to revenue accounts, there may be other areas of significance for the purposes of performing analytical procedures depending on the nature of the operations of the entity. In many public sector entities, areas such as procurement and grants may be more relevant than revenue accounts for such purposes. When performing analytical procedures, public sector auditors consider the unique challenges of using the cash basis of accounting and the related possibilities for manipulation of financial information.

Identification and Assessment of the Risks of Material Misstatement Due to Fraud

P14. In the public sector, revenue recognition may not always be the most relevant area for the presumption that there are risks of fraud, as required by paragraph 26 of the ISA. Revenue recognition may be highly relevant for tax authorities or other agencies that collect revenues such as state universities and colleges, hospitals or regulatory agencies, which charges fees for services rendered, or are recipients of donor funds. However, in many public sector entities, the focus is on expenditures and areas such as procurement and payment of grants. Therefore, in addition to revenue recognition, where relevant, public sector auditors may consider such other areas when making the presumption of fraud risks.

ISSAI 1240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Responses to the Assessed Risks of Material Misstatement Due to Fraud

P15. Paragraph 32(c) of the ISA deals with significant transactions that are outside the normal operations and activities of the audited entity. Examples of such transactions in the public sector may include:

- Economic development incentives;
- Onerous provisions in union contracts;
- Real-estate purchases or sales;
- Land swaps;
- Granting of easements;
- Public/private partnerships;
- Privatization of governmental services;
- Early extinguishment of debt; and
- Government guarantees or assurances to rescue private sector entities if they have financial difficulties.

Auditor Unable to Continue the Engagement

P16. Public sector auditors do not normally have the option to withdraw from an audit engagement as described in paragraphs 38 (b) and (c) of the ISA. Therefore, public sector auditors consider the impact on the audit opinion and any requirements for other forms of reporting, including whether it may be appropriate to report separately to the legislature and/or to issue classified or restricted reports.

Communications to Management and with Those Charged with Governance

P17. Public sector auditors may be required or may decide to communicate matters addressed in paragraph 41 of the ISA with other parties such as the legislature, in addition to those charged with governance.

Communications to Regulatory and Enforcement Authorities

P18. The requirements for reporting of fraud in the public sector may be subject to specific provisions of the audit mandate or related legislation or regulation, in line with paragraph 43 of the ISA regarding communication to a party outside the entity. Such parties may include regulatory and enforcement authorities. In some environments, there may be a duty to refer indications of fraud to investigative bodies and even cooperate with such bodies to determine if fraud or abuse has occurred. In other environments, public sector auditors may be obliged to report circumstances that may indicate the possibility of fraud or abuse to the competent jurisdictional body or to the appropriate part of the government or legislature, such as prosecutors, the police and (if relevant to legislation) affected third parties. Public sector auditors take care to avoid interfering with potential investigations or legal proceedings. Public sector auditors need to be familiar with applicable laws and regulations in regard to reporting, communication and documentation of indications or suspicions of fraud. Furthermore, public sector auditors consider the need to obtain legal advice in issues regarding indications of fraud.

ISSAI 1250 - Consideration of Laws and Regulations in an Audit of Financial Statements

Background

This Practice Note provides supplementary guidance on ISA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements. It is read together with the ISA. ISA 250 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 250 deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. The ISA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) The Auditor's Consideration of Compliance with Laws and Regulations
- (c) Reporting of Identified or Suspected Non-Compliance

Applicability of the ISA in Public Sector Auditing

P2. ISA 250 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 250 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A6 and A20 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs) as noted in paragraph A6 of the ISA. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities relating to reporting whether public sector auditors found non-compliance with authorities including budget and accountability. However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities. Therefore, public sector auditors keep such expectations in mind, and are alert to instances of non-compliance.

P5. In the public sector, consideration of compliance with laws and regulations often has a broader scope than that set out in the ISA. This broader scope may, for example, include additional responsibilities for expressing a separate opinion as to the entity's compliance with laws and regulations. These additional responsibilities, and related audit and reporting objectives, are dealt with in ISSAI 4000¹.

¹ ISSAI 4000, "Compliance Audit Standard"

ISSAI 1250 - Consideration of Laws and Regulations in an Audit of Financial Statements

- P6.** As noted in paragraph 2 of the ISA, the effect of laws and regulations on the financial statements varies considerably. In the public sector there may, for instance, be specific laws and regulations on how to distribute grants and subsidies from an agency that will have a direct impact on the financial statements. The financial reporting framework may also include information such as a budget report, appropriation report, or performance report. When the financial reporting framework includes such information, public sector auditors may need to consider specific laws and regulations that may have a direct or indirect effect on such information.
- P7.** When public sector auditors have a broader mandate as noted in paragraph A6 of the ISA and paragraph 4 above, public sector auditors take care to ensure that where matters come to their attention in respect of such additional responsibilities, these findings are considered under the framework of the ISA to assess their potential impact on the financial statements and the auditor's report thereon.

The Auditor's Consideration of Compliance with Laws and Regulations

- P8.** When considering the requirements in paragraph 15 of the ISA, public sector auditors may also take into account findings related to non-compliance with laws and regulations from other types of audit activities undertaken by the public sector audit organization such as performance audits.

Reporting of Identified or Suspected Non-Compliance

- P9.** In addition to the requirement to report to those charged with governance as stated in paragraph 22 of the ISA, some public sector auditors communicate all identified instances of non-compliance with laws and regulations, even those that are clearly inconsequential. Some public sector audit organizations can, according to the audit mandate, order the entity to correct any instances of non-compliance with laws and regulations. In such cases, especially where there is an element of subjectivity in interpreting laws and regulations, public sector auditors consider whether exercising this authority may impair their independence and, if so, take appropriate action to avoid such impairment.
- P10.** When considering the requirement of paragraph 28 of the ISA public sector auditors may also determine whether such responsibilities include reporting separately to the legislature and/or other relevant authorities such as prosecutors, the police and (if relevant to legislation) affected third parties.

ISSAI 1260 (Revised) - Communication with Those Charged with Governance

Background

This Practice Note provides supplementary guidance on ISA 260 (Revised) - Communication with Those Charged with Governance. It is read together with the ISA. ISA 260 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although the ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. The ISA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

Recognizing the importance of effective two-way communication in an audit of financial statements, this ISA provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. ISQC 1¹ and other ISAs identify additional matters to be communicated and these are summarized in Appendix 1 of the ISA. In addition, ISA 265² establishes specific requirements regarding the communication of significant deficiencies in internal control the auditor has identified during the audit to those charged with governance. Further matters, not required by this or other ISAs, may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement, for example, the standards of a national professional accountancy body. Nothing in ISA 260 (Revised) precludes the auditor from communicating any other matters to those charged with governance.

Content of the Practice Note

- P1.** The Practice Note follows the headings of the ISA and provides additional guidance for public sector auditors related to:
- (a) Overall Considerations
 - (b) Those Charged with Governance
 - (c) Matters to Be Communicated
 - (d) The Communication Process

Applicability of the ISA in Public Sector Auditing

- P2.** ISA 260 (Revised) is applicable to auditors of public sector entities in their role as auditors of the financial statements.

¹ ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements"

² ISA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management"

ISSAI 1260 (Revised) - Communication with Those Charged with Governance

Additional Guidance on Public Sector Issues

P3. ISA 260 (Revised) contains application and other explanatory material with considerations specific to public sector entities in paragraphs A10, A44, and A53 of the ISA.

Overall Considerations

P4. The objectives of a financial statement audit in the public sector are often broader than to express an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the auditor found any instances of non-compliance with authorities including budget and accountability and/or reporting on the effectiveness of internal control. Paragraph 3 of ISA 260 (Revised) acknowledges that further matters not required by this or other ISAs may be required to be communicated to those charged with governance as a result of law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement.

Those Charged with Governance

P5. Paragraph 11 of the ISA requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. In the public sector, governance responsibilities may exist at several organizational levels as well as in several functions (i.e. vertically or horizontally). As a result, there may be instances where there are several distinct groups which are identified as those charged with governance. Furthermore, an audit in the public sector might involve both financial statement objectives as well as compliance objectives and in some cases that may involve separate governance bodies.

P6. In situations where matters are communicated to subgroups of those charged with governance, as discussed in paragraph 12 of the ISA, public sector auditors may need to convey the information, in full or in summary, to the governing body as a whole. This is particularly relevant in the public sector where it is not uncommon for those charged with governance to be involved in managing the entity. Public sector auditors need to be particularly sensitive to meet the needs and expectations of the legislature or appropriate regulators about matters communicated to other governance levels, particularly where the matters may be of broad public interest or speculation.

Matters to Be Communicated

P7. Paragraph 15 of the ISA requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. In the public sector, this requirement may be achieved by various means. For example, the scope and timing of the audit may be defined in relevant legislation or the audit mandate, or public sector auditors may communicate an overview of the planned scope and timing of the audit in the engagement letter.

ISSAI 1260 (Revised) - Communication with Those Charged with Governance

- P8.** Paragraph A11 (b) of the ISA states that communication regarding the planned scope and timing of the audit may assist the auditor to better understand the entity and its environment. Public sector auditors may find it helpful to communicate their understanding of which components' financial information should be included in the entity's financial statements and to use the entity's response to verify their understanding. For example, it may be difficult to determine if, and to what extent, joint ventures (including private and public sector entities) are to be included in the consolidated financial statements of an audited entity. Consistent with guidance in ISA 210.A24, public sector auditors electing to communicate key audit matters in audits of entities other than listed entities may find it helpful to make reference to the possibility of communicating key audit matters in the auditor's report when communicating with those charged with governance.
- P9.** Paragraph 16 of the ISA lists the significant findings from the audit that the auditor is required to communicate to those charged with governance. Public sector auditors are often the mandated auditors of the whole, or parts, of the government and its administration. In this situation, public sector auditors may have access to information from other entities and their audits, which might be of relevance to those charged with governance. Examples of this might include material errors in transactions with the audited entity which also affect other entities, or designs of relevant controls which have provided efficiency gains in other entities. Communicating this type of information to those charged with governance may add value to the audit when circumstances permit. However, laws, regulations or ethical requirements may prohibit communicating this type of information.
- P10.** Public sector auditors' independence and objectivity are critical to their ability (a) to hold governments accountable to legislatures and the public, and (b) to help identify threats to the good stewardship of public funds, such as corruption. The requirement relating to listed entities contained in paragraph 17 of the ISA to communicate compliance with relevant ethical requirements regarding independence may also apply to public sector auditors where it is in the public interest to so report. In addition to the matters in the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, matters in the INTOSAI Code of Ethics, such as political neutrality, may be of particular importance in the public sector context.

The Communication Process

- P11.** Paragraph 22 of the ISA requires the auditor to evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If the two-way communication is not adequate, the ISA requires the auditor to take appropriate action. In the public sector, appropriate action may include communicating with the legislature or the appropriate regulators, or funding agencies.

ISSAI 1265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

Background

This Practice Note provides supplementary guidance on ISA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management. It is read together with the ISA. ISA 265 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 265 deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. ISA 265 does not impose additional responsibilities on the auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of ISA 315 (Revised)¹ and ISA 330². ISA 260 (Revised)³ establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with those charged with governance in relation to the audit.

Content of the Practice Note

P1. This Practice Note Provides additional guidance to Public Sector auditors related to:

- (a) Identifying Those Charged with Governance in the Public Sector
- (b) Determination of Whether Deficiencies in Internal Control Have Been Identified

Applicability of the ISA in Public Sector Auditing

P2. ISA 265 is applicable to auditors of public sector entities in their role as auditors of financial statement

Additional Guidance on Public Sector Issues

P3. ISA 265 contains application and other explanatory material with considerations specific to public sector entities in paragraph A27 of the ISA.

Identifying Those Charged with Governance in the Public Sector

P4. When considering the requirements in paragraph 9 of the ISA, public sector auditors consider that identifying those charged with governance in the public sector might not be as straight forward as it is in the private sector. ISSAI 1260 provides guidance to public sector auditors to help identify those charged with governance in public sector entities.

Determination of Whether Deficiencies in Internal Control Have Been Identified

P5. When determining whether deficiencies in internal control have been identified, public sector auditors may need to identify any relevant legislation related to internal control and the requirements of the legislation that are relevant for the public sector entity.

¹ ISA 315 (Revised), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment"

² ISA 330, "The Auditor's Responses to Assessed Risks"

³ ISA 260 (Revised), "Communication with Those Charged with Governance"

ISSAI 1300 - Planning an Audit of Financial Statements

Background

This Practice Note provides supplementary guidance on ISA 300 - Planning an Audit of Financial Statements. It is read together with the ISA. ISA 300 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 300 deals with the auditor's responsibility to plan an audit of financial statements. It is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) The Role and Timing of Planning
- (c) Preliminary Engagement Activities
- (d) Planning Activities
- (e) Considerations Specific to Smaller Entities
- (f) Documentation
- (g) Additional Considerations in Initial Audit Engagements
- (h) Specific Considerations for Public Sector Auditors with a Judicial Role

Applicability of the ISA in Public Sector Auditing

P2. ISA 300 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

Overall Considerations

P3. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the public sector auditors found any instances of non-compliance with authorities including budgets and accountability frameworks and/or reporting on the effectiveness of internal control. However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities or reporting on effectiveness of internal control. Therefore, public sector auditors keep such expectations in mind, and are alert to risks that may give rise to non-compliance or risks relating to effectiveness of internal control when planning and performing the audit.

The Role and Timing of Planning

P4. Paragraph 2 of the ISA deals with the benefits of adequate planning. The application and other explanatory material in paragraphs A1 to A3 of the ISA provides guidance on the role and timing of planning. In the public sector environment, additional planning considerations may include:

- Obtaining an understanding of the legal and regulatory framework applicable to the entity due to the broader objectives of the audit;
- The implications for the audit of the financial statements of knowledge obtained from performance audits and other audit activities relevant to the entity, including the implications of previous recommendations;
- The implications for the audit of the financial statements of knowledge obtained from planning activities related to the relevant department and ministry; and
- The expectations of the legislature and other users of the auditors' report.

P5. Paragraph A3 of the ISA states that the auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement. Laws, regulations or the audit mandate may limit what the auditor may discuss about the audit strategy and audit plan. Public sector auditors familiarize themselves with such laws, regulations or audit mandate.

Preliminary Engagement Activities

P6. Paragraph 6 of the ISA sets out the activities to be undertaken at the beginning of a current audit engagement. They are performing procedures required by ISA 220¹, regarding the continuance of the client relationship and the specific audit engagement, evaluating compliance with ethical requirements, including independence, in accordance with ISA 220, and establishing an understanding of the terms of the engagement, as required by ISA 210². The continuance process for public sector auditors is influenced by the fact that they may not have the option to resign from an engagement. If information becomes available to public sector auditors that would normally result in declining or discontinuing an engagement, public sector auditors consider such information when performing further planning and risk assessment activities. Public sector auditors may also have a statutory responsibility to report such issues. They may consult with legal counsel in this regard.

Planning Activities

P7. Paragraph 8 of the ISA prescribes procedures to be performed in establishing the overall audit strategy. In identifying the characteristics of the engagement that define its scope (as per paragraph 8(a) of the ISA), public sector auditors consider additional characteristics. Examples of such characteristics may encompass:

- Additional reporting responsibilities for the entity established by the legislature that may influence the scope and timing of the audit, and the nature of communication. Examples of such additional requirements may include a requirement for the entity to report on government funding, including grants; and
- Additional reporting responsibilities for the public sector auditors as a result of the audit mandate or other requirements that may influence the scope and timing of the audit, and the nature of communication. Examples of such additional responsibilities for the public sector auditors may include reporting instances of non-compliance with authorities including budgets and accountability frameworks, and/or reporting on effectiveness of internal control.

¹ ISA 220, "Quality Control for an Audit of Financial Statements"

² ISA 210, "Agreeing the Terms of Audit Engagements"

Considerations Specific to Smaller Entities

P8. Paragraphs A11, A17 and A21 of the ISA contain guidance specific to smaller entities. Audits of smaller public sector entities are normally not conducted by a sole practitioner. Furthermore, due to the reporting structure of government entities, the concept of the owner-manager normally does not exist. In the public sector, control structures of smaller entities are often part of the control structure of a larger government body. Therefore, the assumption of few relevant control activities as described in paragraph A21 of the ISA is often not appropriate in the public sector. Additional control aspects of the larger government body may be included in the public sector auditors' audit plans.

Documentation

P9. Paragraph 12 of the ISA requires the auditor to document the overall audit strategy and audit plan, as well as significant changes to those documents made during the audit and the reasons for such changes. In the public sector, audit documentation may be subject to third party access. As a result, public sector auditors familiarize themselves with relevant legislation and determine the implications for their audit documentation.

Additional Considerations in Initial Audit Engagements

P10. Paragraph 13 of the ISA, supplemented by application and other explanatory material in paragraph A22 of the ISA, requires the auditor to undertake certain activities prior to starting an initial audit. In the public sector, audit engagements are normally not initiated in the same way as in the private sector. Public sector auditors may be selected through a competitive process or may be appointed by statute. Nonetheless, the guidance contained in paragraphs 13 and A22 of the ISA is relevant for public sector auditors where the circumstances described exist.

Specific Considerations for Public Sector Auditors with a Judicial Role

P11. In some public sector environments, such as in a Court of Accounts environment, the auditors' report is often adjudicated upon and used to determine personal legal implications of those who are responsible for financial acts, including significant matters, control deficiencies, and instances of non-compliance with authorities. Therefore, public sector auditors in such environments may plan and perform procedures to meet legal requirements and to identify those responsible for financial acts. Public sector auditors in such environments may also work closely with prosecutors and police when dealing with financial fraud. Therefore, public sector auditors in such environments may also obtain information from prosecutors and police when appropriate.

ISSAI 1315 (Revised) - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

Background

This Practice Note provides supplementary guidance to public sector auditors on ISA 315 (Revised) – Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment. It is read together with the ISA. ISA 315 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2013. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 315 (Revised) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Risk Assessment Procedures and Related Activities
- (c) The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control
- (d) Identifying and Assessing the Risks of Material Misstatement

Applicability of the ISA in Public Sector Auditing

P2. ISA 315 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 315 (Revised) contains application and other explanatory material with considerations specific to public sector entities in paragraphs A13, A29, A43, A73 and A131 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the public sector auditors found any instances of non-compliance with authorities including budgets and accountability frameworks, and/or reporting on the effectiveness of internal control. These additional objectives may lead public sector auditors to assess additional risks of material misstatement. However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities or reporting on effectiveness of internal control. Therefore public sector auditors keep such expectations in mind, and are alert to risks.

