



Progress of the ISSAI Harmonisation Project

At the PSC Steering Committee's last meeting in Copenhagen in May 2010 the committee approved a project proposal to establish the ISSAI harmonisation project. The purpose of this first progress report is to inform the PSC Steering Committee of the accomplishments achieved during the past year and encourage the individual delegates to provide their views on the matters presented for discussion (cf. IV below).

The report covers the following:

- I. Main activities in 2010-2011
- II. Progress on the project deliveries – the new ISSAIs 100-400
- III. Matters that still require resolution by the project group
- IV. Matters for discussion by the steering committee

No formal decisions are to be taken by the Steering Committee at this stage of the project.

I. Main activities in 2010-2011

1) Approval at INCOSAI

The project was discussed and approved by INCOSAI in Johannesburg as part of the PSC's mandate for 2010-2013. The project was also a main subject at the PSC meeting in connection with INCOSAI. There is now broad support and recognition that improved consistency in the ISSAIs is needed. Through the South Africa Declaration the INCOSAI further expressed the ambition that the ISSAIs should present the essence of public sector auditing to members and external stakeholders and should be used and implemented as a common frame of reference for SAIs. The project is a strategic goal of the PSC for 2013 and is organised as a common PSC project directly under the PSC Steering Committee. The approved mandate is attached for reference.

2) The establishment of the project group

The project group is now fully established with members from 13 SAIs. In addition to the chair (Denmark) it includes members from FAS (Sweden, UK, USA), PAS (Brazil, Sweden, Austria) and CAS (Norway, European Court of Auditors, Slovakia) as well as INTOSAI's Chair (South Africa) and First Vice Chair (China) and the Chairs of the KSC (India) and the Task Force on the SAI Information Database (Mexico). The group is organised into ad hoc drafting groups and work through e-mail and phone conferences as well as physical meetings. The project's homepage is found under 'PSC' on www.psc-intosai.org.

3) The first project group meeting

A first five-day working session was held in Copenhagen on 28 March – 1 April 2011. The meeting focused on the project's goal A – the revision of the ISSAI 100-999 Fundamental Auditing Principles (level 3 of the ISSAI Framework) - and had the double purpose of discussing the overall directions and general issues related to the project as well as starting the process of drafting.

II. Progress on the project deliveries – the new ISSAIs 100-400

As a result of the first meeting the project group has elaborated the following preliminary draft which you will find attached for information:

ISSAI 100 – The essence of public sector auditing. The document presents an updated definition of public sector auditing and provides the basic concepts and principles that are shared by all three branches of auditing (financial, performance and compliance). The draft will be further developed by a drafting group with members from United Kingdom (anchor), South Africa, Sweden, the European Court of Auditors and China and considered by the entire group together with the further draft ISSAIs.

Moreover, the project group is working on the following draft ISSAIs which will convey the essence of each of the three branches of auditing. Draft outlines of these are attached for information:

ISSAI 200 – Principles of Financial Auditing – this will provide general principles consistent with the ISAs as well as further references (links) to the ISSAIs 1000-1999 (ISAs with practice notes) which will contain the requirements to audits. The members from Sweden (anchor), UK and USA will provide a first draft for the project group's consideration by October 2011.

ISSAI 300 – Principles of Performance Auditing - this will define and express INTOSAI's recognition of the principles for the auditing of *economy, efficiency and effectiveness*. The members from Brazil (anchor), Sweden and Austria will provide a first draft for the project group's consideration by October 2011.

ISSAI 400 – Principles of Compliance Auditing - this will define and express INTOSAI's recognition of the principles for auditing of compliance with authorities. The members from Norway (anchor), European Court of Auditors, Slovakia and India will provide a first draft for the project group's consideration by October 2011.

The ISSAI 100 will provide the fundamental principles and concepts of public sector audit. The common principles and concepts for all three branches of auditing in ISSAI 100 will provide the basis for the specific principles and concepts that define each branch in ISSAI 200, 300 and 400. The representatives of FAS, CAS and PAS will engage with the respective subcommittees and ensure their involvement in the development of the drafts.

It is the group's general intention that the ISSAIs 100-400 will provide those "minimum" principles which are widely shared within the INTOSAI community and can be applied more or less consistently by SAIs in their different national settings. It is foreseen that SAIs may combine financial, performance and compliance auditing when they define the scope of their tasks. In line with the Steering Committee's previous discussions in 2009 and 2010 the principles will therefore be kept broad and 'high level'.