ISSAI 1315 (Revised) - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

Risk Assessment Procedures and Related Activities

- P5.** When carrying out the risk assessment procedures and related activities stated in paragraphs 5 to 10 of the ISA, public sector auditors take into account the broader objectives of the audit mandate as described in paragraph P4 above.
- P6.** When inquiring from management and others within the entity as part of the risk assessment procedures as described in paragraphs 6(a) and A6 to A10 of the ISA, public sector auditors may obtain information from additional sources such as:
- Auditors involved in performance and other audits related to the entity;
 - Government officials; and
 - Legislative reports or minutes.
- P7.** When performing analytical procedures as part of the risk assessment procedures as described in paragraph 6(b) and A14 to A16 of the ISA, public sector auditors may also consider relationships such as:
- Expenditures versus appropriations;
 - Benefit payments, such as child support and pensions versus demographic information; and
 - Interest as a percentage of national debt compared to the government borrowing rate.
- P8.** When performing observations and inspections as part of the risk assessment procedures as described in paragraphs 6(c) and A18 of the ISA, public sector auditors may also observe and inspect items such as:
- Additional documents prepared by management for the legislature, such as performance reports or funding requests;
 - Testimonies of agency officials;
 - Ministerial and other directives; and
 - Official records of proceedings of the legislature.
- P9.** The acceptance and continuance process referred to in paragraph 7 of the ISA may not always be applicable in the public sector environment. Public sector auditors may not have the option to decline or discontinue an audit. However, public sector auditors consider information they may obtain from these or similar processes in identifying and assessing the risks of material misstatement.
- P10.** When using information obtained from previous experience with the entity and previous audits as described in paragraph 9 of the ISA, public sector auditors may also use reports from previous performance audits and other audit activities relevant to the entity.
- P11.** Paragraph 10 of the ISA requires the engagement partner and other key engagement team members to discuss the susceptibility of the entity's financial statements to material misstatement, and application of the applicable financial reporting framework to the entity's facts and circumstances. In the public sector, this discussion may also cover the additional objectives and related risks of material misstatement, as discussed in paragraph P4 above. Public sector auditors may include auditors engaged in performance audits and other audit activities of the entity in such a discussion.

ISSAI 1315 (Revised) - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control

P12. In obtaining the understanding of the entity and its environment required in paragraph 11 of the ISA, public sector auditors take into account that:

- (a) Decisions may be initiated outside the entity as a result of political processes. Such decisions influence management's activities. Examples include:
 - New geographic locations or closures of existing locations;
 - Reorganizations, including transfer of activities to other entities;
 - New program areas; and
 - Budgetary constraints or cut backs.
- (b) Relevant regulatory factors including specific laws and regulations to which the entity is subject and the potential impact of non-compliance with these;
- (c) Other external factors, including the applicable financial reporting framework, may influence specific reporting objectives;
- (d) Understanding the business operations may include knowledge of the government activities carried out, including relevant programs;
- (e) Program objectives and strategies may include public policy elements and therefore may have implications for the risk assessment;
- (f) Ownership of public sector entities may not have the same relevance as in the private sector. In the public sector, focus is on those charged with governance in their role as representatives of the citizens;
- (g) Governance structures are affected by the legal structure of the entity, for example whether the entity is a ministry, department, agency or other type of entity; and
- (h) Issues related to management's assumptions ongoing concern may not be relevant.

P13. Paragraph 11(e) of the ISA refers to the measurement and review of financial performance. Public sector auditors may include non-financial information such as achievement of outcomes (for example, number of people helped by the program) in their measurement or review. Also, in the public sector there are additional external parties who may measure and review performance. These external parties may include the legislature, other public sector entities, and the media.

P14. In obtaining the understanding of internal control required in paragraph 12 of the ISA, public sector auditors take the following into account:

- (a) Any additional reporting responsibilities regarding internal controls;
- (b) Relevant controls that relate to compliance with authorities;
- (c) Controls related to monitoring performance against the budget;
- (d) Controls related to transferring budgetary funds to other entities;
- (e) Controls of classified data related to national security and sensitive personal data, such as tax and health information;
- (f) Supervision and other controls may be performed by parties outside the entity and relate to areas such as:
 - Compliance with procurement regulations;
 - Execution of the budget;
 - Other areas as defined by legislation or audit mandate;
 - Management's accountability.

P15. In obtaining the understanding of the entity's risk assessment process required in paragraph 15 of the ISA, public sector auditors take into account that such process may be set out in legislation, included in directives, or conducted by other public sector entities.

ISSAI 1315 (Revised) - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

P16. In some audit environments, such as a Court of Accounts environment, public sector auditors may work closely with prosecutors and police when dealing with financial fraud. Therefore, they may have obtained information from prosecutors and police that is relevant to the understanding of the entity and its environment, and to the risk assessment.

Identifying and Assessing the Risks of Material Misstatement

P17. When public sector auditors identify and assess the risks of material misstatement in accordance with paragraphs 25 and 26 of the ISA, public sector auditors may take into account additional matters such as:

- The fact that the identification and assessment of risks at the financial statement level and the assertion level may include issues related to the political climate, public interest and program sensitivity; and
- The fact that the assertions for classes of transactions, account balances and disclosures may be expanded to include assertions that transactions and events have been carried out in accordance with legislation or proper authority as stated in paragraph A131 of the ISA.

P18. In exercising judgment as to which risks are significant risks as required by paragraph 28 of the ISA, public sector auditors also take the following into account:

- (a) Complexity and inconsistency in regulations and directives;
- (b) Non-compliance with authorities; and
- (c) The budget process and the execution of the budget.

The budget in the public sector is an authoritative tool determined by the legislature. Public sector auditors therefore normally include the budget process as an essential part of their understanding of the entity and its environment, and of the risk assessment, rather than only as a management procedure.

ISSAI 1315 (Revised) - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

Appendix - Additional Examples of Conditions and Events That May Indicate Risks of Material Misstatement

The following are examples of additional conditions and events that may indicate risks of material misstatement for entities in the public sector:

- Budget overspending due to weak budgetary controls;
- Privatizations;
- New programs;
- Major changes to existing programs;
- New financing sources;
- New legislation and regulations or directives;
- Political decisions such as relocation of operations;
- Programs without sufficient allocated resources and funding;
- Increased public expectations;
- Procurement of goods and services in certain industries such as defense;
- Outsourcing of government activities;
- Operations subject to special investigations;
- Changes in political leadership;
- Indications of waste or abuse;
- Higher than normal expectations to meet budget; and
- Public and private partnerships.

ISSAI 1320 - Materiality in Planning and Performing an Audit

Background

This Practice Note provides supplementary guidance to public sector auditors on ISA 320 - Materiality in Planning and Performing an Audit. It is read together with the ISA. ISA 320 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. ISA 450¹ explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Materiality in the Context of an Audit
- (c) Determining Materiality and Performance Materiality when Planning the Audit
- (d) Revision as the Audit Progresses

Applicability of the ISA in Public Sector Auditing

P2. ISA 320 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 320 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A3 and A10 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than the scope of the ISAs, which involves reporting whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate may also result in additional objectives considered related to the audit of financial statements. These objectives may include additional audit and reporting responsibilities, for example, relating to reporting whether the auditor found any instances of non-compliance with authorities including budget and accountability and/or reporting on the effectiveness of internal control. Even in cases where there are no such additional reporting objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities or reporting on the effectiveness of internal control. Therefore, public sector auditors keep such expectations in mind when determining materiality. Additional responsibilities related to compliance with authorities, are dealt with in ISSAI 4000²). Public sector auditors with such additional responsibilities may consider ISSAI 4000.

Materiality in the Context of an Audit

P5. When determining materiality for planning purposes in the public sector both quantitative and qualitative matters as well as the nature of items are of importance. The context in which the matter appears may be of importance. Furthermore, the inherent nature or characteristics of items, or groups of items, may render them material.

¹ ISA 450, "Evaluation of Misstatements Identified During the Audit"

² ISSAI 4000, "Compliance Audit Standard"

ISSAI 1320 - Materiality in Planning and Performing an Audit

- P6.** Paragraph A2 of the ISA states that the legislators and regulators are often the primary users of the public sector entities' financial statements, and that the financial statements may be used to make decisions other than economic ones. Legislators represent the citizens and provide funding for various government programs, activities, and functions. Legislators and/or regulators frequently evaluate or make decisions about an entity's activities. Other users may include entity management, bondholders or the media. Financial statements that meet the needs of legislators and regulators will also meet most of the needs of other users.
- P7.** The financial statements may also represent a key element of a public sector entity's accountability to the public. The accountability framework may introduce other factors that influence the determination of materiality at different levels. As a consequence, materiality is likely to be a result of both quantitative and qualitative factors, and materiality levels for particular classes of transactions, account balances and disclosures may therefore often be set at a low level.

Determining Materiality and Performance Materiality When Planning the Audit

- P8.** As noted above, materiality in the public sector includes both quantitative and qualitative aspects (referred to in the ISAs as aspects related to the "size" and "nature" of misstatements). The determination of a materiality level or levels is described in paragraphs 10 and 11 of the ISA. In the public sector, materiality levels for classes of transactions, account balances or disclosures may be set at a lower level than the materiality levels that would be derived by following the requirements of the ISA. This may be for a variety of reasons, including the context of the matter, or the nature and characteristics of the systems and entities involved as explained in paragraphs P5 to P7 above. Furthermore, certain procedures may be required to be performed by audit mandate or legislation. Examples of such procedures might be tests of ministerial salaries regulated by statute and sensitive payments such as travel and hospitality of senior staff. In the rare cases where the public sector auditors want to detect all such misstatements, they test all relevant transactions.
- P9.** Where public sector auditors also provide opinions on the effectiveness of controls or compliance with laws and regulations, they consider the need to establish materiality for these objectives in addition to materiality for the financial statements. For example, when reporting on the effectiveness of controls, the auditor may use a benchmark based on the percentage of transactions or monetary amounts sampled to determine materiality for evaluating control deviations.
- P10.** Paragraph A3 of the ISA describes considerations specific to determining materiality levels in the public sector. When determining whether a particular class of transactions, account balance, disclosure, or other assertion which is part of the financial reporting framework, is material by virtue of its nature, public sector auditors take into account qualitative aspects such as:
- The context in which the matter appears, for example if the matter is also subject to compliance with authorities, legislation or regulations, or if law or regulation prohibits overspending of public funds, regardless of the amounts involved;
 - The needs of the various stakeholders and how they use the financial statements;
 - The nature of the transactions that are considered sensitive to users of the financial statements;
 - Public expectations and public interest, including emphasis placed on the particular matter by relevant committees in the legislature, such as a public accounts committee, including the necessity of certain disclosures;
 - The need for legislative oversight and regulation in a particular area; and
 - The need for openness and transparency, for example if there are particular disclosure requirements for frauds or other losses.

ISSAI 1320 - Materiality in Planning and Performing an Audit

P11. Paragraphs A4 to A8 of the ISA discusses identifying appropriate benchmarks for financial statement materiality. For public sector entities that are expected to recover costs or break-even, net costs may not be an appropriate benchmark. In those cases gross expenditure or gross revenues may be a more relevant benchmark. For public sector entities that are custodians of large amounts of assets, total assets, total liabilities, net assets or net liabilities or certain classes of assets might be an appropriate benchmark if they are accounted for in the financial statements. In some cases, especially when considering qualitative materiality, other types of benchmarks may also be useful. For example:

- The number of users or entities affected as a percentage of total users or entities involved in the particular program;
- Those amounts previously considered material by a relevant committee in the legislature, such as public accounts committee; and
- Benefit payments as compared to cost of living indicators, for example the importance to the eligible recipient of monthly benefit payments, such as retirement or disability, paid out in accordance with public sector programs.

Revision as the Audit Progresses

P12. Paragraphs 12, 13 and A14 of the ISA discuss the need to revise materiality levels in the event of becoming aware of new information during the course of the audit. Due to governance structures and interrelationships of entities within the public sector, it is not unusual for public sector auditors to receive new information during the course of the audit.

ISSAI 1330 - The Auditor's Responses to Assessed Risks

Background

This Practice Note provides supplementary guidance on ISA 330 - The Auditor's Responses to Assessed Risks. It is read together with the ISA. ISA 330 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA 315 (Revised)¹ in an audit of financial statements.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level
- (c) Evaluating the Sufficiency and Appropriateness of Audit Evidence
- (d) Specific Considerations for Public Sector Auditors with a Judicial Role

Applicability of the ISA in Public Sector Auditing

P2. ISA 330 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 330 contains application and other explanatory material with considerations specific to public sector entities in paragraph A17 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional reporting objectives. These additional objectives may and the background and introduction and content include audit and reporting responsibilities, for example, relating to reporting whether the public sector auditor found any instances of non-compliance with authorities including budgets and accountability frameworks, and/or reporting on the effectiveness of internal control. These additional objectives may lead public sector auditors to identify and assess additional risks of material misstatement, and to design and implement overall responses to address the assessed risks at the financial statement level and to design and perform further audit procedures to respond to the assessed risks at the assertion level. However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities or reporting on effectiveness of internal control. Therefore, public sector auditors keep such expectations in mind, and are alert to the need to respond to assessed risks of non-compliance or risks relating to effectiveness of internal control.

¹ ISA 315 (Revised), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment"

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

- P5.** When planning the timing of further audit procedures as described in paragraph 6 of the ISA, public sector auditors also take into account that tests of compliance with laws and regulations may be carried out during the year while tests of budget execution normally are completed at year-end.
- P6.** Paragraph A17 of the ISA states that the audit mandate and any other special auditing requirements may affect the auditor's consideration of the nature, timing and extent of further audit procedures. Examples of such other requirements include testing and reporting on non-compliance with certain regulations, such as those related to execution of the budget or in the area of procurement.
- P7.** Paragraph 8 of the ISA describes the circumstances in which the auditor is required to perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls. As a result of the additional objectives described in paragraph P4 above, tests of controls for a public sector entity may be broader and more detailed than those for a private sector entity. They may also be performed irrespective of the circumstances described in paragraph 8 of the ISA. For example, public sector auditors may perform tests of controls over travel expenditures or sensitive payments, or of controls designed to prevent or detect fraud within the entity.
- P8.** In designing and performing tests of controls as required by paragraph 10 of the ISA, public sector auditors determine whether the entity is part of a larger government control environment. As a result, controls may exist outside the entity. The auditor determines whether and how to obtain sufficient appropriate audit evidence about those controls.
- P9.** When using audit evidence about the operating effectiveness of controls obtained in previous audits, as stated in paragraph 13 of the ISA, public sector auditors may use evidence obtained in performance audits or other audit activities relevant to the entity. When relying on evidence obtained in previous performance audits, public sector auditors evaluate whether the assertions used and tests performed are adequate for the purpose of the financial statement audit.

Evaluating the Sufficiency and Appropriateness of Audit Evidence

- P10.** Paragraph 27 of the ISA requires the auditor to express a qualified opinion or disclaim an opinion on the financial statements if the auditor is unable to obtain sufficient appropriate audit evidence. Paragraph A62 of the ISA provides factors that may influence the auditor's judgment as to what constitutes sufficient appropriate audit evidence. In evaluating what is sufficient appropriate audit evidence, public sector auditors also take into account the need to obtain sufficient appropriate evidence to meet any additional objectives as described in paragraph P4 above.

Specific Considerations for Public Sector Auditors with a Judicial Role

- P11.** In some public sector environments, such as a Court of Accounts environment, the auditors' report is often judged and used to determine personal legal implications of those responsible for financial acts, including significant matters, control deficiencies and instances of non-compliance with authorities. Therefore, public sector auditors in such environments, when evaluating the sufficiency and appropriateness of audit evidence, perform procedures to identify those responsible for financial acts and for compliance with legal requirements.

ISSAI 1402 - Audit Considerations Relating to an Entity Using a Service Organization

Background

This Practice Note provides supplementary guidance on ISA 402 – Audit Considerations Relating to an Entity Using a Service Organization. It is read together with the ISA. ISA 402 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 402 deals with the user auditor’s responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations. Specifically, it expands on how the user auditor applies ISA 315 (Revised)¹ and ISA 330² in obtaining an understanding of the user entity, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Scope of the ISA
- (c) Objectives
- (d) Definitions
- (e) Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control
- (f) Specific Considerations for Public Sector Auditors with a Judicial Role

Applicability of the ISA in Public Sector Auditing

P2. ISA 402 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 402 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A10, A11 and A43 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example relating to reporting whether public sector auditors found any instances of non-compliance with authorities including budget and accountability and/or reporting on the effectiveness of internal control. However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors’ reporting of non-compliance with authorities or reporting on the effectiveness of internal control. Therefore, when an entity uses a service organization, public sector auditors keep such expectations in mind and are alert to risks of noncompliance with authorities or a lack of effective internal control.

¹ ISA 315 (Revised), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment”

² ISA 330, “The Auditor’s Responses to Assessed Risks”

ISSAI 1402 - Audit Considerations Relating to an Entity Using a Service Organization

Scope of the ISA

P5. Paragraph 2 of the ISA refers to organizations that provide services that are integral to the entity's operations. In the public sector, service organizations may also be an integral part of a user entity's capacity to comply with the authorities that govern it, carry out its program objectives and to ensure effective internal control. The nature and extent of the work to be performed by the public sector auditors in this context depends on the nature and significance of those services to the public sector entity and the relevance of those services to the public sector audit mandate.

Objectives

P6. The objectives for public sector auditors may be broader than those set out in paragraph 7 of the ISA. Such broader objectives may include elements related to requirements and expectations for public sector auditors to report on compliance with authorities, achievement of program objectives and effectiveness of internal control.

Definitions

P7. The terms 'service organization' and 'subservice organization' are defined in paragraph 8(e) and (g) of the ISA. In addition to being part of a user entity's information system relevant to financial reporting, in the public sector these terms may also extend to organizations that provide services integral to the user entity's ability to achieve its program objectives, such as the determination of eligibility, and distribution of pension payments to individuals, or grants to individuals or organizations.

Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

P8. Paragraph 9 of the ISA relates to the user auditor obtaining an understanding of how a user entity uses a service organization in its operations. When considering the significance of the services provided to the user entity, the nature and materiality of transactions processed, as well as the nature of the relationship between the user entity and the service organization, public sector auditors may also consider the service organization's role related to the user entity's compliance with authorities, achievement of program objectives and effectiveness of internal control.

P9. Furthermore, when considering the nature of transactions processed by a service organization for a user entity, public sector auditors may consider the degree of accountability of the flow of funds between the two entities. The accountability between the two entities may vary from:

- (a) A situation where the user entity uses a service organization to provide unconditional funding to eligible recipients, with no requirements for the recipients or the service organization to report back to the user entity on the use of those funds, to;
- (b) A situation where there is full accountability for the funds, whereby the transactions carried out by the service organization are fully accounted for, and assurance has been provided to the user entity that the transactions carried out by the service organization are in compliance with the authorities which govern them, and that relevant program objectives have been achieved.

P10. In addition, when considering the nature of the relationship between the user entity and the service organization, public sector auditors may also consider relevant governance structures, as well as accountability structure and the extent of influence one entity may have on the other.

ISSAI 1402 - Audit Considerations Relating to an Entity Using a Service Organization

- P11.** The definitions of ‘service auditor’ and ‘user auditor’ in paragraph 8(d) and (h) of the ISA imply that there are two separate audit organizations involved. However, in the public sector, one level of government may provide services to other levels of government. These levels may ultimately be considered as belonging to the same governmental structure and may, as a result, be audited by the same public sector audit organization. Being a part of the same public sector audit organization may affect how the two individual auditors responsible for the service organization and the user entity respectively, communicate with, and report to one another in accordance with the requirements set out in paragraphs 12-18 of the ISA. For example, in such situations, communication between the service auditor and user auditor may, depending on their mandate, not be subject to the same confidentiality requirements as in the private sector.
- P12.** For example, paragraph 12 of the ISA describes options the user auditor may employ to obtain a sufficient understanding of the user entity’s internal control relevant to the audit in order to provide a basis for the identification and assessment of risks of material misstatement. When the user auditor and the service auditor are from the same public sector audit organization, some or all of the options described in paragraph 12 of the ISA may not be practical. Nonetheless, in such cases, the information exchanged between the user auditor and the service auditor is shared in a transparent manner. This information may include matters similar to those included in a type 1 or type 2 report.
- P13.** Furthermore, in such situations, it may be helpful to give sufficient consideration to identifying and addressing relevant reporting needs, channels and forms at the planning stage of the engagement.