III. Matters that still require resolution by the project group

The work of the project group is in an initial phase and many issues are still to be considered. Some of the most general matters that the project group is still to address are:

- **What conditions must be met for a Supreme Audit Institution to assert that it is complying with the ISSAIs?** The project group is to discuss the terminology to be used in the auditor's report if reference is to be made to the ISSAIs and how this would be understood by the users. There will be a need to provide for flexibility to accommodate the different needs and national contexts of INTOSAI's members. When the draft versions of ISSAIs 100, 200, 300 and 400 are available, the group will consider how ISSAI 100 can define the different 'degrees', 'options' or 'models' for stating references to the ISSAIs.

- **How much of the 'old' text on level 3 should be preserved?** When the draft versions of ISSAIs 100, 200, 300 and 400 are ready the project group will discuss how much of the current text of level 3 (ISSAI 100-400) should be preserved. This might either be integrated into the draft ISSAIs 100-400 or documents at level 2.
- **Choices of terminology and development of definitions.** The group is still to consider a range of options with regard to terminology and have only discussed definitions of a few key concepts. It is the intention to consider key terminology in all 5 INTOSAI languages (including English) at a later stage. This will include consistency in relation to the ISAs.

IV. Matters for discussion by the steering committee

The resulting draft ISSAIs will later be presented for comments and approval by the PSC Steering Committee. There are many different considerations and points of views in the project group which will have to be reconciled before the drafts are ready. As an input to the group's continued discussions it would therefore be helpful to obtain any preliminary reflections the individual members of the steering committee might have on the attached drafts and the following matters:

1) The name of level 4 of the ISSAI Framework – auditing standards?

With the revision of ISSAIs 100-400 the expression 'auditing standards' will finally be removed from the text of level 3 – the Fundamental Auditing Principles. A number of project group members including the chairs of FAS, PAS and CAS have suggested that the project group consider if the name used for ISSAI 1000-4999 at level 4 should be changed to 'auditing standards'. However this is not a unanimous view and the UK, for one, is against such a proposal. At present the level 4 is called 'Auditing Guidelines'. This is further divided into the set of 'Implementation Guidelines' which are the ISSAIs 1000-4999 maintained by FAS, PAS and CAS and 'Specific Guidelines' which are the ISSAIs 5000-5999 on environmental auditing, IT auditing, public debt and other subjects maintained by others (mainly the KSC). The 'implementation guidelines' implements the Fundamental Auditing Principles and includes IFAC's *International Standards on Auditing*. As explained in ISSAI 1000 these may either be applied as 'guidelines' or 'standards' by SAIs. The name 'implementation guidelines' dates back to the time before the ISSAI Framework, but was sustained when the Framework was decided on. The issue is not explicitly foreseen in the project group's mandate but is closely linked to the tasks of the project group and the group will be a relevant forum for discussion. Depending on the project group's continued discussions the PSC Chair might at a later stage present a proposal for the Steering Committee on the matter. This would have to be carried through INTOSAI's processes of decision making. Any initial reactions from the steering committee members on the suggestion would therefore be helpful.

2) The envisaged use of the revised ISSAIs 100-400 – internal or external?

The project group have discussed the envisaged use of the revised ISSAIs 100-400 and the balance between *internal purposes* (supporting the quality of the audits) and the purpose of supporting SAIs in relation to *external stakeholders*. In the PSC Steering Committees' previous discussions it concluded that the principles (ISSAI 100) should *'provide a 'common language' which can be used for explaining and comparing the tasks of SAIs across their different national settings. This [would] be relevant for the SAI leadership's considerations of auditing strategy and for SAI's communications to government, parliament and other external stakeholders on their auditing practices. It will also provide a starting point for peer reviews and other cooperation on capacity building and knowledge sharing within the INTOSAI community'*. It was foreseen that level 3 would mainly address issues at 'firm level' (the SAI) while level 4 concern issues at 'assignment/engagement level' (individual audits). Furthermore the Steering Committee concluded *'that the fundamental auditing principles should provide a brief statement of the most important general recommendations contained in the over 1000 pages of implementation guidelines on financial, performance and compliance auditing'*.

The combination of principles (level 3) and extensive guidelines (level 4) would address the many different needs identified in the PSC's survey from 2007.

Most project group members have emphasized that the *internal* use by SAIs should be the primary purpose of level 3 (as well as level 4), though the documents might also be consulted by ministries, parliamentarians and other external parties. Group members also emphasized that the concepts provided - also in ISSAI 100 - should be drawn from the guidelines, which are directed at individual audits. The principles should among others be relevant for SAIs that cannot or do not wish to comply with the guidelines/standards at level 4 in all details. This may include SAIs which lack sufficient capacity as well as situations where a national board issues standards for public sector auditing.

We would like to invite the Steering Committee members to provide any input they may have to these discussions on the balance between the various needs of the INTOSAI community and the different internal and external purposes of the fundamental auditing principles.

3) The concept of 3 overall 'branches of auditing' - and/or 'other tasks'?

The work of the PSC is based on the notion of 3 overall branches of public sector auditing corresponding to the subcommittees on financial, performance and compliance auditing. The Steering Committee has previously discussed whether these branches can be defined at such a 'high level' so all public sector auditing tasks can be derived from these or there is also a category of 'other tasks' outside these branches. As a starting point the project group has defined the 3 branches in terms of their different purpose and focus. The group is to consider the issue of 'other tasks' as it continues to develop the drafts. Some initial examples discussed are auditing and reporting on information *other* than historical financial information ('attestation engagements') and 'budget execution audits' or other audits where financial, compliance and performance aspects are integrated in one auditing process resulting in one general conclusion. Further examples of suggested 'other tasks' are likely to surface in the continued discussions and through comments from the wider INTOSAI community. As a general direction the project may take one of the following approaches so solve these matters:

- A)** Seek to define the 3 overall branches of auditing as very general concepts and attempt to maintain that the various practices provided for by the different mandates/standards/manuals used by SAIs can generally be derived from these.
- B)** Seek to provide reasonably broad definitions of the 3 branches, but provide a very short recognition that there may also be 'other tasks'. (Cf. the sentence: '*There may also be additional audit and reporting requirements based on the mandate or requested by the appropriate authority*' in the draft ISSAI 100).
- C)** Seek to define or describe the main categories of any such 'other tasks' in ISSAI 100. Some project group members also suggest that there may be a need for an additional document – ISSAI 500 –to recognize practices falling outside the 3 branches as defined in the attached draft.

Which of the above suggestions the project will eventually end up with, will depend on the group's further analysis and discussions. However, the matter could also be considered to have potential implications beyond the project. If important areas of 'other tasks' falls outside the 3 defined branches of auditing it might on the longer term raise further issues, e.g. whether these can be dealt with by existing subcommittees (or 1-2 new PSC subcommittees is needed). We therefore encourage the members of the steering committee to provide any reflections they may have at this stage on the pro's and con's and future implications of the 3 possible directions outlined above.

Attached to this progress report:

- Annex 1 - The project's mandate, including the approved project proposal
- Annex 2 - Preliminary draft ISSAI 100 (work in progress)
- Annex 3 - Outlines of ISSAI 200, 300 and 400

Mandate

Extract from the PSC's mandate as approved by XX INCOSAI in 2010:

In light of the results achieved in 2007-2010 the PSC will in 2011-2013:

- Harmonise the present collection of ISSAIs, and thereby ensure the consistency of the ISSAI Framework.

[...]

The existence of a 4 level framework with a comprehensive set of ISSAIs and INTOSAI GOVs in November 2010 allows the PSC to move on to the next challenge: To develop the present collection of ISSAIs that have been developed over a long time span by a range of different Working Groups, Task Forces and Subcommittees, into a truly coherent set of standards. This work will be conducted within the Harmonisation Project.

The purpose of the Harmonisation Project is to provide a conceptual basis for public sector auditing and ensure consistency in the ISSAI framework. Therefore the Harmonisation Project will focus on revising and developing the Fundamental Auditing Principles on level 3 in the ISSAI Framework, which will provide consistency throughout the Framework. The numbering and timing of the different draft ISSAIs will be addressed by the project group and agreed upon by the PSC Steering Committee, and the project will be carried out in accordance with the due process for developing, revising and withdrawing ISSAIs and INTOSAI GOVs.

The Harmonisation Project proposal has been approved by the PSC Steering Committee at its meeting in Copenhagen 5-7 May 2010 and a project group will be established to complete the project by 2013.