Specific Considerations for Public Sector Auditors with a Judicial Role

- P14.** In some public sector audit environments, such as in a Court of Accounts environment, there may be additional considerations that public sector auditors take into account. These considerations may include:
- Assessing the risks of potential non-compliance or misconduct, at either the user entity or the service organization, that may have a material impact on public finances;
 - Following stricter rules of evidence when potential irregularities or instances of misconduct are identified, such that relevant requirements for proceeding with a formal judgment are met; and
 - Providing evidence of such potential irregularities and instances of misconduct to the judicial department of the Court of Accounts, and cooperating with the judicial department as necessary. Such information is normally provided in the form of a separate report on the audit work performed and the related findings.

ISSAI 1450 - Evaluation of Misstatements Identified During the Audit

Background

This Practice Note provides supplementary guidance on ISA 450 - Evaluation of Misstatements Identified During the Audit. It is read together with the ISA. ISA 450 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 450 deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. ISA 700 (Revised)¹ deals with the auditor's responsibility, in forming an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. The auditor's conclusion required by ISA 700 (Revised) takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with ISA 450. ISA 320² deals with the auditor's responsibility to apply the concept of materiality appropriately in planning and performing an audit of financial statements.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Evaluating the Effect of Uncorrected Misstatements
- (c) Written Representations
- (d) Specific Considerations for Public Sector Auditors with a Judicial Role

Applicability of the ISA in Public Sector Auditing

P2. ISA 450 is applicable to auditors of public sector entities in their role as auditors of the financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 450 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A24 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The objectives may include additional auditing and reporting responsibilities, for example, relating to reporting whether the auditor found any instances of non-compliance with authorities including budgets and accountability frameworks and/or reporting on the effectiveness of internal control. In addition to evaluating misstatements, public sector auditors may also evaluate instances of non-compliance with authorities and report on the effectiveness of internal control. When public sector auditors have such additional reporting responsibilities, each reporting responsibility is evaluated separately.

¹ ISA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements" paragraphs 10-11.

² ISA 320, "Materiality in Planning and Performing an Audit"

ISSAI 1450 - Evaluation of Misstatements Identified During the Audit

Evaluating the Effect of Uncorrected Misstatements

- P5.** In applying paragraph 11 of the ISA, public sector auditors with additional reporting responsibilities related to non-compliance with authorities and control deficiencies separately evaluate each of these objectives. However, misstatements, instances of non-compliance with authorities and control deficiencies can be interrelated, potentially increasing the risk to each objective.
- P6.** Paragraphs 12 to 13 of the ISA deal with communication of uncorrected misstatements with those charged with governance. Where appropriate to the public sector auditors' mandate, this communication may include instances of non-compliance with authorities and control deficiencies. Public sector auditors may also need to communicate misstatements, instances of non-compliance with authorities and control deficiencies to additional parties such as government officials.
- P7.** When communicating with those charged with governance or with additional parties as described in paragraph P6 above, public sector auditors may be expected to communicate all misstatements, even those that have been corrected by the entity. When communicating with those charged with governance, public sector auditors use ways of reporting relevant to their environment. Public sector auditors may also be called upon to testify before the legislature on the results of the financial statement audit.

Written Representations

- P8.** Paragraph 14 of the ISA requires the auditor to obtain written representation that management considers the effects of uncorrected misstatements on the financial statements to be immaterial. Where public sector auditors have additional responsibilities for compliance with authorities and effectiveness of internal control these representations may be made in a single document.

Specific Considerations for Public Sector Auditors with a Judicial Role

- P9.** In some public sector audit environments, such as in a Court of Accounts environment, the auditors' report is often used to determine personal legal implications of those responsible for financial acts, including significant matters, instances of non-compliance with authorities, and control deficiencies. Therefore, public sector auditors in such environments, when evaluating the misstatements, instances of non-compliance with authorities and control deficiencies identified during the audit, also identify those responsible for the financial acts and for compliance with legal requirements.
- P10.** Paragraph 8 of the ISA requires the auditor to communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management. Where public sector auditors have mandates which include the legal authority to order the entity to correct any misstatements as well as instances of non-compliance with authorities, they consider whether exercising this authority may impair their independence and, if so, take appropriate action to avoid such impairment.

ISSAI 1500 - Audit Evidence

Background

This Practice Note provides supplementary guidance on ISA 500 – Audit Evidence. It is read together with the ISA. ISA 500 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 500 explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor’s responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion. ISA 500 is applicable to all the audit evidence obtained during the course of the audit. Other ISAs deal with specific aspects of the audit (for example ISA 315 (Revised)¹), the audit evidence to be obtained in relation to a particular topic (for example ISA 570 (Revised)²), specific procedures to obtain audit evidence (for example ISA 520³), and the evaluation of whether sufficient appropriate audit evidence has been obtained (for example ISA 200⁴ and ISA 330⁵).

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to sufficient appropriate audit evidence.

Applicability of the ISA in Public Sector Auditing

P2. ISA 500 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

Sufficient Appropriate Audit Evidence

P3. As noted in paragraph A7 of the ISA some audit evidence is obtained by performing audit procedures to test accounting records. Audit evidence comprises both information that supports and corroborates management’s assertions, and any information that contradicts such assertions. In the case of financial statements in the public sector, management may often assert that transactions and events have been carried out in accordance with legislation or proper authority. Such assertions may fall within the scope of a financial audit. Public sector auditors may consider ISSAI 4000.⁶

P4. When considering information from sources independent of the entity as referred to in paragraph A9 of the ISA, public sector auditors may consider sources as independent of the entity even though they ultimately report to the same authority e.g. operationally independent government agencies reporting to the same authority. The nature of benchmarking data in the public sector may include other sources e.g. comparisons between similar programs, or performance indicators.

¹ ISA 315 (Revised), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment”

² ISA 570 (Revised), “Going Concern”

³ ISA 520, “Analytical Procedures”

⁴ ISA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing”

⁵ ISA 330, “The Auditor’s Responses to Assessed Risks”

⁶ ISSAI 4000, “Compliance Audit Standard”

ISSAI 1500 - Audit Evidence

- P5.** When considering the sources of evidence in accordance with paragraph A2 of the ISA public sector auditors may also consider evidence obtained in performance audits or other audit activities relevant to the entity. When relying on evidence obtained in performance audits, public sector auditors evaluate whether the assertions used and tests performed are adequate for the purpose of the financial statement audit.
- P6.** When the audit mandate includes objectives related to the regularity of transactions, public sector auditors may need to consider the nature and timing of audit procedures as explained in paragraph A12 of the ISA e.g. the ability to apply certain audit procedures to establish the regularity of the transaction or the effectiveness of the controls may be adversely affected by the passage of time.
- P7.** Public sector entities will usually have established internal controls designed to secure the regularity of transactions. However, where the audited entity is responsible for giving grants or other financial assistance to other parties, it is often the case that the regularity of the transaction will depend, in part, on the other parties satisfying the criteria and meeting the terms for receiving assistance. Evidence might then be required on the entity's exercise of its responsibilities to satisfy itself about the transactions of these other parties (as demonstrated in the Appendix of the Practice Note).
- P8.** When considering the guidance in paragraph A13 of the ISA, public sector auditors take into account that data retention requirements for public sector entities may be different as stipulated by relevant legislation. Public sector auditors familiarize themselves with applicable legislation in regard to retention of data.
- P9.** Public sector auditors in some environments, such as a Court of Accounts environment, may be subject to laws and regulations requiring the auditors to understand and follow precise procedures related to rules of evidence. Public sector auditors familiarize themselves with any such policies and procedures describing additional requirements relating to audit evidence and that are designed to ensure compliance with applicable rules. For example, public sector auditors operating in such an environment may need to consider the following matters related to evidence collection:
- Legislation imposing additional requirements on audit evidence;
 - The scope of additional requirements (i.e., are they to be imposed on every document from the audit assignment or on specific documents relating to certain audit issues);
 - Additional processing, formalities or requirements to which audit evidence is subject;
 - The purpose of each additional requirement as regards due process of law in following the steps of the audit; and
 - Any restrictions that may be placed upon audit evidence due to specific ways it has been collected and/or produced.

ISSAI 1500 - Audit Evidence

Appendix - Sources of Audit Evidence Concerning Management of Risks Related to Laws and Regulations

Risk	Description	Possible Sources of Audit Evidence
Complexity of Regulations	The more complex the regulations the greater the risk of error. This may occur either through a misunderstanding or misinterpretation of the regulation or through an error in application.	<ul style="list-style-type: none"> • Formal and documented procedures for the translation of statutory requirements into operating instructions; • Formal and documented control plans monitoring activities by scheme managers; • Review reports by internal audit or some other independent audit of scheme control plans and operating manuals.
New Legislation	New legislation may require the introduction of new administrative and control procedures. This may result in errors in either the design or operation of controls required to ensure regularity.	Formal and documented procedures for the translation of statutory requirements into scheme rules. Formal control plans and the independent review of operating instructions and control plans may also constitute audit evidence where schemes are introduced following new legislation.
International Schemes (funded by the United Nations, EU or other institutions)	Where regulation is developed by such institutions, there is a risk that regulations and guidance may be misinterpreted or omitted from internal instructions.	Sources of audit evidence identified in connection with the complexity of regulations may apply equally to such funded schemes.
Services and Programs Delivered Through Third Parties	Where programs are administered by agents, departments lose a degree of direct control and may have to rely on agents to ensure compliance with authorities.	<ul style="list-style-type: none"> • Formal agreements between the entity and the agent defining control procedures to be applied in the administration of services; • Documented procedures and outcome of management control and monitoring of third party activities; • Reports from inspection visits by internal audit to third parties to review systems and procedures, including those relevant to regularity; • An assurance or agreed upon procedures report on payments and receipts, or on controls over payments and receipts, by the third party's auditor.
Payments and Receipts Made on the Basis of Claims or Declarations	An entity's ability to confirm compliance with authorities may be restricted where, for example, criteria specified for receipt of grant are not subject to direct verification.	<ul style="list-style-type: none"> • Departmental instructions and guidance to claimants clearly stating criteria for making claims; • Standard requirements for documentation evidencing entitlement to be submitted in support of claims exist (this may be a condition of payment of grant or a requirement once the activity supported by the grant has been completed); • Reports from physical inspection of claimants' records etc. to confirm eligibility; • Documented procedures for assessing the financial standing of claimants before awarding a grant and for monitoring continuing solvency exist; • Independent certification of the application of grant by external auditor.

ISSAI 1501 - Audit Evidence - Specific Considerations for Selected Items

Background

This Practice Note provides supplementary guidance to public sector auditors on ISA 501 - Audit Evidence - Specific Considerations for Selected Items. It is read together with the ISA. ISA 501 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 501 deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with ISA 330¹, ISA 500² and other relevant ISAs, with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Inventory
- (b) Litigation and Claims
- (c) Segment Information

Applicability of the ISA in Public Sector Auditing

P2. ISA 501 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

Inventory

- P3.** Inventory in the public sector is often different from inventory in the private sector. For example, inventory in the public sector is often held for use rather than for resale; therefore, the nature of internal controls and the assessed risk of material misstatement may be different. Public sector auditors may have other objectives and assertions to consider in addition to existence and condition. For example, public expectations for effective management of inventory.
- P4.** When applying the requirements of paragraph 4 of the ISA, to decide whether to attend physical counts, public sector auditors consider the matters described in paragraph P3 above.
- P5.** Where public sector auditors are restricted by either management, legislation or regulations and cannot attend a physical count as required by paragraph 4 of the ISA or request confirmation from a third party as required by paragraph 8 of the ISA and other audit procedures are not possible, public sector auditors consider the effect on the auditor's report.³ The public sector auditor's response may be different when the limitation is imposed by management rather than imposed by legislation or regulations.
- P6.** In some public sector audit environments, such as a Court of Accounts, public sector auditors may have extended responsibilities for identifying who is responsible for the existence and condition of the inventory, including development and implementation of controls. This may include, where applicable, determining sanctions.

¹ ISA 330, "The Auditor's Response to Assessed Risks"

² ISA 500, "Audit Evidence"

³ 4 ISA 705, "Modifications to the Opinion in the Independent Auditor's Report"

Litigation and Claims

- P7.** When designing and performing audit procedures in accordance with the requirements in paragraph 9 and the related guidance in paragraph A18 of the ISA, public sector auditors may have additional responsibilities in relation to litigation and claims. These responsibilities may include identifying probable future claims and the potential wider consequences of those claims on the public sector. Due to the complexity and structure of public sector organizations, public sector auditors may need to inquire of other public sector organizations in addition to management of the audited public sector entity. For example, a central legal department may administer all claims against the government; the public sector auditors would inquire of that department in addition to management of the audited entity.
- P8.** Where legal counsels within the government do not charge the public sector entity for their services, public sector entities may not have legal expense accounts as discussed in paragraph 9(c) of the ISA.
- P9.** Public sector auditors may need to consider other sources of information when performing audit procedures to identify litigation and claims involving the entity such as:
- Media reports;
 - General public and stakeholder feedback;
 - Other information obtained by regulators, officials, public prosecutors, or other investigative agencies;
 - Information from complaints officials and whistle-blowers; and
 - Outcomes of performance or other audits.
- P10.** When applying the requirements in paragraph 10 of the ISA, public sector auditors, in accordance with their mandate, may have the right to communicate directly with the entity's external legal counsel without management's permission. Public sector auditors consider the independence and objectivity of a legal counsel who may be part of the entity or part of another government organization. When the independence or objectivity of legal counsel is in doubt, the public sector auditors may wish to consider obtaining legal advice from another source.
- P11.** When seeking direct communication through a letter of general or specific inquiry as referred to in paragraphs A22 and A23 of the ISA, public sector auditors may include other specific inquiries if permitted by the applicable financial reporting framework. For example, this may include whether the entity is operating within its legislative mandate.

Segment Information

- P12.** Presentation and disclosure of segment information may not be required by certain financial reporting frameworks or relevant in the context of certain public sector entities. However, there may be other information similar to segment information required by laws or regulations or by the applicable financial reporting framework. For example, public sector entities may be required to report incomes and expenditures by fund, appropriation, program or category; public sector auditors might be required to audit that information. In certain circumstances public sector auditors may be required to express an opinion on the segmental or similar information either as part of the overall audit opinion or on a stand-alone basis.

ISSAI 1505 – External Confirmations

Background

This Practice Note provides supplementary guidance on ISA 505 - External Confirmations. It is read together with the ISA. ISA 505 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 505 deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330¹ and ISA 500². It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501³.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) External Confirmation Procedures to Obtain Audit Evidence
- (b) Management's Refusal to Allow the Auditor to Send a Confirmation Request

Applicability of the ISA in Public Sector Auditing

P2. ISA 505 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

External Confirmation Procedures to Obtain Audit Evidence

P3. Paragraph A1 of the ISA and paragraph A48 of ISA 330⁴ state that confirmations can be used to obtain evidence about the presence or absence of certain conditions (e.g. "side agreements" not included in formal arrangements). In addition to assertions related to the audit of financial statements, public sector auditors may find confirmations useful in obtaining evidence related to additional audit objectives stipulated by their audit mandate or arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature. For example, external confirmations can be used to obtain evidence about:

- The presence or absence in agreements or arrangements with third parties of legislated or other terms and conditions such as guarantees of performance or funding;
- The commitment of expenditures that have not yet been authorized by the legislature;
- The continued eligibility of individuals in receipt of pensions, income assistance, annuities or other ongoing payments; or
- The presence of "side deals" with suppliers for the return of goods for credit in order to use funding that would have otherwise lapsed in a subsequent fiscal period.

¹ ISA 330, "The Auditor's Responses to Assessed Risks"

² ISA 500, "Audit Evidence"

³ ISA 501, "Audit Evidence - Specific Considerations for Selected Items"

⁴ ISA 330, "The Auditor's Responses to Assessed Risks"

ISSAI 1505 – External Confirmations

P4. Paragraph 2 of the ISA states that corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from evidence within the accounting records or from representations made by management. As such, paragraph 6(a) defines an external confirmation as a direct written response to the auditor from a third-party (the confirming party), in paper form, or by electronic or other medium. Given the size and complexity of governments, public sector auditors need to be vigilant to ensure that external confirmation requests are directed to third-parties who are independent of the audited entity and the responses are reliable in light of the relationship between the entity and the confirming party.

Management’s Refusal to Allow the Auditor to Send a Confirmation Request

P5. Public sector auditors may, in addition to the requirement to communicate to those charged with governance as stated in paragraph 9 of the ISA, also be required or expected to communicate to the legislature or appropriate oversight body.

ISSAI 1510 - Initial Audit Engagements - Opening Balances

Background

This Practice Note provides supplementary guidance on ISA 510 - Initial Audit Engagements - Opening Balances. It is read together with the ISA. ISA 510 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 510 deals with the auditor's responsibilities relating to opening balances in an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When the financial statements include comparative financial information, the requirements and guidance in ISA 710¹ also apply. ISA 300² includes additional requirements and guidance regarding activities prior to starting an initial audit.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Audit Procedures
- (b) Audit Conclusions and Reporting

Applicability of the ISA in Public Sector Auditing

P2. ISA 510 is applicable to auditors of public sector entities in their role as auditors of financial statements

Additional Guidance on Public Sector Issues

P3. ISA 510 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A1 and A2 of the ISA.

P4. An initial audit might occur when an entity is nationalized without resulting in the formation of a new entity or when the public sector auditor's mandate is changed to include a new audit of an already existing entity. An initial audit may also occur when a public sector entity is created, and legislation, regulation or framework require the appropriation of all or parts of prior balances of a predecessor public sector entity, which have been audited by a predecessor auditor.

Audit Procedures

P5. When communicating misstatements as required by paragraph 7 of the ISA, public sector auditors consider the requirements in ISA 450 paragraphs 12 and 13.

Audit Conclusions and Reporting

P6. When a predecessor auditor's report on the prior period's financial statements includes a modification that remains relevant and material to the current period's financial statements as referred to in paragraph 13 of the ISA, the modification may have implications for the public sector auditors' other responsibilities.