Approved project proposal:

Harmonization of the International Standards of Supreme Audit Institutions - Revision of the Fundamental Auditing Principles

The project proposal has been elaborated and agreed upon by the Chairs of the PSC Subcommittees on Financial Audit, Compliance Audit, Performance Audit and the PSC Chair. Emphasis has also been put on input from the initial assessment and the regional representatives of the PSC Steering Committee.

1. Purpose and scope of the project

The purpose of this project is to provide a conceptual basis for public sector auditing and ensure consistency in the ISSAI framework.

The project has the following goals:

Goal A: Revise the ISSAI 100-999 Fundamental Auditing Principles, in order to ensure that:

- they describe the general role and auditing function of a SAI and are relevant and useful for all members of INTOSAI;
- they provide overview and further references to the full set of ISSAIs where more operational guidance is provided;
- they provide a consistent set of concepts and an improved link between ISSAI 1 The Lima Declaration and the new set of comprehensive guidelines that are launched in 2010

Goal B: Make the limited editorial changes in ISSAIs 10-99 which are necessary in order to carry the revision of ISSAIs 100-999 through and improve consistency between the two levels of documents.

Goal C: Ensure alignment between the ISSAI 1000-4999 Implementation Guidelines and the new set of ISSAIs 100-999 Fundamental Auditing Principles. The alignment includes:

- consolidating the terminology of the full set of ISSAIs 100-4999 in accordance with a general glossary for the ISSAI Framework and ensure updated cross-references between the different ISSAIs;
- considering the extent to which there is a need to make further amendments in the ISSAI 1000-4999 guidelines as a consequence of new ISSAIs 100-999 Fundamental Auditing Principles, e.g. in areas where text is moved from the guidelines to the principles, or where unintended differences between the different sets of guidelines exist.

Goal D: Consider the extent to which the ISSAI 5000-5999 Specific Guidelines can be aligned with the ISSAI 100-4999 and the general ISSAI terminology established under goal C.

The scope of the project is the guidance on auditing provided by the ISSAIs.

This does not include:

- the further overlaps and inconsistencies which may exist between the different documents at level 2 ISSAIs 10-99;
- harmonisation of the INTOSAI GOVs or harmonisation of the INTOSAI GOVs with the ISSAIs.

2. Background

INTOSAI's Framework for Professional Standards was established by an INTOSAI official document approved by INCOSAI in 2007. By this decision a range of different documents that had been approved by INCOSAI in the past many years were classified into four levels and systematically numbered. All documents relevant for auditing were collected into one set of standards – The International Standards of Supreme Audit Institutions (ISSAI).

In the six years leading up to INCOSAI 2010, the PSC has filled the Framework with further documents in areas, where no guidance existed or the existing guidance was considered in-sufficient by the PSC Steering Committee and the PSC Subcommittees.

By 2010 the PSC's accomplishments will include achievement of its goal to provide a comprehensive set of practical guidelines at level 4 of the ISSAI Framework:

- FAS has developed a full set of ISSAI 1000-1999 Financial Auditing Guidelines, that provide practice notes to the International Standards on Auditing issued by IFAC.
- PAS has supplemented the existing guidelines with a new ISSAI 3100 with improved guidance on performance auditing.
- CAS has provided a full new set of ISSAI 4000-4999 Compliance Auditing Guidelines establishing compliance auditing as the third branch of auditing

This will allow the PSC to move on to the next challenge: To develop the present collection of ISSAIs, which have been developed over a long time span by a range of different workings groups, task forces and subcommittees, into a truly coherent set of standards.

3. Planned ISSAIs

The planned deliveries may be changed by the project group during the project with approval of the PSC Steering Committee. Deliveries include the following:

ISSAI 100-series – Basic concepts:

- Purpose of the ISSAI framework.
- The objective of public sector auditing [terminology from the mapping].

- The role and function of SAIs [terminology from the mapping and the work on “Value and benefits of SAIs”].
- Authority of the ISSAI framework:
 - The ISSAIs are not mandatory.
 - What does it mean to state compliance?
 - How do we refer to the ISSAIs?
- Considerations for judicial role [terminology from CAS].
- Basic concepts: assurance, materiality, assertion based and direct reporting, audit criteria, subject matter, risk assessment, using the work of others [the meaning of the different concepts will depend on the nature of the auditing task].
- Basic structure of audit processes [depending on the audit conclusion]:
 - Reporting and communicating our findings.
- The three areas of auditing and different ways of combining them [briefly relate the terms to the concepts used in ISSAI 1 The Lima Declaration].