¹ ISA 710, "Comparative Information - Corresponding Figures and Comparative Financial Statements"

² ISA 300, "Planning an Audit of Financial Statements"

ISSAI 1520 - Analytical Procedures

Background

This Practice Note provides supplementary guidance on ISA 520 – Analytical Procedures. It is read together with the ISA. ISA 520 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 520 deals with the auditor’s use of analytical procedures as substantive procedures (“substantive analytical procedures”). It also deals with auditor’s responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. ISA 315 (Revised)¹ deals with the use of analytical procedures as risk assessment procedures. ISA 330² includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Substantive Analytical Procedures
- (c) Investigating Results of Analytical Procedures
- (d) Definition of Analytical Procedures

Applicability of the ISA in Public Sector Auditing

P2. ISA 520 is applicable to auditors of public sector entities in their role as auditors of financial statements

Additional Guidance on Public Sector Issues

P3. ISA 520 contains application and other explanatory material with considerations specific to public sector entities in paragraph A11 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These responsibilities may include, for example, performing procedures and reporting instances of non-compliance with authorities, and the effectiveness of internal controls. However, even where there are no such additional objectives, there may be general public expectations in this regard. Public sector auditors may design and perform analytical procedures in light of these additional responsibilities. However, these procedures on their own may not be effective for meeting these additional responsibilities.

¹ ISA 315 (Revised), “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment” paragraph 6(b).

² ISA 330, “The Auditor’s Responses to Assessed Risks”

ISSAI 1520 - Analytical Procedures

P5. Analytical procedures related to program expenditure within the public sector are likely to include comparisons with non-financial data because there is normally less comparable financial information to perform analytical procedures. Therefore, the evaluation of controls over the reliability of non-financial data used in the analytical procedures is important within the public sector.

Substantive Analytical Procedures

P6. When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as stated in paragraph 5 of the ISA, public sector auditors may consider that analytical procedures do not normally provide evidence about certain additional objectives, such as compliance with authorities.

P7. When designing analytical procedures, public sector auditors consider the information obtained and conclusions reached in related audit activities, including performance and other audits. When relying on other audit activities, public sector auditors evaluate whether the related objectives, assertions covered and tests performed are appropriate for the purpose of the financial statement audit.

P8. Paragraph 5(d) of the ISA requires the auditor to determine the difference of recorded amounts from expected values that is acceptable without investigation. This determination is influenced by materiality, which in the public sector is influenced by the audit mandate and public expectations. ISSAI 1315³ and ISSAI 1320⁴ provide further guidance on this matter.

P9. When assessing the reliability of data as referred to in paragraph A12(a) of the ISA, public sector auditors may use information obtained from other entities within the government even though they ultimately report to the same authority. For example, comparative data in the public sector may include comparisons between similar entities and/or programs.

P10. When considering the guidance in paragraph A13 for performing analytical procedures, public sector auditors understand the design of the controls and may need to test the operating effectiveness of the controls over the entity's non-financial information used in analytical procedures.

Investigating Results of Analytical Procedures

P11. Public sector auditors consider that they may have additional responsibilities when management is unable to provide explanations for differences identified in performing analytical procedures referred to in paragraph A21 of the ISA. For example, public sector auditors in some audit environments, such as a Court of Accounts environment, may need to investigate further the underlying reasons for the lack of information and determine who is responsible

³ ISSAI 1315 (Revised), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment"

⁴ ISSAI 1320, "Materiality in Planning and Performing an Audit"

Definition of Analytical Procedures

P12. In performing analytical procedures, either as substantive analytical procedures or to assist when forming an overall conclusion, as stated in paragraph A1 of the ISA public sector auditors may also consider relationships such as:

- Expenditures versus budget or appropriations;
- Benefit payments, such as child support and pensions versus demographic information;
- Tax revenues versus demographic information or economic conditions or indicators;
- Interest as a percentage of national debt compared to the government borrowing rate;
- Results accomplished in relation to expenditure, where performance information is included as part of the financial statements; and
- Government grants for economic and social development, e.g. grants for low income farmers and grants for school buildings, versus economic and demographic indicators.

In order to be an effective procedure, such tests need to be at an appropriate level of detail.

ISSAI 1530 - Audit Sampling

Background

This Practice Note provides supplementary guidance on ISA 530 - Audit Sampling. It is read together with the ISA. ISA 530 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 530 applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample.

ISA 530 complements ISA 500¹, which deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Sample Design, Size and Selection of Items for Testing
- (c) Nature and Cause of Deviations and Misstatements
- (d) Projecting Misstatements
- (e) Evaluating Results of Audit Sampling

Applicability of the ISA in Public Sector Auditing

P2. ISA 530 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues Overall Considerations

Overall Considerations

P3. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the public sector auditors found any instances of non-compliance with authorities including budget and accountability, and/or reporting on the effectiveness of internal control. As a result, public sector auditors' use of audit sampling may be affected. Public sector auditors may use sampling for these responsibilities in addition to providing an opinion on the financial statements.

¹ ISA 500, "Audit Evidence"

ISSAI 1530 - Audit Sampling

- P4.** The use of audit sampling for testing compliance with authorities is similar to other uses of audit sampling in that public sector auditors:
- Determine sample design and audit parameters, including materiality, desired confidence level, and sample selection method;
 - Perform relevant audit procedures on each item selected;
 - Investigate the nature and causes of non-compliance; and
 - Evaluate the results, including projecting the results across the population if the sample was selected using statistical procedures.

Sample Design, Size and Selection of Items for Testing

- P5.** When designing an audit sample as required in paragraph 6 of the ISA, public sector auditors may have greater responsibilities under a mandate, as stated in P3 above. In such situations public sector auditors may set different levels of parameters, including materiality and a higher level of confidence, and this may affect the sample size. Public sector auditors often use audit sampling to test the effectiveness of internal controls and as substantive tests for compliance with authorities. Public sector auditors might design separate samples to test controls and compliance or may design one sample to test both. For example, a sample of disbursements might be used to test controls over disbursements as well as whether the disbursements were in accordance with authorities.
- P6.** Public sector auditors are more likely than private sector auditors to consider the need to sample non-financial information. As a result of additional public sector objectives, such as testing compliance with authorities and reviewing non-financial information contained in financial statements, public sector auditors consider whether sampling will be useful in testing such non-financial information contained in financial statements. For example, if the financial statements of a government hospital use number of patients treated to calculate key performance measures (such as cost per patient), public sector auditors might sample to test the accuracy and completeness of the number of patients reported.
- P7.** Public sector auditors may be mandated to report additional information about audit sampling. Such requirements may include reporting the sampling methods used, whether the results of the sample may be projected to the population, and if so, the results of that projection. Public sector auditors may consider such needs in deciding whether to use statistical or non-statistical approaches.
- P8.** Guidance on determining materiality for public sector auditors can be found in ISSAI 1320.²

Nature and Cause of Deviations and Misstatements

- P9.** When analyzing deviations and misstatements identified as stated in paragraph A17 of the ISA, public sector auditors consider that they may have extended audit and reporting responsibilities related to fraud. ISSAI 1240³ provides additional information for public sector auditors related to fraud.

² ISSAI 1320, "Materiality in Planning and Performing an Audit"

³ ISSAI 1240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"

ISSAI 1530 - Audit Sampling

Projecting Misstatements

P10. An explicit projection is needed to project misstatements for a substantive test. Paragraph A20 in the ISA states that for tests of controls, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole. When performing audit sampling for testing controls, public sector auditors may be required to project the deviation rate in the population, including a confidence interval, and report the sample results as noted in P7 above. In some audit environments, such as Courts of Accounts, reporting on the deviation rates may be required to explain, for example, the deficiencies in internal control or non-compliance with authorities.

Evaluating Results of Audit Sampling

P11. In addition to the guidance in paragraph A23, public sector auditors consider their responsibilities under their mandate when management is unable to provide an adequate explanation for deviations and misstatements. For example, public sector auditors in a Court of Accounts environment may need to investigate further the underlying reasons for the lack of information and determine who is responsible.

P12. In addition to the guidance in paragraph A23 (second bullet point), public sector auditors consider any additional responsibilities to report on the effectiveness of internal controls and on non-compliance with authorities.

ISSAI 1540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Background

This Practice Note provides supplementary guidance on ISA 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures. It is read together with the ISA. ISA 540 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 540 deals with the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements. Specifically, it expands on how ISA 315 (Revised)¹ and ISA 330² and other relevant ISAs are to be applied in relation to accounting estimates. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Nature of Accounting Estimates
- (b) Objective
- (c) Risk Assessment Procedures and Related Activities
- (d) Identifying and Assessing the Risks of Material Misstatement
- (e) Responses to the Assessed Risks of Material Misstatement
- (f) Further Substantive Procedures to Respond to Significant Risks
- (g) Evaluating the Reasonableness of the Accounting Estimates, and Determining Misstatements
- (h) Indicators of Possible Management Bias

Applicability of the ISA in Public Sector Auditing

P2. ISA 540 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 540 contains application and other explanatory material with considerations specific to public sector entities in paragraph A11 of the ISA.

¹ ISA 315 (Revised), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment"

² ISA 330, "The Auditor's Responses to Assessed Risks"

ISSAI 1540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Nature of Accounting Estimates

- P4.** When and how public sector entities use accounting estimates depends on the types of financial items reported and the applicable financial reporting framework. Some important estimates in the public sector may relate to assets, liabilities and disclosure items, such as:
- Social insurance programs;
 - Government employee pension programs;
 - Health care programs;
 - Veterans' benefits programs;
 - Government guarantee programs;
 - Environmental liabilities;
 - Tax revenue and receivables; and
 - Certain property and equipment such as specialized military equipment and heritage assets.
- P5.** Due to the nature of government operations, some accounting estimates of public sector entities will have a high level of estimation uncertainty, such as guarantees related to loans or distressed entities.
- P6.** In addition to the guidance provided in paragraph A11 of the ISA, in the public sector fair value measurement is not always required by the applicable financial reporting framework. In those cases, public sector auditors assess the alternative valuation method used and determine whether it is in accordance with the applicable financial reporting framework and is not misleading.

Objective

- P7.** When considering the objective of the ISA to obtain sufficient appropriate audit evidence about whether accounting estimates are reasonable and related disclosures are adequate in the context of the financial reporting framework, public sector auditors need to consider the following:
- Financial reporting frameworks may require inclusion of non-financial information such as program results and other operational information. This information may be based on estimates; or
 - In public sector entities, some liabilities have such a high level of estimation uncertainty that the applicable financial reporting framework may not allow their recognition, but may still require disclosure of the estimation uncertainty. Where these potential liabilities threaten the sustainability of government programs, public sector auditors may use Emphasis of Matters or Other Matters paragraphs to highlight the issues.

Risk Assessment Procedures and Related Activities

- P8.** In the public sector, the actual amounts of certain long-term estimated liabilities may not be known for an extended period of time. Therefore, paragraph 9 of the ISA and the application material included in paragraphs A39 to A42 may not be relevant for certain estimates. For example, social insurance liabilities extend for many years into the future and, therefore, public sector auditors will not be able to use subsequent events to evaluate them.

Identifying and Assessing the Risks of Material Misstatement

- P9.** Many financial reporting frameworks in the public sector do not contain guidance on distinguishing between changes in accounting estimates that constitute misstatements of the prior period's financial statements and changes that do not, as explained in paragraph A44 of the ISA. In the absence of guidance in the applicable financial reporting framework, public sector auditors may consider relevant guidance in other frameworks.

ISSAI 1540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Responses to the Assessed Risks of Material Misstatement

P10. When considering whether specialized skills or knowledge in relation to one or more aspects of the accounting estimates are required in order to obtain sufficient appropriate audit evidence as required in paragraph 14 of the ISA, public sector auditors' consideration of the need for specialized skills may be particularly relevant in relation to estimates such as those for:

- Social insurance programs;
- Government employee pension plans; and
- Veterans' compensation programs.

Further guidance in using experts is included in ISSAI 1620.³

Further Substantive Procedures to Respond to Significant Risks

P11. When evaluating accounting estimates in accordance with the requirements in paragraph 15c of the ISA, public sector auditors consider that management may not be in a position to carry out the specific course of action on which the estimate is based. As discussed in ISSAI 1315 (Revised)⁴, paragraph P12, such decisions related to carrying out the specific course of action on which the estimate is based may be made outside the audited entity's control as a result of political processes.

Evaluating the Reasonableness of the Accounting Estimates, and Determining Misstatements

P12. When public sector financial statements include a number of very large estimates, which may have a large estimation uncertainty, public sector auditors need to evaluate the adequacy of disclosure of the estimation uncertainty and its effect on the auditor's report.

Indicators of Possible Management Bias

P13. Public sector auditors review the judgments and decisions made by management in making accounting estimates to identify whether there are indicators of possible management bias in accordance with paragraph 21 of the ISA. In doing this, they may consider reasons for possible bias that may be specific to the public sector such as:

- Strong political motives;
- Changing or unstable political environment;
- Increased public expectations;
- Higher than normal expectations to meet budget;
- Reduction in budgets without corresponding reduction in service delivery expectations;
- Public and private partnerships; and
- Tolerance of errors in financial information.

P14. Public sector auditors operating in some environments, such as a Court of Accounts environment, may have additional responsibilities related to when they determine an intention by management to mislead. Such responsibilities often include identifying the individual(s) responsible for such actions and to recommend the filing of the appropriate civil and criminal charges against them.

³ ISSAI 1620, "Using the Work of an Auditor's Expert"

⁴ ISSAI 1315 (Revised), "Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and Its Environment"

ISSAI 1550 - Related Parties

Background

This Practice Note provides supplementary guidance on ISA 550 - Related Parties. It is read together with the ISA. ISA 550 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 550 deals with the auditor's responsibilities relating to related party relationships and transactions in an audit of financial statements. Specifically, it expands on how ISA 240¹, ISA 315 (Revised)², and ISA 330³ are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Definitions
- (c) Risk Assessment Procedures and Related Activities
- (d) Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions
- (e) Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

Applicability of the ISA in Public Sector Auditing

P2. ISA 550 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 550 contains application and other explanatory material with considerations specific to public sector entities in paragraph A8 of the ISA.

Overall Considerations

P4. Public sector entities may also be subject to specific restrictions on the nature and scope of the transactions that they can have with related parties. The restrictions may prohibit transactions or practices that might be permissible in related party relationships outside the public sector.

Definitions

P5. Paragraph 10(b) of the ISA, provides a definition of 'related party' where the applicable financial reporting framework establishes minimal or no related party requirements, including entities under common control. Public sector auditors will note that, under this definition, entities that are under common control by a state (i.e. a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

¹ ISA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"

² ISA 315 (Revised), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment"

³ ISA 330, "The Auditor's Responses to Assessed Risks"

ISSAI 1550 - Related Parties

- P6.** Public sector auditors consider whether the exemption from the definition of related parties of entities under common control by the state leads to areas of greater risk in their audit of public sector entities. For example, there may be a situation where a minister is in control of a number of entities. While these entities may not share resources or transact to a significant extent, there may be many, smaller apparently 'insignificant' transactions taking place which may be deemed irregular. There may also be situations where there is no transaction at all, for example the minister may exert influence on one entity to withhold paying a dividend to another entity in order to influence cash flow and possible budgetary appropriations decisions.
- P7.** Public sector auditors keep the wider definition of related parties in mind when applying the ISA.

Risk Assessment Procedures and Related Activities

- P8.** In obtaining an understanding of the public sector entity's related party relationships and transactions, in addition to the procedures described in paragraphs 11 to 14 of the ISA, public sector auditors have regard to:
- The legal structure and regulatory requirements governing the entity and its related parties, for example whether the entity is a ministry, department, agency or another form of public entity;
 - Understanding the business operations of public sector entities will often include obtaining knowledge of types of government activities carried out including relevant programs and the principal entities it engages with in the execution of those programs;
 - The organizational structure for controlling the entity and establishing accountability, recognizing that in the public sector those charged with governance serve as representatives of the citizens. Ownership of public sector entities may not have the same relevance as in private sector;
 - Obtaining an understanding of the entity's reporting requirements, including those for the disclosure of related party relationships and transactions; and
 - Other regulations that may be relevant to the public sector entity's ability to conduct business with related parties. This may include compliance with procurement regulations, which may include a requirement for public sector entities to demonstrate that transactions with related parties are conducted at arm's length.
- P9.** In the public sector, the discussion on the susceptibility of the entity's financial statements to material misstatement may also cover the additional objectives and related risks of material misstatement, as discussed in paragraph A8 of the ISA. Public sector auditors may include auditors engaged in performance audits and other audit activities of the entity in such a discussion.
- P10.** In the public sector, the discussion among the engagement team related to fraud may include consideration of the susceptibility of the entity's procurement process to fraud carried out by or through related parties.

Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

- P11.** In addition to the assertions set out in paragraph A129 of ISA 315 (Revised), the management of public sector entities may assert that transactions and events have been carried out in accordance with legislation or proper authority. Such assertions may extend to the relationships and transactions with related parties and fall within the scope of the financial statement audit.
- P12.** Public sector auditors may be required by their mandate to consider the legal framework and regulations governing the entity and any requirements or specific limitations these may place on the entity, those charged with governance, management and employees, for entering into and the conduct of transactions with a related party. There may also be limitations on the entity's capacity to establish wholly or partly owned entities which would be deemed related parties.

ISSAI 1550 - Related Parties

P13. There may also be a requirement for those charged with governance of public sector entities, management and employees to declare their interests in entities with which they transact on a professional or commercial basis. Where such legislative requirements exist, public sector auditors need to apply risk assessment procedures to identify and assess the risks of material misstatements arising from non-compliance with those requirements.

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

P14. When designing and performing audit procedures to respond to the risks of material misstatement resulting from related parties as described in paragraphs 20 to 24 of the ISA, public sector auditors consider whether there may be additional requirements for reporting in the public sector, such as compliance with regulations.

P15. Paragraph 23(b) of the ISA requires auditors to obtain evidence that significant transactions with related parties outside the entity's normal course of business are appropriately authorized and approved. In the public sector, the audit mandate may involve a responsibility to report on compliance with laws and regulations. This may include a responsibility to obtain evidence that the relationships and transactions with related parties comply with laws and regulations and have been authorized and approved. Public sector auditors may also have to seek evidence that management has obtained authorization and approval from the legislature, the finance ministry, or a 'parent' or sponsoring department, or the appropriate oversight body. These procedures may apply irrespective of whether the transactions are significant or outside the normal course of business.

P16. Paragraph 24 of the ISA requires auditors to obtain sufficient appropriate evidence about management's assertions that related party transactions are conducted at terms equivalent to those prevailing in an arm's length transaction. In the public sector laws or regulations related to procurement may require that contracts with third parties, including related parties, are subject to competitive tendering or some other form of 'market testing' to demonstrate 'value for money'.

ISSAI 1560 - Subsequent Events

Background

This Practice Note provides supplementary guidance on ISA 560 - Subsequent Events. It is read together with the ISA. ISA 560 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 560 deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks¹ specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events: (a) Those that provide evidence of conditions that existed at the date of the financial statements; and (b) Those that provide evidence of conditions that arose after the date of the financial statements. ISA 700 (Revised)² explains that the date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report
- (b) Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

Applicability of the ISA in Public Sector Auditing

P2. ISA 560 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 560 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A5, A10, A15 and A19 of the ISA.

P4. Public sector requirements with regard to subsequent events may be different as to the date of the auditor's report and other requirements as stipulated by relevant legislation. Public sector auditors familiarize themselves with applicable legislation in regard to subsequent events.

P5. When the audit mandate includes evaluating compliance with laws and regulations, public sector auditors may need to consider subsequent events which may provide additional evidence on the compliance of transactions such as the outcome of a court case. Public sector auditors may consider ISSAI 4000.³

Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report

P6. In addition to the specific inquiries identified in paragraph A9 of the ISA, public sector auditors may also consider events that have occurred which:

- (a) Have relevance for the government entity's ability to fulfill its program objectives; and
- (b) May impact the presentation of any performance information in the financial statements.

¹ International Public Sector Accounting Standard (IPSAS) 14, "Events After the Reporting Date" and International Accounting Standard (IAS 10), "Events After the Reporting Period"

² ISA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements" Paragraph A38.

³ ISSAI 4000, "Compliance Audit Standard"

ISSAI 1560 - Subsequent Events

P7. In addition to the procedures described in paragraph A10 of the ISA, the public sector auditors consider matters arising from relevant proceedings of the legislature and other relevant bodies which the public sector auditors may have become aware of during the course of the audit as being scheduled to take place at or after the period end, the outcome of which may require adjustment of or disclosure in the financial statements.

Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

P8. With respect to auditor action to seek to prevent reliance on the auditor's report in paragraphs A16 and A18 of the ISA, public sector auditors may seek legal advice and also consider reporting to the appropriate statutory body.

ISSAI 1570 (Revised) – Going Concern

Background

This Practice Note provides supplementary guidance on ISA 570 (Revised) - Going Concern. It is read together with the ISA. ISA 570 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 570 (Revised) deals with the auditor's responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the preparation of the financial statements and the implications for the auditor's report.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Going Concern Assumption
- (b) Evaluating Management's Assessment
- (c) Additional Audit Procedures When Events or Conditions Are Identified
- (d) Use of Going Concern Assumption Appropriate But a Material Uncertainty Exists

Applicability of the ISA in Public Sector Auditing

P2. ISA 570 (Revised) is applicable to auditors of public sector entities in their role as auditors of financial statements.

P3. As explained in paragraph A2 of the ISA, management's use of the going concern assumption is also relevant to public sector entities. Sovereign governments, and in particular, sovereign central governments, ordinarily do not become legally insolvent or bankrupt because these governments have wide-ranging powers to levy rates, fees or taxes and so are able to adjust their revenues to meet their obligations. Nevertheless, in some cases governments may have substantial net liabilities relative to the size of the economy or their ability to levy rates, fees, or taxes, or may be substantially dependent upon assistance from other governments. While not common, sovereign governments, including sovereign central governments, can become insolvent in the sense of not being able to meet their obligations when they become due when, for example, the rescheduling of obligations is not possible. The inability of a government to discharge its obligations may also be affected by the extent to which the currency issued by the government, or on its behalf by its central bank, continues to be accepted as a medium of exchange to discharge its financial obligations. For this reason, public sector auditors apply the requirements and guidance in the ISA.

Additional Guidance on Public Sector Issues

P4. ISA 570 (Revised) contains application and other explanatory material with considerations specific to public sector entities in paragraph A2 of the ISA.

Going Concern Assumption

P5. Public sector auditors may have responsibilities relating to going concern other than those to which ISA 570 (Revised) is directly relevant. Public sector auditors may be required to review and report upon the entity's arrangements to maintain its general financial standing.

P6. Public sector entities may spend more in one year than they have resources to cover, such that their income may be less than their expenditure or there is an excess of liabilities over assets. However, it is uncommon for the operational existence of a public sector entity to cease or its scale of operations to be subject to a forced reduction as a result of an inability to finance its operations or of net liabilities.

ISSAI 1570 (Revised) – Going Concern

- P7.** Cessation of a public sector entity is most likely to result from a government policy decision. A policy decision may be taken to wind up and dissolve an entity in its entirety, to scale back its operations and transfer some of its functions to another public entity, merge with another public entity or privatize the entity. In each of these cases the operational existence of all or part of the entity ceases. Only in the case of dissolution without any continuation of the entity would the going concern basis cease to be appropriate. In the other cases public sector auditors consider the basis on which the activities are transferred, from the viewpoint of the entity that is relinquishing the assets and liabilities at the accounting date.
- P8.** In forming a view of the entity's ability to continue its operations, public sector auditors' consideration of going concern embraces two separate, but sometimes overlapping, factors:
- The greater risk associated with changes in policy direction (for example, where there is a change in government); and
 - The less common operational, or business, risk (for example, where an entity has insufficient working capital to continue its operations at its existing level and is unable to raise additional capital).
- P9.** To minimize the risk of changes in government policies not coming to the auditor's attention which could impact on the going concern assumption, the auditor ascertains whether:
- The government has declared its intention to review an area of policy affecting the audited entity;
 - A review has been announced and is in progress;
 - A review has indicated that the audited entity could be rationalized or that an entity's future may be re-examined; or
 - There is a government policy to privatize the activities of the audited entity.

Evaluating Management's Assessment

- P10.** Public sector auditors are aware that changes of government policies can have a significant impact on the status and functions of public sector entities. However, political decisions are often no more uncertain than those unforeseeable risks faced by private sector entities.

Additional Audit Procedures When Events or Conditions Are Identified

- P11.** When considering the requirements of paragraph 16 of the ISA, public sector auditors consider whether to request that the entity secures direct confirmation from the department or executive body responsible for providing financial backing or future funding to the entity. When considering requesting such confirmation, public sector auditors take into account any constraints imposed by the political process. In such circumstances, a representation provided by the responsible financial officer of the entity that financial backing or future funding will be received may not be sufficient as meaningful assurance on the future of an entity. This is because the intentions of the financial backer might not be known by the entity.
- P12.** In addition to the audit procedures set out in A16 of the ISA, public sector auditors may also read official records of changes in policy and relevant proceedings of the legislature and inquire about matters addressed in proceedings for which official records are not yet available.

ISSAI 1570 (Revised) – Going Concern

Use of Going Concern Assumption Appropriate But a Material Uncertainty Exists

P13. When management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, paragraph 19 of the ISA contains requirements for the auditor to determine whether adequate disclosure is made in the financial statements. ISA 570 (Revised) Appendix Illustration 1 provides an illustration of a separate section in the auditor's report with a heading that includes reference to the fact that a material uncertainty related to going concern exists when adequate disclosure is made. ISA 570 (Revised) Appendix Illustration 2 provides an illustration of a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure. ISA 570 (Revised) Illustration 3 provides an illustration of an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

ISSAI 1570 (Revised) – Going Concern

Appendix - Public Sector Auditor's Report Illustrations.

Illustration 1 - When the public sector auditors are satisfied as to the adequacy of the note disclosure:

Material Uncertainty Related to Going Concern

We draw attention to Note X in the financial statements which indicates that the Government has undertaken a review of the Agency's future operations but has not yet decided on a course of action. This situation, along with other matters as set forth in Note X, indicates the existence of a material uncertainty that may cast significant doubt about the Agency's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Illustration 2 - When a qualified opinion is to be expressed because of inadequate disclosure of a material uncertainty:

Qualified Opinion

We have audited the financial statements of ABC Agency (the Agency), which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects (or "give a true and fair view of"), the financial position of the Agency at December 31, 20X1 and (of) its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Basis for Qualified Opinion

The Government has undertaken a review of the Agency's future operations but has not yet decided on the course of action. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Agency's ability to continue as a going concern and therefore the Agency may be unable to realize its assets and discharge its liabilities in the normal course of operations. The financial statements (and notes thereto) do not disclose this matter.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions 1000-1810. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Agency in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

ISSAI 1570 (Revised) – Going Concern

Illustration 3 - When an adverse opinion is to be expressed because of inadequate disclosure of a material uncertainty:

Adverse Opinion

We have audited the financial statements of ABC Agency (the Agency), which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly (or “give a true and fair view of”), the financial position of the Agency as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Basis for Adverse Opinion

The Government has decided that the Agency will cease the operations and be dissolved within the next year. This indicates a material uncertainty that may cast significant doubt on the Agency’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of operations. The financial statements do not disclose this matter.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions 1000-1810. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Agency in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

ISSAI 1580 – Written Representations

Background

This Practice Note provides supplementary guidance on ISA 580 - Written Representations. It is read together with the ISA. ISA 580 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 580 deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance. Appendix 1 of the ISA lists other ISAs containing subject matter-specific requirements for written representations. The specific requirements for written representations of other ISAs do not limit the application of the ISA.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Management from Whom Written Representations Requested
- (c) Communicating a Threshold Amount
- (d) Date of and Period(s) Covered by Written Representations
- (e) Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided

Applicability of the ISA in Public Sector Auditing

P2. ISA 580 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 580 contains application and other explanatory material with considerations specific to public sector entities in paragraph A9 of the ISA.

Overall Considerations

P4. The objectives of a financial audit in the public sector are often broader than to express an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations arising from laws, regulations, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the auditor found any instances of non-compliance with authorities including budget and accountability and/or reporting on the effectiveness of internal control.

P5. In the public sector management's responsibilities may also be broader than those responsibilities in the private sector. When requesting written representations about management's responsibilities, public sector auditors take this broader premise into account.

Management from Whom Written Representations Requested

P6. When considering the guidance in paragraph A2 of the ISA public sector auditors take into account that requirements with regard to responsibility for preparation of financial statements may vary as stipulated by legislation. Public sector auditors familiarize themselves with applicable legislation to identify those from whom written representations should be requested. Public sector auditors may also inform and agree, at the planning stage, with those charged with governance on those individuals identified as responsible for providing written representations.

ISSAI 1580 – Written Representations

Communicating a Threshold Amount

P7. According to paragraph A14 of the ISA the auditor may consider communicating to management a threshold for purposes of the requested written representations. Public sector auditors take into account the broader public sector perspective by which they may be required to communicate all misstatements, even those that have been corrected by the entity, and all control deficiencies, and instances of non-compliance with authorities. For purposes of requesting written representations public sector auditors may consider communicating such requirements.

Date of and Period(s) Covered by Written Representations

P8. As stated in paragraph A15 of the ISA, the date of the written representations should be as near as practical to the date of the auditor's report on the financial statements. In the public sector management representations may sometimes be obtained from high governance levels and it is therefore important for public sector auditors to plan in advance so that written representations may be obtained in time to avoid any delay in issuing the audit report.

Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided

P9. Public sector auditors may be appointed in accordance with statutory procedures and, therefore, may not be in a position to decline or withdraw from an engagement as suggested in paragraph A24 of the ISA. In such cases, public sector auditors may report to the legislature as appropriate.

ISSAI 1580 – Written Representations

Appendix - Public Sector Considerations for the Management Representation Letter

Appendix 2 of the ISA provides an illustrative example of a representation letter. Based on the relevant law, legislation or audit mandate, public sector auditors may choose to include additional items such as:

- Whether the activities and the financial transactions are in compliance with the authorities that govern them;
- Whether the internal control systems have functioned effectively throughout the period covered by the audit;
- Whether the internal audit function has operated effectively throughout the period covered by the audit;
- Whether the government program XYZ has been carried out in an economical, efficient and effective manner;
- Whether management has provided its interpretation of compliance requirements that may have varying interpretations;
- Whether all contracts, grant agreements and other correspondence in regard to agreements involving use of program funds has been made available; or
- Whether management has disclosed all contracts and agreements with service organizations, including any communication with those service organizations relating to instances of non-compliance.

ISSAI 1600 - Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

Background

This Practice Note provides supplementary guidance on ISA 600 - Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors). It is read together with the ISA. ISA 600 is effective for audits of group financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

The ISAs apply to group audits. ISA 600 deals with special considerations that apply to group audits, in particular those that involve component auditors.

An auditor may find ISA 600, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location.

A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. The group engagement team may decide to use the audit evidence on which the audit opinion on the financial statements of the component is based to provide audit evidence for the group audit, but the requirements of ISA 600 nevertheless apply.

In accordance with ISA 220¹, the group engagement partner is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.

The group engagement partner applies the requirements of ISA 220² regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. ISA 600 assists the group engagement partner to meet the requirements of ISA 220² where component auditors perform work on the financial information of components.

Audit risk is defined in ISA 200² as the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risk of material misstatement of the financial statements and the risk that the auditor will not detect such misstatements. In a group audit, this includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and the risk that the group engagement team may not detect this misstatement. ISA 600 explains the matters that the group engagement team considers when determining the nature, timing and extent of its involvement in the risk assessment procedures and further audit procedures performed by the component auditors on the financial information of the components. The purpose of this involvement is to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements.

¹ ISA 220, "Quality Control for an Audit of Financial Statements" paragraphs 14 and 15

² ISA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing" paragraph 13(c)

ISSAI 1600 - Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Definitions
- (c) Acceptance and Continuance
- (d) Understanding the Group, Its Components and Their Environments
- (e) Understanding the Component Auditor
- (f) Materiality
- (g) Responding to Assessed Risks
- (h) Consolidation Process
- (i) Communication with the Component Auditor
- (j) Communication with Group Management and Those Charged with Governance of the Group

Applicability of the ISA in Public Sector Auditing

P2. ISA 600 is applicable to auditors of public sector entities in their role as auditors of the group financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 600 contains application and other explanatory material with considerations specific to public sector entities in paragraph A18 of the ISA.

P4. In some public sector environments it may be required by law or regulation or common practice to make reference to a component auditor in the group auditor's report on the group financial statements. In these situations, if the group auditors' report does not clearly indicate that the reference does not diminish the group auditors' responsibility for the group audit opinion, the audit is not in compliance with paragraph 11 of the ISA.

P5. Public sector group auditors, who refer to a component auditor in the group auditors' report, without making such indication of responsibility as described in paragraph 11 of the ISA, are advised to seek guidance from other sources, such as national auditing standards and other generally accepted sources. These other sources may direct the public sector group auditor to inquire about the professional reputation and independence of the component auditor and to develop appropriate measures to assure the coordination of activities with those of the component auditor in order to achieve a proper review of matters affecting the consolidation process for the group financial statements.

Additional Guidance on Public Sector Issues Overall Considerations

Overall Considerations

P6. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The objectives may include additional auditing and reporting objectives related to, for example, compliance with authorities including budgets and accountability frameworks, and/or effectiveness of internal control. The audit mandate, or obligations arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature, may result in additional reporting requirements. However, even where there are no such additional reporting requirements, there may be public expectations in regard to compliance with authorities or to the effectiveness of internal controls, and the auditor's attention to such matters. Therefore, public sector group auditors keep such expectations in mind, are alert throughout the audit to areas that may give rise to such non-compliance and communicate with component auditors regarding such expectations.

ISSAI 1600 - Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

Definitions

- P7.** When considering the definitions in paragraph 9 of the ISA, in addition to referring to the guidance in paragraphs A2 to A6 of the ISA, additional characteristics may apply in the public sector as follows;
- (a) Component - In a public sector environment, components may also include agencies, departments, bureaus, corporations, funds, component units, districts, joint ventures and non-governmental organizations; and
 - (b) Significant Component - In a public sector environment the determination of significant components may also involve matters that have heightened public sensitivity, such as national security issues, donor funded projects or the reporting on tax revenue.

Acceptance and Continuance

- P8.** Paragraphs 12 to 14 of the ISA establish requirements for acceptance and continuance as group auditor. The inability to be involved in the work of a component auditor as discussed in paragraph 12 of the ISA and the inability to obtain sufficient appropriate audit evidence is less likely to occur in a public sector environment, because laws or regulations may prohibit restrictions of access to information.
- P9.** When complying with the requirements of paragraph 13 of the ISA, in addition to referring to the guidance in paragraph A18 of the ISA, public sector group auditors may communicate with the legislature or other regulatory bodies as appropriate, about removing restrictions on access to audit evidence imposed by group management or laws or regulations. Appendix 1 of this Practice Note provides an example of a modified opinion due to restriction of access to evidence and an example report to the legislature.
- P10.** The significant changes that affect the group engagement team's ability to obtain sufficient appropriate audit evidence, as mentioned in paragraph A12 of the ISA, may in the public sector be affected by additional changes, such as;
- Changes in laws and regulations affecting the financial management information system and/or the financial reporting framework; and
 - Changes in the nature, sources or amounts of funding, including changes in the structure of public debt.

Understanding the Group, Its Components and Their Environments

- P11.** Paragraphs 17 and 18 of the ISA establish requirements for the group auditor to understand the group and its components and guidance is provided in paragraphs A23 to A26 of the ISA. In certain cases, the Government may have relationships with independent entities through transfers or through its role as a regulator for certain industries. In these cases it can be difficult to determine whether the Government's relationship with an entity justifies their inclusion in the group. For example;
- The application of the financial reporting framework may result in the exclusion of a specific type of agency, department, bureau, corporation, fund, district, joint venture or non-governmental organization from the group financial statements. In such cases, if the public sector group auditor believes that this outcome would result in a misleading group financial statement presentation, the public sector group auditor may, in addition to considering the impact on the auditor's report, also consider the need to communicate the matter to the legislature or other appropriate regulatory bodies; or

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- The financial reporting framework may not provide specific guidance for inclusion or exclusion of a specific type of agency, department, bureau, corporation, fund, district, joint venture or non-governmental organization in the group financial statements. In such cases, the public sector group auditor may participate in discussions between group management and component management to determine whether the treatment of the component in the group financial statements will result in fair presentation.

In addition, this difficulty may have implications for using the work of the component auditors. It is possible that group management may not agree with the inclusion of the component in the group financial statements, which, in turn, may limit the ability of the group auditor to communicate with and use the work of the component auditor.

Understanding the Component Auditor

- P12.** Where the public sector group auditor plans to request a component auditor to perform additional audit work on financial information related to a component or the group, the guidance in paragraph A33 of the ISA is particularly relevant. In certain public sector environments the group auditor's methodology may differ from the methodology or practices of component auditors. In such cases the group auditor may prescribe procedures consistent with the group auditor's methodology.
- P13.** When considering paragraph A37 of the ISA, public sector auditors may note that in the public sector, the component auditor may also be subject to the requirements of the INTOSAI Code of Ethics³ as adopted by the public sector audit organization.
- P14.** The second bullet of paragraph A38 of the ISA discusses the group engagement team's understanding of the component auditor's professional competence and whether the component auditor possesses the special skills (e.g. industry specific knowledge) necessary to perform the work. In the context of the public sector environment this would include knowledge of that environment and applicable laws and regulations relevant to the group audit.
- P15.** Paragraph A41 of the ISA discusses circumstances where law or regulation prohibits access to relevant parts of the audit documentation of the component auditor. In such circumstances, the public sector also may consider whether to communicate the matter to the legislature or other appropriate regulatory bodies.

Materiality

- P16.** When determining materiality for the group financial statements as required by paragraphs 21 to 23 of the ISA, public sector auditors may use the guidance in ISSAI 1320⁴ paragraphs P8 and P9, which addresses determining materiality in the public sector. In the context of group financial statements, materiality for classes of transactions, account balances, disclosures as well as component materiality may be assessed at a low level in the public sector. This may occur for a variety of reasons, including the context of the matter, or the nature and characteristics of the systems and entities involved. In addition, there might be requirements for separate opinions on components, thus indicating a need for lower materiality for the components. Furthermore, certain procedures may be required to be performed by audit mandate or legislation, or the public sector auditors may design audit procedures for transactions that are significant solely because of their nature.