ISSAI 200 Financial Auditing

Overview

These will be based on ISSAIs 1000 – 2999.

ISSAI 300 Performance Auditing

Overview

These will be based on ISSAIs 3000 – 3999.

ISSAI 400 Compliance Auditing

Overview

These will be based on ISSAIs 4000-4999.

The PSC Subcommittees will consider making editorial changes in the ISSAIs 1000-4999 in order to establish the consolidated general ISSAI glossary as described under goal C.

In addition, the considerations provided for by goal D may result in changes in the ISSAI 5000-5999 Specific Guidelines. This will be the responsibility of the INTOSAI Knowledge Sharing and Knowledge Services Committee (KSC).

4. Organization and process

A project group is established in order to complete the project by 2013.

The group is chaired by Denmark in its capacity as PSC Chair and responsible for the ISSAI Framework. The group should include the following appointed members:

- At least 2 members from each of the three PSC Subcommittees that are responsible for implementation guidelines: FAS, PAS and CAS. We will strive for regional representation and for representation of various SAI models in this group.

The project group will consult representatives of INTOSAI as deemed necessary.

The numbering and timing of the different draft ISSAIs should be addressed by the project group and agreed upon by the PSC Steering Committee.

The project should be carried out in accordance with the due process for developing, revising and withdrawing ISSAIs and INTOSAI GOVs.

The project group will consider existing ISSAIs, the initial assessment made and other relevant standards in line with the dual approach.

Should the project group during the conduct of the project find that the planning, organization or key project directions need to be revised, it may at any time ask the PSC Steering Committee to take renewed decision.

5. Approval of this project proposal

This project proposal was approved by the PSC Steering Committee at its meeting in Copenhagen on 5-7 May 2010.

Editorial/drafting comments:

The immediate challenge has been to capture and link up the essence of the Levels of the ISSAI framework, whilst also giving a context for public sector auditing and setting out the fundamental auditing principles – and to do so in a (relatively) short document.

ISSAI 100 should be a point of reference for all INTOSAI members irrespective of their level of ISSAI compliance.

These considerations account for the non-traditional style, tone and language of parts of the current draft.

The current draft will need to be reassessed once the new drafts of ISSAI 200 -400 are available late this year/early 2012. The Value and Benefits document may have an influence on how we might wish to view or express some of the concepts in the Introduction to ISSAI 100 as presented below.

However, it is hoped that the current draft gives colleagues and the PSC Steering Committee some insight into our first thoughts. Comments and inputs on concepts, direction or detail will surely be appreciated.

ISSAI 100 Drafting Group
27 May 2011

ISSAI 100 – The principles and main branches of public sector auditing

Introduction

SAIs exist to contribute to good governance, accountability, transparency and well performing public administration, and in doing so SAIs belong to a family of different institutions with rather similar aims. However, SAIs are unique in that they are entrusted with independence and the structure, skills and competencies necessary to enable them to carry out examinations (audits) of different aspects of public sector finance and services. Thus, they have special powers, but also special responsibilities. Independence needs to be balanced by accountability of the SAI itself and the aim to provide high quality work.

The public sector administration spends money, carries out activities, implement policies etc. when exercising its duties. Stakeholders, other parties as well as the general public have an interest in ensuring that the relevant public sector entities are accountable for these actions and activities. The extent to which this task has been entrusted to the SAIs depends on their mandate. It is important to note that the constitutional frameworks differ among SAIs. Some SAIs have broad and general mandates, other carry out specialised work. However, most, if not all, of the work carried out by SAIs can be grouped into one or more of the three main branches of public sector auditing: the audit of financial statements, the audit of compliance and the audit of effectiveness, efficiency and economy. All three branches of auditing have a different focus, but they are equally relevant to the stakeholders and others.

“Compliance auditing” is when a SAIs carries out an audit whether the activities of the public sector entities are in accordance with relevant laws, regulations and authorities that govern these, for ex-

ample in carrying out a public programme (have the rules been applied properly? – is the entity audited in compliance with the rules and regulations?). Secondly, auditors have an important role in looking at the money spent on public programmes and in giving assurance that the financial statements prepared properly present the financial situation. This is the essence of “Financial Auditing” (do the financial statements present a fair representation of the use of funds by the audited entity?). Financial and compliance auditing can be seen together where the auditor also gives an assurance that the money has been spent in accordance with the rules and regulations. Financial propriety and compliance with rules does not, of itself guarantee that public programmes deliver good value for money to the taxpayers, which gives rise to the third key area of activity for SAIs. “Performance Auditing” is focused on safeguarding good performance in public administration by studying whether public programs and services achieve economy, efficiency and effectiveness and identifying causes that hampers their performance.

The credibility, quality and professionalism of the public sector auditor is informed and underpinned by professional standards and guidelines. In addition to the institutional requirements described in the ISSAI on level one and level two the SAI therefore also follow best practices, guidelines and standards describing high quality work in their operational procedures. With the development of professional standards in other areas these rule have grown in size and thus level three of the ISSAI provides an overview. It aims to create a one-stop, high level reference source that makes the whole structure more understandable and is informative and accessible to SAI practitioners and other stakeholders.

Level three provides a general framework (ISSAI 100) and specificities in relation to financial auditing (ISSAI 200), to performance auditing (ISSAI 300) and to compliance auditing (ISSAI 400).

[Introduction to the content of ISSAI 100 – to be completed].

The concept of public sector audit

1. Public sector audit is a function within a constitutional arrangement with a distribution of powers and responsibilities between bodies with budgetary, legislative, judicial, executive authority or more general constitutional authority.

The **overall purpose of** public sector audit is to contribute to good governance by:

- enhancing accountability, transparency and encourage continuous improvement in the appropriate use of public funds and assets and of public administration performance
- facilitating the functions of those bodies within the constitutional arrangement, which are exercising general monitoring and corrective functions over those responsible for the management of publicly funded activities.

2. Within the constitutional arrangement the SAI exercises the general public sector audit function. It exercises this function by virtue of the office and a legal mandate which ensures sufficient independence and powers to exercise full discretion in performing its duties (cf. ISSAI 10/principle 3). The mandate of a SAI may define the SAIs general responsibilities for the conduct of public sector auditing and provide further prescriptions concerning the audits. The mandate may provide for audits at the state or federal level, at the level of local or regional authorities, at the level of individual entities or in relation to international institutions.

SAIs determine their own approach consistent with the relevant legislation in order to further define and combine the different auditing tasks which are provided for by their mandate. [Proposal: Add that any tasks are mandatory but others may be based on requests, mutual agreements, separate

obligations or carried out at the SAI's own discretion]. SAIs therefore perform a variety of engagements.

3. The purpose of public sector audit is to provide intended users with information, conclusions or opinions based on sufficient appropriate evidence on whether public authorities or publicly funded entities have observed requirements for proper financial management and compliance and whether the principles of economy, effectiveness and efficiency of public activities and use of public funds have been met.

4. Public sector auditing includes 3 general branches defined as follows:

Financial Audit focuses on determining whether an entity's financial information is presented in accordance with an applicable financial reporting framework, laws or relevant regulations. This is accomplished by obtaining assurance to enable the auditor to express an opinion. Under the full application of the ISSAIs the result would be an audit opinion.

Performance audit focuses on whether government intervention or measures have been conducted in accordance with the principles of economy, efficiency and effectiveness, and with the aim of encouraging improvements. The result normally is a comprehensive report including information about the audit objective, audit questions, audit scope; audit criteria, methodology, sources of data, any limitations to the data used, audit findings and recommendations.

Compliance audit focuses on whether the activities of the public sector entities are in accordance with the relevant laws, regulations, authorities and proprieties that govern such entities. The result would be a conclusion or if it is related to an audit of financial statements it may result in an opinion.

5. The SAI may perform assignments where the auditor is to reach conclusions within one or more of the above defined branches of auditing.

When performing a combined task the auditor must consider the different professional requirements to the conduct of the tasks that arise from the different objectives of the task.

There may also be additional audit and reporting requirements based on the mandate or requested by the appropriate authority.

By virtue of their office and mandate SAIs exercise discretion when establishing the requirements and principles applicable to public activities and use of public funds in an individual case.

6. The three types of engagements for which ISSAI 1000-4999 define [general auditing standards] are: financial, performance and compliance audits. SAIs may also perform other types of engagements for which there are no [general auditing standards] [add list of examples]. Depending on the circumstances SAIs may find the ISSAI 1000 – 4999 useful in carrying out these types of engagements.

[Proposal for further debate: Consider adding something about assurance engagements. What do these audits/types of engagements aim at and what do they produce/the types of output that you would expect? Another solution: such audits/types of engagements are not discussed further in the ISSAIs at this time].

7. The tasks of SAI's may further include the following tasks which fall within the three general branches of auditing:

- Regularity audit as mentioned in the Lima declaration includes Compliance audit and financial audit or a combination thereof conducted on a regular basis.
- Legality audit: Possible text from ISSAI 4100. (One version of compliance audit.)
- Investigative audits (part of compliance audit – depending on the mandate)

The further purpose may be to reach a decision of discharge.

The audit objective of a public sector auditing task

8. A public sector audit task may concern any subject of relevance to the responsibility for management and appropriate use of public funds and assets. [to be elaborated]

The conclusions to be expressed by the public sector auditor

9. At the end of each audit, a report is issued. The report should be easy to understand and free from vagueness or ambiguity, include only information which is supported by sufficient and appropriate evidence, and be objective and fair.

10. The report may contain an opinion, a conclusion or findings and/or recommendations, as appropriate [develop this issue further and relate it to the three branches of auditing]

[this section with different styles of conclusions is currently being further developed]

Common principles in public sector auditing

11. The information below is intended to facilitate an understanding of certain common principles relevant when conducting any audit, review or other engagement in the public sector. They are not definitions, nor do they contain the information necessary to carry out audit engagements. The concepts are expressed so as to capture the main importance of each concept within an audit context.

Ethics

12. Auditors should comply with relevant ethical requirements. In the public sector these may include the INTOSAI Code of Ethics or other ethical requirements relevant to public sector audits. Key elements are seen as integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Engagement risk

13. The audit should be performed to reduce or manage engagement risk to an acceptable level. Engagement risk is the risk that the auditor expresses an inappropriate conclusion. This may arise relative to financial error or misstatement or to context and complexity and political sensitivity of the underlying subject matter.

Engagement acceptance

14. Where not sufficiently defined in the SAI mandate the auditor shall agree the terms of the audit engagement with management or those charged with governance. The agreement should be recorded.

Quality control

15. SAIs should establish procedures to ensure that their engagements are carried out to a consistently good quality. Quality control is an integral part of high quality engagements that are in the public interest. These procedures can be applied in different ways depending on the nature of the audit.

Professional skepticism, receptiveness and professional judgment

16. Professional skepticism and professional judgment are important at all stages of all auditing engagements. These principles are based on the interaction of professional and behavioral characteristics that recognise the auditors responsibility to carry out analysis and reach conclusions based on evidence collected but also requires that this be done whilst retaining professional distance, open-mindedness, receptiveness to views and arguments, and an alert and questioning attitude.

Selection of an audit (topic)

17. [to be elaborated]

Communication

18. SAIs should play their part in establishing effective two-way communication with each party involved in the SAI's engagement. This may centre on a single auditee but may involve other entities, individuals or stake holders. Good communication would result in all necessary parties receiving clear, relevant information at the appropriate time.

Criteria

19. Audit criteria are the benchmarks used to measure or evaluate the underlying subject matter of an audit. The relevance and characteristics of the audit criteria used will depend on a range of factors including the objective and reporting requirements of the audit assignment.

Documentation

20. Audit documentation should be sufficient and appropriate to support the auditor's conclusions and recommendations. The format, extent and content of documentation will differ depending on the type of audit and mandate.

Materiality

21. Materiality considerations are relevant to all audit engagements. Materiality is relevant both when planning and performing engagements including in the determination of the nature, timing and extent of audit procedures and when evaluating whether the subject matter information is free of misstatements. However materiality has different meaning and content depending on the nature of the audit. When determining materiality both quantitative and qualitative matters are of importance.

Audit evidence

22. The auditor should obtain sufficient appropriate audit evidence to achieve the objectives of the audit. Audit evidence may include information that corroborates or contradicts the assertions relevant for the audit.

Stating compliance with the ISSAIs

[Section on what it means to state compliance with the ISSAIs – including different models of doing so – will be considered in autumn 2011]

Draft outline of ISSAI 200 – Financial audit

A. Introduction incl. Description of a Financial Audit

Source: *ISSAI 1000, 1200, GAO Yellow book, IAASB Framework.*

B. Scope of this ISSAI

Clear statement that this ISSAI is not a substitute for the complete set of ISSAIs on level 4

C. The Elements of a Financial Audit

- Parties
- Subject Matter
- Criteria – applicable financial reporting framework
- Evidence
- Reporting

Source: *ISSAI 1200, 1210, 1500, 1700, IAASB Framework*

D. Basic Requirements in a financial audit

- Ethical requirements
- Quality Control requirements

Source: *IAASB Framework, ISSAI 30, 40/ISQC1, 1220*

E. Basic Concepts when applying the ISSAIs on Financial Audit

- Professional Judgment
- Professional skepticism
- Documentation
- Materiality
- Audit Evidence
- Audit Risk

Source: *IAASB Framework, ISSAI 1000, 1200, 1230, 1320, 1450*

F. Responsibilities relating to fraud and laws and regulations in an audit of financial statements

Source: *ISSAI 1240, 1250*

G. Premises for an audit of financial statements in accordance with the ISSAIs

Source: *IAASB Framework, ISSAI 1000, ISSAI 1200*

H. Considerations when preconditions do not apply

Source: *to be developed*

I. Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

Source: *ISSAI 1800*

J. Types of Financial Audits

- Financial statement audits, comparative, single year
- Specific Elements, Accounts or Items of a Financial Statement

Source: *ISSAI 1805*

Draft outline of ISSAI 300 – Performance audit

1. Summary of key principles
 - 1.1 Applicability and purpose of the key principles
 - 1.2 Essential Features of Performance Audits
 - 1.3 Prerequisites of high quality performance audits
 - 1.4 Essential Steps in doing a Performance Audit

2. Applicability and Purpose of Issai 300
 - 2.1 When to apply the Fundamental Principles of Performance Audits
 - 2.2. Purpose and Limits of Standards on Performance Audit

3. Essential Characteristics of A Performance Audit
 - 3.1 Adding Value through new information and recommendations
 - 3.2 Defining what is important (Materiality)
 - 3.3 Open Scope and subject matter
 - 3.4 Selecting audit topics as a challenge for the SAI
 - 3.5 Open Methodology

4. Prerequisites for high quality performance audits
 - 4.1 Specific skills of the auditors
 - 4.2 Professional Behavior
 - 4.3 Open Communication
 - 4.4 Choosing a general approach
 - 4.5 Audit Evidence
 - 4.6 Documentation
 - 4.7 Quality Control

5. Essential Steps in doing a Performance Audit
 - 5.1 Planning a performance audit
 - 5.2 Conducting the Performance Audit
 - 5.3 Reporting
 - 5.4 Follow-up

Draft outline of ISSAI 400- Compliance Audit

K. Introduction

ISSAI 4000 + the relationship between 4100 + 4200

Definition ISSAI 100

Compliance audit focuses on whether the activities of the public sector entities are in accordance with the relevant laws, regulations, authorities and proprieties that govern such entities. The result would be a conclusion or, if it is related to an audit of financial statements, it may result in an opinion.

The purpose and contents of the broader perspective in the management of public funds and the specific purpose of Compliance Audit.

L. The Elements of a Compliance Audit

(and what the broader perspective implies in practice)

- Parties
- Subject Matter
- Criteria
- Evidence
- Reporting

Source: *ISSAI 1200, 1210, 1500, 1700, IAASB Framework, ISSAI 4000-series*

M. The relationship between governance framework, authorities and how to perform Compliance Audit

N. Basic Requirements in Compliance Audit

(Depending on the structure of ISSAI 100)

- Ethical requirements
- Quality Control requirements

Source: *IAASB Framework, ISSAI 30, 200, 40/ISQC1, 1220*

O. Basic Concepts when applying the ISSAIs on Compliance Audit

- Authorities
- Materiality
- Regularity
- Propriety
- Assurance
- Audit evidence in Compliance Audit

Source: *ISSAI 4000-series, INTOSAI GOV 9000*

P. Fraud in Compliance audit

Source: *ISSAI 1240, 1250, 4100, 4200*

Q. Alternatives and premises for reporting from Compliance Audit
(*Opinions, conclusions, long form report*)

R. "The relationship between ISSAI 1250 and ISSAI 4000-4200".