³ ISSAI 30, "Code of Ethics"

⁴ ISSAI 1320, "Materiality in Planning and Performing an Audit"

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P17. As required by paragraph 21(d) of the ISA the determination of a threshold, above which misstatements cannot be regarded as clearly trivial to the group financial statements, may be influenced by the nature of the subject matter and public sensitivity. Public sector group auditors also take into account the broader public sector perspective by which they may be required to communicate all misstatements, including those that have been corrected by the entity, and all control deficiencies, and instances of non-compliance with authorities. In such cases no thresholds would be established.

Responding to Assessed Risks

P18. When applying the requirements of paragraph 24 of the ISA at the group level, public sector group auditors may consider that, in the public sector, the nature of activities performed by different components is a major determinant of risk of material misstatement. For instance, the risk of material misstatements in a disaster-relief operation will usually be higher than the risk of material misstatements in a more stable operation such as payment of salaries to schoolteachers. To assess the risk of material misstatements in group wide operations, the group auditor may categorize components according to the nature of their operations, assessing risk for each category separately. Such an exercise may enable the group auditor to determine the nature, timing and extent of the work to be performed.

Consolidation Process

P19. When considering the guidance in paragraph A56 of the ISA, in the context of the public sector there may be a variety of transactions recorded only at the group level especially in the consolidated financial statements of the government. Such transactions may include recording of natural resources or historical treasures. In such cases, group public sector auditors are responsible for obtaining sufficient appropriate audit evidence for these transactions.

Communication with the Component Auditor

P20. When communicating with the component auditor in accordance with paragraph 40 of the ISA, public sector group auditors may find it relevant to provide the component auditors with information on the risk of non-compliance with laws or regulations that could give rise to a material misstatement in the group financial statements or affect the nature, timing and extent of audit procedures and reporting requirements.

Communication with Group Management and Those Charged with Governance of the Group

P21. Public sector group auditors may have reporting responsibilities regarding communicating fraud identified at the component level in addition to the requirements in paragraph 47 of the ISA. These responsibilities may include reporting to parties outside the entity, such as regulatory and enforcement authorities. Further guidance on the public sector auditor's responsibilities on reporting fraud is included in ISSAI 1240.⁵

⁵ ISSAI 1240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"

ISSAI 1600 - Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

Appendix 1 - Example of Basis for Qualified Opinion and Report on Other Legal and Regulatory Requirements for Use in the Public Sector

Appendix 1 of the ISA contains an example of an auditor's report containing a qualified opinion based on the group engagement team's inability to obtain sufficient appropriate audit evidence in relation to a significant component accounted for by the equity method of accounting, but where, in the group engagement team's judgment, the effect is material but not pervasive.

In the public sector a basis for qualified opinion and a report on other legal and regulatory requirements might appear as follows:

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements....

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements.....

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit...

...We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The government's expenditures for program XX is reported as USD 15 million in the consolidated income statement for the year ended December 31, 200X. We were unable to obtain sufficient appropriate audit evidence about these expenditures because we were denied access to the financial information, and/or management, and/or the auditors of that component. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects.....

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Report on Other Legal and Regulatory Requirements

As described in the Basis for Qualified Opinion paragraph noted above, we were denied access to the financial information, and/or management, and/or the auditors of the component responsible for program XX. Law XXX (the mandate under which our office operates) provides our office with complete and unrestricted access to all government information and employees. As a result the denial of access to information regarding program XX is a violation of law XXX and we have begun legal action to obtain this information. We also have requested the legislature to examine this issue.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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Appendix 2 - Examples of Matters about Which the Group Engagement Team Obtains an Understanding

Additional public sector related examples of matters may include:

- Controls over compliance with laws and regulations;
- Adherence to budgetary requirements and spending authorities;
- Consistent classification of codes for reporting budgetary and actual amounts; or
- Participation of group and/or components in public and private partnerships.

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Appendix 3 - Examples of Conditions or Events that May Indicate Risks of Material Misstatement of the Group Financial Statements

These are examples of public sector related conditions in addition to the examples included in Appendix 3 of the ISA, which might indicate risks of material misstatements of the group financial statements.

- Management's lack of knowledge of applicable laws and regulations;
- Budget overspending due to weak budgetary controls;
- Privatizations of components;
- New programs or components;
- Major changes to existing programs or components;
- New financing sources for the group or components and between components;
- Changes in legislation and regulations or directives;
- Political decisions such as reorganization of components;
- Major programs within a component without sufficient allocated resources and/or funding;
- Increased public expectations;
- Procurement of goods and services in certain components, such as defense or national security;
- Outsourcing of component activities;
- Components subject to special investigations or parliamentary or legislative oversight;
- Changes in political leadership;
- Indications of waste or abuse;
- Higher than normal expectations to meet budget;
- Public and private partnerships;
- Political interference in allocation of public resources; or
- Direct influence of government in management and/or lack of professional experience in management versus political appointment.

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Appendix 4 - Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Additional matters that may be relevant in the public sector in addition to requested or suggested matters in appendix 5 of the ISA may include:

- A list of laws and regulations relevant to the audit of the component audit as well as a list of laws and regulations relevant to the group audit; or
- A list of additional procedures that the group auditor determines is necessary to be performed by the component auditor.

ISSAI 1610 (Revised 2013) - Using the Work of Internal Auditors

Background

This Practice Note provides supplementary guidance on ISA 610 (Revised 2013) - Using the Work of Internal Auditors. It is read together with the ISA. ISA 610 (Revised 2013) is effective for audits of financial statements for periods ending on or after December 15, 2014. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 610 (Revised 2013) deals with the external auditor's responsibilities if using the work of internal auditors. This includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Determining Whether, In Which Areas, and To What Extent The Work of the Internal Audit Function Can Be Used
- (c) Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Applicability of the ISA in Public Sector Auditing

P2. ISA 610 (Revised 2013) is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

Overall Considerations

P3. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). Additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the public sector auditors found any instances of non-compliance with authorities, including budgets and accountability frameworks, and/or reporting on the effectiveness of internal control. Public sector auditors may find activities carried out by the internal audit function relating to the entity's non-compliance with authorities including budget and accountability and the entity's effectiveness of internal control relevant to the audit. In such cases public sector auditors may use the work of the internal auditors to supplement the external audit work in these areas.

Determining Whether, in Which Areas, and to What Extent The Work of the Internal Audit Function Can Be Used

P4. Public sector auditors in their determination of whether the work of the internal auditors are likely to be objective for the purposes of the audit, as noted in paragraph 15(a) of the ISA, consider any relevant INTOSAI guidance related to assessing the objectivity of the internal auditors and, if relevant, the existence and reports of any public sector internal audit function oversight body. However, where the internal audit function is established by legislation or regulation, and the following criteria are met, there is a strong indication that the internal audit function may be objective:

- (a) Is accountable to top management, for example the head or deputy head of the government entity, and to those charged with governance;
- (b) Reports the audit results both to top management, for example the head or deputy head of the government entity, and those charged with governance;
- (c) Is located organizationally outside the staff and management function of the unit under audit;
- (d) Is sufficiently removed from political pressure to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal;
- (e) Does not permit internal audit staff to audit operations for which they have previously been responsible for to avoid any perceived conflict of interest; and
- (f) Has access to those charged with governance

Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

P5. The objectives of a financial audit in the public sector are often broader than expressing an opinion in accordance with an applicable financial reporting framework. Such broader objectives often lead to greater expectations of the users of the financial statements, including the public at large, with respect to such matters as the independence of those conducting the audit. For that reason, the expectations of public sector auditors within an applicable jurisdiction, and the public interest generally, may be relevant in the evaluation of the threats and safeguards to using internal auditors to provide direct assistance, in addition to those criteria already identified in the ISA.

ISSAI 1620 - Using the Work of an Auditor's Expert

Background

This Practice Note provides supplementary guidance on ISA 620 - Using the Work of an Auditor's Expert. It is read together with the ISA. ISA 620 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 620 deals with the auditor's responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence. ISA 620 does not deal with: (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220¹; or (b) The auditor's use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert), which is dealt with in ISA 500².

Content of Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Determining the Need for an Auditor's Expert
- (c) The Competence, Capabilities and Objectivity of the Auditor's Expert
- (d) Agreement with the Auditor's Expert

Applicability of the ISA in Public Sector Auditing

P2. ISA 620 is applicable to auditors of public sector entities in their role as auditors of the financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 620 contains application and other explanatory material with considerations specific to public sector entities in paragraph A41 of the ISA.

Overall considerations

P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These responsibilities may include, for example, performing procedures and reporting instances of non-compliance with authorities, and the effectiveness of internal controls. However, even where there are no such additional objectives, there may be general public expectations in this regard. Lack of compliance with legislation or approved mandate or budget, violations of contract provisions or grant agreements, unauthorized or inappropriate expenditures, issues of parliamentary or media interest, issues related to fraud, corruption, waste and abuse are some examples of the above. Public sector auditors may consider using the work of an expert in light of these additional responsibilities.

¹ ISA 220, "Quality Control for an Audit of Financial Statements"

² ISA 500, "Audit Evidence"

Determining the Need for an Auditor's Expert

P5. When determining the need to use the work of an auditor's expert as stated in paragraph 9 of the ISA, public sector auditors consider that, based on the laws, regulations or mandate, financial audits may include additional responsibilities related to fraud. Public sector auditors may in such cases need to use the work of experts from the police or anti-corruption bureaus. For some public sector environments, such as a Court of Accounts environment including judgment mandates, the judgment decision may be based on expert's evidences which become legally binding and force the responsible person of the fraud or corruption to pay penalties and debts. Prosecutors can sue the agent responsible for fraud or corruption and also seize assets necessary to pay the debt.

The Competence, Capabilities and Objectivity of the Auditor's Expert

P6. The issue of independence is of utmost importance in the public sector and may include legislative requirements or government policies with which public sector auditors and experts must comply. The procedures recommended in paragraph A20 of the ISA, related to the evaluation of objectivity may be adopted by public sector auditors to evaluate the independence of the expert. Moreover, when considering independence, public sector auditors may also consider evaluating the expert's actual and perceived political neutrality. Activities which could call into question an expert's political neutrality may include running for or holding political office or taking part in events sponsored by political associations, lobby groups or organizations with political affiliations. These factors should be considered in the context of the expert's level of involvement and the perceived potential for personal benefit and/or bias.

Agreement with the Auditor's Expert

P7. The International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), paragraph 140.1, part A, requires auditors to observe confidentiality at all times, unless specific authority has been given to disclose some information, or there is a legal or professional right or duty to do so. One fundamental difference between the private and public sector is that there may be specific legislative requirements in the public sector related to confidentiality on the one hand, and access by third parties on the other. There is an ongoing need in the public sector to balance confidentiality with the need for transparency and accountability. When considering confidentiality matters as stated in paragraph 11(d) of the ISA, public sector auditors need to be aware of any legislation giving public access to the work of an expert used in the audit in a public sector.

P8. Dealing with requests from outside regulatory entities, police, prosecutors or judges to obtain access to the work of an expert is not unusual in the public sector. Public sector auditors need to inform the expert that his or her evidence or report may be requested from outside the public sector audit organization and be used in other processes or investigations.

P9. Furthermore, the expert that works for the public sector may have additional responsibilities related to confidentiality which may be based on the mandate of the public sector auditor, or laws related to official secrets or private acts. Such legislation may, for example, relate to audits of defense, health, social service or tax agencies. Public sector auditors may need to familiarize themselves with any particular requirements related to confidentiality to which he or she is bound. Public sector auditors may ask the expert to sign a confidentiality term.

P10. The balance between confidentiality and transparency requires the public sector auditors to use professional judgment to ensure that the work of an expert of a confidential nature is clearly identified and treated as such, while at the same time granting access as appropriate. Public sector auditors need to be aware of those clearly defined policies and procedures set up by the audit organization to deal with such situations.

ISSAI 1700 (Revised) - Forming an Opinion and Reporting on Financial Statements

Background

This Practice Note provides supplementary guidance on ISA 700 (Revised) - Forming an Opinion and Reporting on Financial Statements. It should be read together with the ISA. ISA 700 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 700 (Revised) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

ISA 701¹ deals with the auditor's responsibility to communicate key audit matters in the auditor's report. ISA 705 (Revised)² and ISA 706 (Revised)³ deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. ISA 720 (Revised)⁴ deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report.

ISA 700 (Revised) is written in the context of a complete set of general purpose financial statements. ISA 800 (Revised)⁵ deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA 805 (Revised)⁶ deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.

ISA 700 (Revised) promotes consistency in the auditor's report but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Scope of the ISA
- (c) Auditor's Report
- (d) Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements

Applicability of the ISA in Public Sector Auditing

P2. ISA 700 (Revised) is applicable to auditors of public sector entities in their role as auditors of financial statements.

¹ ISA 701, "Communicating Key Audit Matters in the Independent Auditor's Report"

² ISA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report"

³ ISA 706 (Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"

⁴ ISA 720 (Revised), "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements"

⁵ ISA 800 (Revised), "Special Considerations - Audits of Special Purpose Financial Statements"

⁶ ISA 805 (Revised), "Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement"

Additional Guidance on Public Sector Issues

Overall Considerations

- P3.** ISA 700 (Revised) contains application and other explanatory material with considerations specific to public sector entities in paragraph A43 and A75 of the ISA.
- P4.** The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives, which may be of equal importance to the opinion on the financial statements, may include audit and reporting responsibilities, for example, relating to reporting whether public sector auditors found any instances of non-compliance with authorities including budgets and accountability frameworks, and/or reporting on the effectiveness of internal control. However, even when there are no such additional objectives, there may be general public expectations in regard to public sector auditors' reporting of noncompliance with authorities or reporting on effectiveness of internal control. Such additional responsibilities would be reported in a separate section of the auditor's report as further described in paragraph P6 below.

Scope of the ISA

- P5.** Consistency in the auditor's report when the audit has been conducted in accordance with the ISAs, as stated in paragraph 4 of the ISA, promotes credibility in public sector environments as well as the global market place. For public sector entities, legislators and regulators are often the primary users of their financial statements. Legislators represent the citizens, who are the ultimate users of the financial statements.
- P6.** In the public sector, laws and regulations or the audit mandate may lead public sector auditors to report findings in the auditor's report according to the ISAs. Additional findings, disclosures, conclusions, recommendations and management responses, may be reported in a separate report, if required or permitted under A59 of the ISA. This separate report could be issued together with the auditor's report or as prescribed by relevant laws or regulations.
- P7.** Public sector auditors with responsibilities relating to reporting on compliance or non-compliance with authorities may consider ISSAI 4000⁷. Public sector auditors may apply ISAE 3000 (Revised)⁸ for other assurance engagements.

Auditor's Report

- P8.** In the public sector, law or regulation may set out the responsibilities for the financial statements and the auditor should determine the responsibilities of management and those charged with governance⁹ that will be included in the auditor's report as required by ISA 700 (Revised) paragraphs A40 to A42.
- P9.** ISSAI 1220 should be referred to when reporting on ethical responsibilities in the Basis for Opinion section in accordance with paragraph 28 of the ISA.

⁷ ISSAI 4000, "Compliance Audit Standard"

⁸ ISAE 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"

⁹ ISA 260 (Revised), "Communication with Those Charged with Governance"

ISSAI 1700 (Revised) - Forming an Opinion and Reporting on Financial Statements

- P10.** In cases where public sector auditors are required by laws or regulations to use specific layout or wording in the auditor's report, public sector auditors are required to evaluate whether such layout or wording contains the minimum elements, as described in paragraph 50 of the ISA. If such elements are not included, public sector auditors cannot state that the audit complies with the ISAs.
- P11.** The illustrative examples provided in the ISA are, amended as necessary, applicable and relevant to the public sector.
- P12.** When applying paragraph A21 of the ISA and when law, regulation or the terms of the engagement do not specify the addressee for the auditor's report, public sector auditors address the auditor's report to those charged with governance or relevant part of the legislature, as appropriate.
- P13.** Laws and regulations may establish deadlines for the date of the auditor's report. In circumstances where public sector auditors are unable to meet the deadline, public sector auditors may consider taking appropriate actions such as informing those charged with governance or the legislature.

Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements

- P14.** A general purpose financial statement framework in the public sector may include additional reports such as a comparison of budget and actual amounts, reports on performance and appropriation reports to constitute a complete set of financial statements. In such circumstances, public sector auditors evaluate those reports in accordance with the guidance provided in A6 of the ISA.

ISSAI 1701 - Communicating Key Audit Matters in the Independent Auditor's Report

Background

This Practice Note provides supplementary guidance on ISA 701 - Communicating Key Audit Matters in the Independent Auditor's Report. It is read together with the ISA. ISA 701 is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 701 concerns communicating key audit matters in the auditor's report. Public sector auditors must apply ISA 701 when performing the audit of a complete set of general purpose financial statements of a listed entity. A public sector auditor may be required to communicate key audit matters for all audited entities. Given the importance of government policies to the economy and the significant impact of a government's policies and decisions on the citizens that it serves, public sector auditors should consider reporting key audit matters in the auditor's report, for entities other than listed entities, as explained in P3.

Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

The inclusion of key audit matters in the auditor's report is intended to highlight, "through the eyes of the auditor", matters of significance identified as a result of the audit performed.

The auditor's report is the key deliverable addressing the output of the audit process for users of the audited financial statements. The purposes of reporting on key audit matters in the audit report are to:

- Increase transparency about the audit that was performed.¹ Public sector auditors are encouraged to enhance transparency of their own work and reporting on key audit matters is a means of achieving this.
- Focus users of the financial statements on areas in the financial statements that are subject to significant management judgment and significant auditor attention, which may assist the users in better understanding the entity and financial statements, and the outcome of the audit as reflected in the auditor's opinion.
- Provide users a basis to further engage with management and those in charge of governance, about certain matters related to the entity, the audited financial statements, or the audit that was performed.
- Renew auditor focus on matters to be communicated, which could indirectly result in an increase in professional skepticism, among other contributors to audit quality.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- a) Scope of the ISA
- b) Communicating Key Audit Matters

Applicability of ISA 701 to the Public Sector

P2. ISA 701 is applicable to auditors of public sector entities in their role as auditors of financial statements.

¹ ISSAI 12, "The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens" – Principle 6.3

Additional Guidance on Public Sector Issues

Scope of the ISA

- P3.** Application of ISA 701 is mandatory for the audit of general purpose financial statements of listed entities and may also be applied on a voluntary basis for other audits. The rationale for requiring the reporting of key audit matters only for listed entities is derived from the material impact that such entities have on markets and economies as a whole. Given that the public sector is a significant participant of any economy and is responsible for maintaining and providing important functions that affect citizens, public sector auditors should also consider reporting key audit matters when auditing entities other than listed entities.
- P4.** When deciding to communicate key audit matters when auditing entities other than listed entities, public sector auditors may consider the following criteria:
- If laws and regulations or the audit mandate require the public sector auditors to report specific issues related to the work of the auditor which would be similar to key audit matters, the public sector auditors should consider whether communication of key audit matters in the auditor's report would be relevant.
 - Communication on matters similar to key audit matters that are required by law and regulation may be communicated in different ways. If communicated in the auditor's report, the application of ISA 701 might be irrelevant but when the communication is presented in separate reports only addressing specific users, the public sector auditor may find it relevant to apply ISA 701 since the auditor's report will reach all potential stakeholders and users.
 - Paragraph A70 of ISA 700 (Revised) provides further guidance on the interaction between key audit matters and other reporting requirements in the public sector.
- P5.** If the public sector auditor decides to apply ISA 701 for an audit of an entity other than a listed entity, it may be advisable to establish a policy to communicate key audit matters for all audited entities (other than listed entities) or just specific entities. Criteria may be established to identify audited entities for which key audit matters will be communicated. Examples of such criteria:
- Audited entities with the highest impact on the state budget
 - Audited entities with the largest impact on the consolidated financial statements Audited entities which will affect the market (e.g. national debt)

Communicating Key Audit Matters

- P6.** When communicating key audit matters, public sector auditors should consider laws and regulations that restrict the reporting of such information by imposing confidentiality requirements. The need for confidentiality may be based on the mandate of the public sector auditor or legislation related to official secrets or privacy. Audits of entities responsible for defence, health, social service and taxation may be subject to such restrictions for example. Public sector auditors should identify such laws and regulations and should consider these confidentiality requirements when determining the key audit matters to communicate. Paragraphs 14 and A52 – A56 of the ISA provide guidance on how this circumstance may be addressed.

Appendix - Illustrative example

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Special Purpose Properties

XYZ's holdings of special purpose properties represents XX % of the total amount of material assets. Due to their unique structure and terms, the valuations of these properties are based on an internally developed valuation model and not on quoted prices in active markets. This introduces significant measurement uncertainty in the valuations. As a result, the audit of the valuations of these properties was significant to our audit.

We have involved our valuation specialists and external experts in addressing this matter and we focused our audit work on:

- Evaluating and assessing the appropriateness of the assumptions used by the management;
- Analyzing the results with relevant third-party data as applicable;
- Testing the internal controls within the application used to perform the valuations.

We also evaluated the presentation and disclosure of the transactions within the financial statements. Disclosures about the valuation of the special purpose properties are provided in Note 10.²

² Paragraph 13 of the ISA.

ISSAI 1705 (Revised) - Modifications to the Opinion in the Independent Auditor's Report

Background

This Practice Note provides supplementary guidance on ISA 705 (Revised) - Modifications to the Opinion in the Independent Auditor's Report. It is read together with the ISA. ISA 705 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 705 (Revised) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA 700 (Revised)¹, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

Types of Modified Opinions

ISA 705 (Revised) establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- (b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Circumstances When a Modification to the Auditor's Opinion is Required
- (c) Determining the Type of Modification to the Auditor's Opinion
- (d) Nature of Material Misstatements
- (e) Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence
- (f) Form and Content of the Auditor's Report When the Opinion is Modified
- (g) Communication With Those Charged With Governance

Applicability of the ISA in Public Sector Auditing

P2. ISA 705 (Revised) is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 705 (Revised) contains application and other explanatory material with considerations specific to public sector entities in paragraph A14 of the ISA.

¹ ISSAI 1700 (Revised), "Forming an Opinion and Reporting on Financial Statements"

ISSAI 1705 (Revised) - Modifications to the Opinion in the Independent Auditor's Report

Overall Considerations

- P4.** The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives, which may be of equal importance to the opinion on the financial statements, may include audit and reporting responsibilities, for example, relating to reporting whether public sector auditors found any instances of non-compliance with authorities including budgets and accountability frameworks, and/or reporting on the effectiveness of internal control. However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities or reporting on effectiveness of internal control. Public sector auditors with responsibilities concerning non-compliance with authorities may consider ISSAI 4000².
- P5.** Public sector auditors may apply ISAE 3000 (Revised)³ for other assurance engagements.

Circumstances When a Modification to the Auditor's Opinion is Required

- P6.** In addition to the requirements in paragraph 6 of the ISA, public sector auditors having responsibilities relating to non-compliance with authorities or internal control, while conducting the audit of financial statements, consider that a modified opinion on these elements does not in itself lead to a modified opinion on the financial statements. Public sector auditors consider whether the matter related to non-compliance is:
- Appropriately disclosed in the financial statements as required by the applicable financial reporting framework;
 - Properly accounted for in the financial statements as regards the financial consequences of that non-compliance; and
 - Material or pervasive and therefore requires a modified opinion on the financial statements.

Determining the Type of Modification to the Auditor's Opinion

- P7.** In addition to the responses required by paragraph 13(b) of the ISA, public sector auditors may be required to, or decide to, report to the legislature or other regulatory bodies as appropriate about any instances of management refusing to remove restrictions on access to audit evidence.

Nature of Material Misstatements

- P8.** When applying paragraph A3 of the ISA, public sector auditors will also find further guidance in ISSAI 1450.⁴

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence

- P9.** Additional examples of circumstances beyond the control of the entity as described in paragraph A10 of the ISA may, in the public sector, include limitations imposed by:
- Those charged with governance or other parts of the legislature.
 - Regulations on classification of information due to national security and proprietary information.

² ISSAI 4000, "Compliance Audit Standard"

³ ISAE 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"

⁴ ISSAI 1450, "Evaluation of Misstatements Identified During the Audit"

ISSAI 1705 (Revised) - Modifications to the Opinion in the Independent Auditor's Report

P10. Additional examples of circumstances relating to the nature or timing of the auditor's work as described in paragraph A11 of the ISA may, in the public sector, include legislative changes, national disasters and political decisions such as military operations and major relocation of government operations.

Form and Content of the Auditor's Report When the Opinion Is Modified

P11. In the public sector, it may not always be relevant to quantify the effect on income tax, income before taxes, net income and equity, as suggested in paragraph A22 of the ISA. Public sector auditors may instead quantify the effects on the financial statements in other terms such as gross expenditures, gross revenue or national debt or surplus.

P12. The illustrations provided in the appendix of the ISA may be useful to public sector auditors in developing a modified auditor's opinion.

Communication With Those Charged with Governance

P13. Public sector auditors may be required to, or may decide to, communicate with other intended users, such as the legislature, in addition to those charged with governance, as set out in paragraph 30 of the ISA.

ISSAI 1706 (Revised) - Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditor's Report

Background

This Practice Note provides supplementary guidance on ISA 706 (Revised) - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report. It is read together with the ISA. ISA 706 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 706 (Revised) provides the requirements for an auditor who, having formed an opinion on the financial statements, has determined that it is necessary to draw users' attention, by way of clear additional communication in the auditor's report, to:

- (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
- (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

ISA 706 (Revised) also guides the relationship between key audit matters and any additional communication in the auditor's report when the auditor includes a Key Audit Matters section in the auditor's report.

Appendices 1 and 2 of the ISA identify ISAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor's report. In those circumstances, the requirements in the ISA regarding the form and placement of such paragraphs apply.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Emphasis of Matter Paragraphs in the Auditor's Report
- (b) Other Matter Paragraphs in the Auditor's Report
- (c) Communication With Those Charged With Governance

Applicability of the ISA in Public Sector Auditing

P2. ISA 706 (Revised) is applicable to auditors of public sector entities in their role as auditors of financial statements.

ISSAI 1706 (Revised) - Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditor's Report

Additional Guidance on Public Sector Issues

Emphasis of Matter Paragraphs in the Auditor's Report

P3. In the public sector, audit mandates or expectations may expand circumstances relevant for reporting by public sector auditors in an Emphasis of Matter paragraph. Refer to paragraph A7 of the ISA and paragraph A8 of ISA 701 when considering reporting in an Emphasis of Matter paragraph the examples provided below and in paragraph A5 of the ISA:

- Legislative actions on programs or the budget;
- Contradictive laws, regulations or directives with a significant effect on the entity;
- Fraud, abuse or losses;
- Significant transactions;
- Significant internal control deficiencies;
- Questionable business practices;
- Transactions entered into without due regard for economy;
- Prior period restatements;
- Environmental issues;
- Corporate social responsibility issues;
- Ethical issues (proper behavior by public officials); or
- Ineffective and uneconomical use of public assets.

P4. Auditors shall exercise caution when electing to report key audit matters in the auditor's report to ensure items most appropriately addressed as key audit matters are not presented as Emphasis of Matters or Other Matters as directed by ISA 701¹ paragraph A8.

Other Matter Paragraphs in the Auditor's Report

P5. The same examples provided in paragraph P2 above may be relevant for Other Matter Paragraphs, as outlined in paragraph 10 of the ISA, when the information is not disclosed in the financial statements.

P6. Restrictions on distribution or use of the auditor's report, as suggested in paragraph A14 of the ISA, may not be an option in the public sector. Further guidance on restriction on distribution or use is provided in ISA 800 (Revised)² paragraph 14.

Communication with Those Charged with Governance

P7. Paragraph 12 of the ISA requires the auditor to communicate with those charged with governance if the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report. Public sector auditors may be required to or decide to communicate with other intended users, such as the legislature, in addition to those charged with governance.

P8. When considering paragraph A18 of the ISA, public sector auditors may be expected to communicate with those charged with governance on all matters included in an Other Matters paragraph even those matters that are recurring. Public sector auditors may also decide to communicate recurring matters to other parties such as the legislature.

¹ ISA 701, "Communicating Key Audit Matters in the Independent Auditor's Report"

² ISA 800 (Revised), "Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks"

ISSAI 1710 - Comparative Information - Corresponding Figures and Comparative Financial Statements

Background

This Practice Note provides supplementary guidance on ISA 710 - Comparative Information - Corresponding Figures and Comparative Financial Statements. It is read together with the ISA. ISA 710 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 710 deals with the auditor's responsibilities relating to comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in ISA 510¹ regarding opening balances also apply.

The Nature of Comparative Information

The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by laws or regulations but may also be specified in the terms of engagement.

The essential audit reporting differences between the approaches are:

- (a) For corresponding figures, the auditor's opinion on the financial statements refers to the current period only; whereas
- (b) For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

ISA 710 addresses separately the auditor's reporting requirements for each approach.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Scope of the ISA
- (b) Audit Reporting

Applicability of the ISA in Public Sector Auditing

P2. ISA 710 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

Scope of the ISA

P3. As noted in paragraph 2 of the ISA, the approach to be adopted in regard to reporting responsibilities in respect of comparative information is often specified by laws or regulations. Public sector auditors therefore need to consider the audit mandate in addition to any terms of the engagement.

¹ ISA 510 "Initial Audit Engagements – Opening Balances"

ISSAI 1710 - Comparative Information - Corresponding Figures and Comparative Financial Statements

Audit Reporting

- P4.** Normally the situations described in paragraphs 13, 17 and 18 of the ISA are less likely to occur in the public sector as the responsibility to audit the financial statements may reside with the public sector auditor as defined in its mandate. Situations where the concept of predecessor auditor may be relevant are nationalization and privatization. When the audit of the financial statement is contracted out and the responsibility of the audit remains within the public sector auditor, the concept of a predecessor auditor will not be relevant. It is further less likely that situations described in paragraphs 14 and 19 of the ISA, an unaudited prior period, would occur.
- P5.** If the corresponding figures are amended, as stated in paragraph A3 of the ISA, the auditor is not required to refer to the corresponding figures in the auditor's report. It may however be appropriate to include an Other Matter Paragraph in accordance with ISA 706 (Revised)².

² ISA 706 (Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"

ISSAI 1720 - The Auditor's Responsibilities Relating to Other Information

Background

This Practice Note provides supplementary guidance on ISA 720 (Revised) - The Auditor's Responsibilities Relating to Other Information. It is read together with the ISA. ISA 720 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 720 (Revised) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose. The auditor reads and considers the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained during the course of the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Definition of Annual Report
- (b) Definition of Other Information
- (c) Withdrawal From the Engagement

Applicability of the ISA in Public Sector Auditing

P2. ISA 720 (Revised) is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA720 (Revised) contains application and other explanatory material with considerations specific to public sector entities in paragraph A47 of the ISA.

Definition of Annual Report

P4. 'Annual Report' is defined in paragraph 12(a) of the ISA. Paragraphs A1 to A4 of the ISA provide guidance on what constitutes an annual report. This definition applies to the public sector but the following should also be considered.

In compliance with law, regulation or custom, public sector entities may also publish annually further reports such as annual activity reports or documents reporting on the sustainability of their finances or activities.

Public sector auditors should obtain an understanding of the scope, contents, purposes and intended addressees of any documents published annually by the auditee (whether on traditional media or electronically). On the basis of this understanding, public sector auditors should identify, in liaison with management, the entity's annual report(s).

Public sector auditors should consider whether it is necessary to issue guidance within their organization to ensure that the identification of entity annual reports is performed on a consistent basis across all of the audited entities.

ISSAI 1720 - The Auditor's Responsibilities Relating to Other Information

Definition of Other Information

P5. 'Other information' is defined in paragraph 12(c) of the ISA as financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. This definition applies to the public sector.

Withdrawal from the Engagement

P6. When circumstances surrounding a refusal to correct a material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit, withdrawal from the engagement may be appropriate.

Paragraph A47 of the ISA provides that where withdrawal from an engagement is not possible in the public sector, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions. Other appropriate actions may include reporting another matter paragraph highlighting management's refusal to correct material misstatements of the other information. Alternatively, the auditor may also conclude that a disclaimer of opinion on the financial statements is the appropriate response in the circumstances. More than one action may be necessary depending on the circumstances encountered.

ISSAI 1800 (Revised) - Special Considerations - Audits of Special Purpose Financial Statements

Background

This Practice Note provides supplementary guidance on ISA 800 (Revised) - Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks. It is read together with the ISA. ISA 800 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISAs in the 100-700 series apply to an audit of financial statements. ISA 800 (Revised) deals with special considerations in the application of those ISAs to an audit of financial statements prepared in accordance with a special purpose framework. ISA 800 (Revised) is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework.

ISA 805 (Revised)¹ deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. ISA 810 (Revised)² deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor.

ISA 800 (Revised) does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Definitions of Special Purpose Frameworks
- (c) Considerations When Accepting the Engagement
- (d) Forming an Opinion and Reporting Considerations

Applicability of the ISA in Public Sector Auditing

P2. ISA 800 is applicable to auditors of public sector entities when engaged to audit financial statement prepared in accordance with special purpose frameworks.

Additional Guidance on Public Sector Issues

Overall Considerations

P3. The objectives of public sector audits of financial statements may be broader than the objective defined in the underlying ISA. Examples on such broader objectives could be reporting responsibilities on instances of non-compliance with authorities including budget and accountability, and/or reporting on the effectiveness of internal control. If such other reporting responsibilities apply, the audit work should be considered subjected to ISSAs on performance audits or compliance audits. Other relevant frameworks or standards could be relevant. Forming an opinion and reporting on objectives other than those covered by the ISA 800 should follow the guidance in P9 of this Practice Note.

¹ ISA 805 (Revised), "Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement"

² ISA 810 (Revised), "Engagements to Report on Summary Financial Statements"

Definitions of Special Purpose Frameworks

- P4.** As stated in paragraph 6(a) of the ISA, “special purpose financial statements” are financial statements prepared in accordance with a special purpose framework, which is a framework designed to meet the financial information needs of specific users.
- P5.** In addition to preparing general purpose financial statements, a public sector entity may prepare financial statements for other parties (such as governing bodies, the legislature or other parties that perform an oversight function) that can demand financial statements tailored to meet their specific information needs. In some environments such financial statements are the only financial statements prepared by the public sector entity. Based on paragraph A4 of the ISA, even when such financial statements are the only financial statements prepared by the public sector entity, they are considered to be special purpose financial statements. Public sector auditors, therefore, carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users (“general purpose framework”) or the financial information needs of specific users.
- P6.** Paragraph A1 of the ISA provides examples of special purpose frameworks. Other examples may include the financial reporting provisions of a grant facility or a specific public sector program.

Considerations When Accepting the Engagement

- P7.** Paragraph 8 of the ISA explains that an understanding of the steps taken by management to determine that the financial reporting framework is acceptable in the circumstances may assist the auditor in determining the acceptability of that framework in line with the requirements of ISA 210. In the public sector the financial reporting framework may be prescribed by law or regulation. Paragraph A6 of the ISA explains that, where law or regulation prescribes the financial reporting framework to be used by management in the preparation of special purpose financial statements, such a framework is presumed to be acceptable in the absence of indications to the contrary.

Forming an Opinion and Reporting Considerations

- P8.** Paragraph 11 of the ISA requires the auditor to apply the requirements of ISA 700 (Revised) when forming an opinion. In the public sector, legislation governing the audit mandate may specify the layout of, or wording to be used in, the auditor’s report. When public sector auditors prepare the auditor’s report using the layout or wording specified in such legislation, the auditor’s report can refer to the audit being conducted in accordance with ISAs, and the legislation governing the audit mandate, only if the auditor’s report includes, at a minimum, each of the elements specified in paragraph 50 (a)-(o) of ISA 700 (Revised).
- P9.** Legislation or mandated responsibilities in the public sector may require the auditor’s report on special purpose financial statements to address other reporting responsibilities in addition to the auditor’s responsibilities under the ISAs. If this applies, the auditor’s report shall describe the requirements of any such relevant legislation or of the audit mandate. Such a description is included in a separate section of the auditor’s report. If the relevant legislation or the audit mandate specifies the format for, or wording to be used in this section, public sector auditors may use the prescribed wording but should ensure that the requirements of ISA700 (Revised) paragraphs 43 to 45 are effectively met.

ISSAI 1800 (Revised) - Special Considerations - Audits of Special Purpose Financial Statements

- P10.** When management has a choice of financial reporting frameworks, paragraph 13(b) of the ISA requires that the reference to the applicable financial reporting framework in the statement of management's responsibility for the special purpose financial statements be expanded to include the responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances of the engagement. As discussed in paragraph P6 above, it is unlikely that, in the public sector, management has such a choice. In any event, public sector auditors determine whether to expand the statement of management's responsibility for the special purpose financial statements to refer to the source that determines the financial reporting framework applied.
- P11.** Paragraph 14 of the ISA requires the auditor's report to include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. Paragraph A21 of the ISA explains that the auditor may also consider including a statement in the auditor's report that it is intended solely for the specific users and that depending on law or regulation this may be achieved by restricting the distribution or use of the auditor's report. In the public sector this may not be an option as the auditor's report is ordinarily a public document. However, to avoid misleading users of the auditor's report, public sector auditors include in their report the statement that the financial statements have been prepared in accordance with a special purpose framework.

ISSAI 1805 (Revised) - Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Background

This Practice Note provides supplementary guidance on ISA 805 (Revised) - Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement. It is read together with the ISA. ISA 805 (Revised) is effective for audits of single financial statements or of specific elements, accounts or items for periods ending on or after December 15, 2016. In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement prepared as at a specific date, ISA 805 (Revised) is effective for audits of such information that was prepared on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISAs in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. ISA 805 (Revised) deals with special considerations in the application of those ISAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, ISA 800 (Revised)¹ also applies to the audit. ISA 805 (Revised) does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see ISA 600). ISA 805 (Revised) does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Overall Considerations
- (b) Considerations When Accepting the Engagement
- (c) Forming an Opinion and Reporting Considerations

Applicability of the ISA in Public Sector Auditing

P2. ISA 805 is applicable to auditors of public sector entities when engaged to audit a single financial statement or a specific element, account or item of a financial statements.

Additional Guidance on Public Sector Issues

Overall Considerations

P3. The objectives of public sector audits of financial statements may be broader than the objective defined in the underlying ISA. Examples on such broader objectives could be reporting responsibilities on instances of non-compliance with authorities including budget and accountability, and/or reporting on the effectiveness of internal control. If such other reporting responsibilities apply, the audit work should be considered subjected to ISSAs on performance audits or compliance audits. Other relevant frameworks or standards could be relevant. Forming an opinion and reporting on objectives other than those covered by the ISA805 should follow the guidance in P9 of this Practice Note.

¹ ISA 800 (Revised), "Special Considerations - Audits of Special Purpose Financial Statements"

ISSAI 1805 (Revised) - Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Considerations When Accepting the Engagement

- P4.** When considering paragraph 7 of the ISA, public sector auditors may be engaged to audit single financial statements, specific elements, accounts or items such as to audit projects financed by the government in organizations in which they are not engaged to audit the complete set of financial statements. The guidance set out in paragraph A6 of the ISA to discuss with management whether another type of engagement might be more practicable when an audit in accordance with the ISAs may not be practicable, is normally not an option for public sector auditors since public sector auditors may need to determine and agree such issues with the legislature or with those with responsibility to direct the audit organization.
- P5.** A public sector entity may prepare financial information, including single financial statements, specific elements, accounts or items of a financial statement for other parties (such as governing bodies, the legislature or other parties that perform an oversight function). Such information may fall under the audit mandate of a public sector audit organization. Public sector auditors engaged in such audits carefully consider the guidance in paragraphs A5 to A9 of the ISA in such cases.
- P6.** When public sector auditors are engaged to report on single financial statements, specific elements, accounts or items of a financial statement in conjunction with an audit of the entity's financial statements, they determine whether laws, regulations or the audit mandate may prescribe wording for the opinion in the auditor's report that differs significantly from the guidance provided in paragraphs A8 and A9 of the ISA. Paragraphs 18 to 21 of ISA 210 deal with the auditor's additional considerations in engagement acceptance.
- P7.** Paragraph 8 of the ISA explains that an understanding of the steps taken by management to determine that the financial reporting framework is acceptable in the circumstances may assist the auditor in determining the acceptability of that framework. In the public sector, however, the financial reporting framework may be prescribed by law or regulation.

Forming an Opinion and Reporting Considerations

- P8.** In the public sector, legislation governing the audit mandate may specify the layout of, or wording to be used in, the auditor's report. When public sector auditors prepare the auditor's report using the layout or wording specified in such legislation, the auditor's report can refer to the audit being conducted in accordance with ISAs, and the legislation governing the audit mandate, only if the auditor's report includes, at a minimum, each of the elements specified in paragraph 50 (a)-(o) of ISA 700 (Revised)².
- P9.** Legislation or audit mandate responsibilities in the public sector may require the auditor's report on audits of single financial statements and specific elements, accounts, or items of a financial statement to address other reporting responsibilities in addition to the auditor's responsibilities under the ISAs. If this applies, the auditor's report shall describe the requirements of any such relevant legislation or of the audit mandate. Such a description is included in a separate section of the auditor's report. If the relevant legislation or the audit mandate specifies the format for, or wording to be used in this section, public sector auditors may use the prescribed wording but should ensure that the requirements of ISA 700 (Revised) paragraphs 43 to 45 are effectively met.

² ISA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements"

ISSAI 1805 (Revised) - Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

P10. Paragraph 15 of the ISA requires the auditor to consider whether to modify the auditor's report on an element in a similar manner as the auditor's report on the entity's financial statements. Public sector auditors also consider whether to modify the auditor's report on an element based on modified opinions in the auditor's report on the entity's financial statements that relate to additional reporting responsibilities as described in P8. Even when such modified opinion does not relate to the audited element, public sector auditors nevertheless consider whether to include a reference to the modified opinion in the auditor's report on the element. Factors that may affect the public sector auditor's consideration include the requirements of relevant legislation or the audit mandate, other specific provisions for the engagement, and whether omission of such reference from the auditor's report on the element might be misleading.

ISSAI 1810 (Revised) - Engagements to Report on Summary Financial Statements

Background

This Practice Note provides supplementary guidance on ISA 810 (Revised) - Engagements to Report on Summary Financial Statements. It is read together with the ISA. ISA 810 (Revised) is effective for engagements to report on summary financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 810 (Revised) deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs by that same auditor.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:

- (a) Auditor's Report on Summary Financial Statements
- (b) Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting
- (c) Auditor Association

Applicability of the ISA in Public Sector Auditing

P2. ISA 810 is applicable to auditors of public sector entities when engaged to report on summary financial statements.

Additional Guidance on Public Sector Issues

Auditor's Report on Summary Financial Statements

- P3.** In reporting on the financial statements from which the summary financial statements have been derived, public sector auditors might have expressed an opinion in addition to the opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. For example, public sector auditors might have reported on whether they have found any instances of non-compliance with authorities including budget and accountability, or expressed an opinion on the effectiveness of internal control. In such cases, in addition to the requirements set out in paragraph 16 of the ISA, public sector auditors include a reference to such an additional opinion in the auditor's report on the summary financial statements.
- P4.** In the public sector, the elements of the auditor's report, including the form and wording of the opinion may be prescribed by law or regulation or defined by the audit mandate. In such circumstances, public sector auditors apply the prescribed wording, taking into account paragraph 10 of the ISA.
- P5.** Paragraph 19 of the ISA also applies in circumstances where the public sector auditor's report on the financial statements from which the summary financial statements have been derived includes a qualified opinion, an Emphasis of Matter paragraph, an Other Matter paragraph, a Material Uncertainty Related to Going Concern section, communication of key audit matters or a statement that describes an uncorrected material misstatement of the other information.

ISSAI 1810 (Revised) - Engagements to Report on Summary Financial Statements

Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting

P6. Taking into account paragraph 22 of the ISA, restricting the distribution or use of a public sector auditor's report normally is not an option as the auditor's report ordinarily is a public document.

Auditor Association

P7. Paragraphs 26 to 27 of the ISA require the auditor to take action to avoid being associated with summary financial statements on which the auditor has not reported. Public sector auditors may also take other action depending on relevant legislation and the audit mandate. Such action may include formal reports to the legislature.

Appendix A - Public Sector Text in the International Standards on Auditing (ISAs)

ISA	Paragraph Reference	ISA Text Extract
200	13d	Auditor – The person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.
200	13o	Those charged with governance – The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
200	A8	<p>The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements:</p> <ul style="list-style-type: none"> • For example, the International Public Sector Accounting Standard (IPSAS), <i>Financial Reporting under the Cash Basis of Accounting</i>, issued by the International Public Sector Accounting Standards Board states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares its financial statements in accordance with that IPSAS.
200	A11	The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the premise, relating to management’s responsibilities, on which an audit of the financial statements of a public sector entity is conducted may include additional responsibilities, such as the responsibility for the execution of transactions and events in accordance with law, regulation or other authority.
200	A59	The ISAs are relevant to engagements in the public sector. The public sector auditor’s responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an audit of financial statements in accordance with the ISAs. These additional responsibilities are not dealt with in the ISAs. They may be dealt with in the pronouncements of the International Organization of Supreme Audit Institutions or national standard setters, or in guidance developed by government audit agencies.
200	A65	When appropriate, additional considerations specific to audits of smaller entities and public sector entities are included within the application and other explanatory material of an ISA. These additional considerations assist in the application of the requirements of the ISA in the audit of such entities. They do not, however, limit or reduce the responsibility of the auditor to apply and comply with the requirements of the ISAs.

Appendix A - Public Sector Text in the International Standards on Auditing (ISAs)

ISA	Paragraph Reference	ISA Text Extract
210	A4	<p>Factors that are relevant to the auditor’s determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:</p> <ul style="list-style-type: none"> • The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization); • The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users); • The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and • Whether law or regulation prescribes the applicable financial reporting framework.
210	A8	<p>At present, there is no objective and authoritative basis that has been generally recognized globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organizations that are authorized or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organizations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.</p> <p>Examples of such financial reporting standards include:</p> <ul style="list-style-type: none"> • International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board; • International Public Sector Accounting Standards (IPSASs) promulgated by the International Public Sector Accounting Standards Board; and • Accounting principles promulgated by an authorized or recognized standards setting organization in a particular jurisdiction, provided the organization follows an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. <p>These financial reporting standards are often identified as the applicable financial reporting framework in law or regulation governing the preparation of general purpose financial statements.</p>
210	A29	<p>Law or regulation governing the operations of public sector audits generally mandate the appointment of a public sector auditor and commonly set out the public sector auditor’s responsibilities and powers, including the power to access an entity’s records and other information. When law or regulation prescribes in sufficient detail the terms of the audit engagement, the public sector auditor may nonetheless consider that there are benefits in issuing a fuller audit engagement letter than permitted by paragraph 11.</p>
210	A39	<p>In the public sector, specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if the entity attempts to limit the scope of the audit.</p>

Appendix A - Public Sector Text in the International Standards on Auditing (ISAs)

ISA	Paragraph Reference	ISA Text Extract
220	A7	Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 11. This may include, where the public sector auditor's mandate does not permit withdrawal from the engagement, disclosure through a public report, of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.
220	A9	In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and audit engagements as set out in paragraphs 12, 13 and A8 may not be relevant. Nonetheless, information gathered as a result of the process described may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.
220	A12	In the public sector, additional appropriate competence may include skills that are necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such competence may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing or a comprehensive assessment of compliance with law, regulation or other authority and preventing and detecting fraud and corruption.
220	A31	In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General), may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.
220	A32	Listed entities as referred to in paragraphs 21 and A29 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review.
240	A6	The public sector auditor's responsibilities relating to fraud may be a result of law, regulation or other authority applicable to public sector entities or separately covered by the auditor's mandate. Consequently, the public sector auditor's responsibilities may not be limited to consideration of risks of material misstatement of the financial statements, but may also include a broader responsibility to consider risks of fraud.
240	A57	In many cases in the public sector, the option of withdrawing from the engagement may not be available to the auditor due to the nature of the mandate or public interest considerations.
240	A67	In the public sector, requirements for reporting fraud, whether or not discovered through the audit process, may be subject to specific provisions of the audit mandate or related law, regulation or other authority.

Appendix A - Public Sector Text in the International Standards on Auditing (ISAs)

ISA	Paragraph Reference	ISA Text Extract
250	A6	In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.
250	A20	A public sector auditor may be obliged to report on instances of noncompliance to the legislature or other governing body or to report them in the auditor's report.
260 (Revised)	A10	Law or regulation, an agreement with the entity or additional requirements applicable to the engagement may provide for broader communication with those charged with governance. For example, (a) an agreement with the entity may provide for particular matters to be communicated when they arise from services provided by a firm or network firm other than the financial statement audit; or (b) the mandate of a public sector auditor may provide for matters to be communicated that come to the auditor's attention as a result of other work, such as performance audits.
260 (Revised)	A44	In some jurisdictions the auditor may be required by law or regulation to, for example: <ul style="list-style-type: none"> • Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action; • Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies such as a central authority in the case of some public sector entities; or • Make reports prepared for those charged with governance publicly available.
260 (Revised)	A53	If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as: <ul style="list-style-type: none"> • Modifying the auditor's opinion on the basis of a scope limitation. • Obtaining legal advice about the consequences of different courses of action. • Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g., shareholders in a general meeting), or the responsible government minister or parliament in the public sector. • Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.
265	A27	Public sector auditors may have additional responsibilities to communicate deficiencies in internal control that the auditor has identified during the audit, in ways, at a level of detail and to parties not envisaged in this ISA. For example, significant deficiencies may have to be communicated to the legislature or other governing body. Law, regulation or other authority may also mandate that public sector auditors report deficiencies in internal control, irrespective of the significance of the potential effects of those deficiencies. Further, legislation may require public sector auditors to report on broader internal control-related matters than the deficiencies in internal control required to be communicated by this ISA, for example, controls related to compliance with legislative authorities, regulations, or provisions of contracts or grant agreements.

Appendix A - Public Sector Text in the International Standards on Auditing (ISAs)

ISA	Paragraph Reference	ISA Text Extract
315 (Revised)	A13	Auditors of public sector entities often have additional responsibilities with regard to internal control and compliance with applicable laws and regulations. Inquiries of appropriate individuals in the internal audit function can assist the auditors in identifying the risk of material noncompliance with applicable laws and regulations and the risk of deficiencies in internal control over financial reporting.
315 (Revised)	A29	For the audits of public sector entities, law, regulation or other authority may affect the entity's operations. Such elements are essential to consider when obtaining an understanding of the entity and its environment.
315 (Revised)	A43	For the audits of public sector entities, "management objectives" may be influenced by concerns regarding public accountability and may include objectives which have their source in law, regulation or other authority.
315 (Revised)	A73	Public sector auditors often have additional responsibilities with respect to internal control, for example, to report on compliance with an established code of practice. Public sector auditors can also have responsibilities to report on compliance with law, regulation or other authority. As a result, their review of internal control may be broader and more detailed.
315 (Revised)	A131	When making assertions about the financial statements of public sector entities, in addition to those assertions set out in paragraph A129 (a)-(b), management may often assert that transactions and events have been carried out in accordance with law, regulation or other authority. Such assertions may fall within the scope of the financial statement audit.
320	A3	In the case of a public sector entity, legislators and regulators are often the primary users of its financial statements. Furthermore, the financial statements may be used to make decisions other than economic decisions. The determination of materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) in an audit of the financial statements of a public sector entity is therefore influenced by law, regulation or other authority, and by the financial information needs of legislators and the public in relation to public sector programs.
320	A10	In an audit of a public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for program activities. Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.
330	A17	For the audits of public sector entities, the audit mandate and any other special auditing requirements may affect the auditor's consideration of the nature, timing and extent of further audit procedures.
402	A10	Public sector auditors generally have broad rights of access established by legislation. However, there may be situations where such rights of access are not available, for example, when the service organization is located in a different jurisdiction. In such cases, a public sector auditor may need to obtain an understanding of the legislation applicable in the different jurisdiction to determine whether appropriate access rights can be obtained. A public sector auditor may also obtain or ask the user entity to incorporate rights of access in any contractual arrangements between the user entity and the service organization.
402	A11	Public sector auditors may also use another auditor to perform tests of controls or substantive procedures in relation to compliance with law, regulation or other authority.

Appendix A - Public Sector Text in the International Standards on Auditing (ISAs)

ISA	Paragraph Reference	ISA Text Extract
402	A43	In some cases, law or regulation may require a reference to the work of a service auditor in the user auditor's report, for example, for the purposes of transparency in the public sector. In such circumstances, the user auditor may need the consent of the service auditor before making such a reference.
450	A24	In the case of an audit of a public sector entity, the evaluation whether a misstatement is material may also be affected by the auditor's responsibilities established by law, regulation or other authority to report specific matters, including, for example, fraud.
510	A1	In the public sector, there may be legal or regulatory limitations on the information that the current auditor can obtain from a predecessor auditor. For example, if a public sector entity that has previously been audited by a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) is privatized, the amount of access to working papers or other information that the statutorily appointed auditor can provide a newly-appointed auditor that is in the private sector may be constrained by privacy or secrecy laws or regulations. In situations where such communications are constrained, audit evidence may need to be obtained through other means and, if sufficient appropriate audit evidence cannot be obtained, consideration given to the effect on the auditor's opinion.
510	A2	If the statutorily appointed auditor outsources an audit of a public sector entity to a private sector audit firm, and the statutorily appointed auditor appoints an audit firm other than the firm that audited the financial statements of the public sector entity in the prior period, this is not usually regarded as a change in auditors for the statutorily appointed auditor. Depending on the nature of the outsourcing arrangement, however, the audit engagement may be considered an initial audit engagement from the perspective of the private sector auditor in fulfilling the auditor's responsibilities, and therefore this ISA applies.
520	A11	The relationships between individual financial statement items traditionally considered in the audit of business entities may not always be relevant in the audit of governments or other non-business public sector entities; for example, in many public sector entities there may be little direct relationship between revenue and expenditure. In addition, because expenditure on the acquisition of assets may not be capitalized, there may be no relationship between expenditures on, for example, inventories and fixed assets and the amount of those assets reported in the financial statements. Also, industry data or statistics for comparative purposes may not be available in the public sector. However, other relationships may be relevant, for example, variations in the cost per kilometer of road construction or the number of vehicles acquired compared with vehicles retired.
540	A11	Public sector entities may have significant holdings of specialized assets for which there are no readily available and reliable sources of information for purposes of measurement at fair value or other current value bases, or a combination of both. Often specialized assets held do not generate cash flows and do not have an active market. Measurement at fair value therefore ordinarily requires estimation and may be complex, and in some rare cases may not be possible at all.

Appendix A - Public Sector Text in the International Standards on Auditing (ISAs)

ISA	Paragraph Reference	ISA Text Extract
550	A8	The public sector auditor’s responsibilities regarding related party relationships and transactions may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority. Consequently, the public sector auditor’s responsibilities may not be limited to addressing the risks of material misstatement associated with related party relationships and transactions, but may also include a broader responsibility to address the risks of non-compliance with law, regulation and other authority governing public sector bodies that lay down specific requirements in the conduct of business with related parties. Further, the public sector auditor may need to have regard to public sector financial reporting requirements for related party relationships and transactions that may differ from those in the private sector.
560	A5	In the case of the public sector, the date the financial statements are issued may be the date the audited financial statements and the auditor’s report thereon are presented to the legislature or otherwise made public.
560	A10	In the public sector, the auditor may read the official records of relevant proceedings of the legislature and inquire about matters addressed in proceedings for which official records are not yet available.
560	A15	In the public sector, the actions taken in accordance with paragraph 13 when management does not amend the financial statements may also include reporting separately to the legislature, or other relevant body in the reporting hierarchy, on the implications of the subsequent event for the financial statements and the auditor’s report.
560	A19	In some jurisdictions, entities in the public sector may be prohibited from issuing amended financial statements by law or regulation. In such circumstances, the appropriate course of action for the auditor may be to report to the appropriate statutory body.
570 (Revised)	A2	Management’s use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns. ¹ Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an entity’s ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.
580	A9	The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the premise, relating to management’s responsibilities, on which an audit of the financial statements of a public sector entity is conducted may give rise to additional written representations. These may include written representations confirming that transactions and events have been carried out in accordance with law, regulation or other authority.

¹ IPSAS 1, Presentation of Financial Statements, paragraphs 38–41

Appendix A - Public Sector Text in the International Standards on Auditing (ISAs)

ISA	Paragraph Reference	ISA Text Extract
600	A18	Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, this ISA still applies to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of ISA 705.
620	A41	In some cases, law or regulation may require a reference to the work of an auditor's expert, for example, for the purposes of transparency in the public sector.
700 (Revised)	A43	Listed entities are not common in the public sector. However, public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.
700 (Revised)	A75	Auditors of public sector entities may also have the ability pursuant to law or regulation to report publicly on certain matters, either in the auditor's report or in a supplementary report, which may include information that is consistent with the objectives of ISA 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ISA 701 or include a reference in the auditor's report to a description of the matter in the supplementary report.
705 (Revised)	A14	In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor that is appointed to audit the financial statements of public sector entities. It may also be the case in jurisdictions where the auditor is appointed to audit the financial statements covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those financial statements or before the end of that period, respectively. The auditor may also consider it necessary to include an Other Matter paragraph in the auditor's report.
720	A47	In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions.