

SDP 2020-2022: COMPONENT 1

Financial audit: impact and implications of relationship with the ISAs.

(a summary of views raised during the discussion session held on 2 February 2021)

Discussion sessions represent the second phase of the analysis carried out under the auspices of the PSC secretariat as part of Component 1 review. They build on the initial analysis and feedback provided by the INTOSAI standard setting community (phase one), aim to explore selected issues deeper, and provide input for the preparation of a survey to be addressed to all INTOSAI members (phase three).

The meeting – hosted and moderated by the PSC secretariat – was attended by interested members of the ISLO network, INTOSAI committees, their working bodies, and FIPP who had responded to the open invitation.

Executive summary of the points raised

The large majority of the financial audit ISSAIs are the ISAs (which are given their own ISSAI number, but no change to the content). INTOSAI provides additional guidance for public sector issues separately. This used to take the form of practice notes which are currently being updated and consolidated into GUID 2900.

Despite there being no difference in content, some SAIs consider it important for their stakeholders that the ISAs can be denominated as ISSAIs. Other SAIs refer to the ISAs only.

Some SAIs access the ISAs through local sites. This is particularly the case when they were adapted to reflect on local circumstances or translated into the local language. Some SAIs access the ISAs on the IAASB site, to which the IFPP site directs the user. Some participants stated that they would prefer if IFPP provided direct links to the individual ISAs (although this is currently not technically possible). Some consider that accessing the site of a non-INTOSAI provider, which requires an account to be established, is burdensome.

Some SAIs preferred the previous approach, whereby the ISAs were relabelled as ISSAIs and published directly on the IFPP site. Others do not consider this necessary. The reasons for having abandoned the former practice were to eliminate the administrative burden of having to maintain the same content as the ISAs in a separate location and to ensure that the ISSAIs always remain in alignment with the latest ISAs as required.

Some participants considered that INTOSAI, through its representative in the IAASB's Consultative Advisory Group, should strengthen monitoring and help ensure that public sector elements are reflected adequately in the standards. Some considered that the public sector perspective is well represented already. All SAIs have an opportunity to engage with IAASB during ISA development to ensure relevant public sector considerations are known and understood by the IAASB.

A view was raised that neither the past nor the current ISSAI/GUID content cover issues relevant to SAIs, and that it might be more useful to focus all attention to influencing the IAASB due process and reflect public sector interests therein.

INTOSAI should consider addressing new areas linked to the audit of finance, such as is budget planning and implementation, or the audit of performance indicators, to the extent that the existing material does not cover these, and what this would mean in relation to the ISAs.

Do you find the situation clear, or can there be confusion as to what applies in practice? When carrying out financial audit work in accordance with international auditing standards, do you refer in your audit report to the audit as having been performed in accordance with the ISAs or the financial audit ISSAIs?

It is necessary to have in place standards applicable clearly to the public sector as much as there is a framework for private sector audit. There should be no confusion – notably among the stakeholders – about what is applicable. Any perception that public sector international standards do not exist, or are not sufficiently relevant or reliable, could lead to the development of national standards that do not take international standards into account, and therefore may be insufficiently robust.

The World Bank through its capacity building programmes encourages countries to apply the ISSAIs, and integrate them in the legislation.

While in our country it is clearly established which standards apply, this may be less clear for cases of other countries.

We refer to the ISAs, the advantage of which is a suitable foundation and robustness. There is no confusion in the country as to what is applied as a national debate has established the suitability of the ISAs. We recognize the need for INTOSAI to cater for local considerations and specificities.

Our SAI has adopted the ISAs, because it gives us the most credible basis for our audit work, something that is possible in 99 % of cases. The public sector context that is now being captured in GUID 2900 was useful in its older formats. Regardless of format, the ISSAIs or GUID 2900 do not address the typical challenges that we face, which makes us to benchmark with other SAIs or refer to SAI good practices.

The SAI refers to standards developed by the SAI, which are based on ISSAIs. Entities in our country are split into various categories, and our SAI's approach to them varies. The audit of central government accounts is focused on regularity/audit of transactions, with no opinion given. Government companies and corporations are audited by the pool of the SAI's chartered accountants along accounting standards established by the relevant accounting standard setter of the country. Other entities such as autonomous bodies, municipalities and corporations whose financial statements are based on an established accounting standard are audited against this requirement. The situation is quite complex.

The SAI applies the ISAs as presented within the IFPP. It is important to have a framework of standards adopted specifically for the public sector. There is some internal confusion amongst auditors about the ISSAIs referring to the ISAs and them not being published physically on the IFPP website.

In our opinion, INTOSAI is responsible for the Financial Auditing Standards which are included in the IFPP, regardless of who drafts them. The ISAs were developed in and for the private sector, so the application of these standards in the public sector requires adaptation. This should take the form of INTOSAI guidance.

The ISAs are principles based auditing standards that are developed to audit historical financial information produced by all entities including public sector entities. The public sector is well represented in the ISA development process to ensure that public sector needs are understood and addressed.

When auditing international organisations, it happens that the auditor refers to the ISSAIs while the auditee is used to the ISAs. It sometimes is complicated for them to understand the difference in numbering. This situation creates some a certain amount of vagueness, but overall it is not so serious.

One participant referred that in his home country national standards are aligned with the ISAs, while where he works now, the ISSAIs are implemented.

The key question is what INTOSAI wants to accomplish with the financial audit standards and whether the direct integration of the ISAs into the framework is the right way right way forward, taking into account the different experiences and different environments in which SAIs operate.

Is there scope to further simplify the IFPP in respect of financial audit, for example by removing from the IFPP those documents that are simply renumbered ISAs (knowing that INTOSAI has no responsibility for the content thereof)?

It is practical to refer to the IFPP website to access the pronouncements directly rather than to create an account in another website. This also applies to stakeholders. It would be easier if all standards we kept directly in the IFPP website.

The INTOSAI can and should influence the content of the ISAs through its representatives in the IAASB/IFAC board by emphasizing the public sector perspective. The ISAs should remain part of the IFPP and be accessible via the IFPP site for ease of use.

INTOSAI should not abandon the current referencing to the ISAs. The issue of adding the “2” prefix before the ISAs, thus turning them to ISSAIs, is confusing. However, the current arrangement is not so practical. While the ISSAI practical notes are being consolidated into GUID 2900, no information is available until this is completed to provide the public sector perspective. It takes a while to access the sought standard when placed on the IAASB/IFAC site. More explanation on the status of the ISAs and the public dimension is needed in the INTOSAI website.

The IFPP should allow for an easy access to documents, and it would help if the ISAs were available through IFPP. Efforts to keep the site up-to-date would be worthwhile.

The original idea of the IFPP was to have an integrated set of standards with easy access to documents. It may be useful to consider if additional public sector notes would be useful, and to explore if all the necessary aspects are covered.

It is very practical to apply the ISAs directly because of the robust due process, their reliability and quality. Attempts in the past to incorporate into the INTOSAI standards the ISAs were complicated, and the INTOSAI always had to play catch-up. Practically there will always be a delay in identifying changes and adapting new ISAs to the ISSAI framework. The current approach avoids this problem and saves resources (as was the case of revising ISA 315 and 600). There is good reason to stay with the ISAs.

The development of standards at IFAC (and their standard setting board, the IAASB) should be well monitored through representation of INTOSAI in the IAASB. Further assessment of the impact of the development of standards at IFAC and the translation of these standards to the public sector context of an SAI remain, in our view, the responsibility of FAAS.

INTOSAI is not the author or even co-author of the ISAs. INTOSAI should provide more clarity on what applies to the public sector, without jeopardizing what we already have in place. It is perfectly acceptable to refer to the ISAs given that INTOSAI is represented in the related standard-setting board.

It is important to separate technical and editorial issues. The original solution was to publish the ISAs developed by IAASB with the Practice Note guidance developed by INTOSAI in a single pdf file for each ISSAI. The original versions of the Practice Notes that were published on INTOSAI's website were not updated in a timely manner for changes in the ISAs. The ISAs that were included within the ISSAIs and published on INTOSAI's website were also not updated for changes in the ISAs that occurred subsequent to the original publishing. The current proposed solution is to publish the Practice Note content in a single guidance document (GUID 2900) that will be updated annually and to refer the user of the IFPP to the IAASB website where the latest ISAs are published. From a technical perspective, the current proposed solution is consistent with the previous solution since the Practice Note guidance continues to exist in GUID 2900 but is updated for recent ISA changes and since the ISAs remain part of INTOSAI's auditing framework. Linking directly to the IAASB site keeps INTOSAI perfectly aligned with the latest ISAs. Additional public sector guidance is developed by INTOSAI as necessary.

FAAS could be asked to go back and see how it can improve the current setup and presentation of the ISSAIs/ISAs, but to pursue this option it would be important to first make sure INTOSAI does not fall back to previous problems. The ISAs are not freely available in editable format, and the IAASB does not allow other bodies to edit them. Moreover, sufficient resources would be needed to ensure timely editing of the ISAs, which can be difficult given that INTOSAI work is done on a voluntary basis.

The solution should not be to re-write the standards, but take information as is in the IAASB site, and establish a clear link to the ISAs.

Do you find difficulties in accessing the ISAs, and what could help in this respect?

Accessibility should be understood in the wider sense of having the document available in one's national language.

One participant indicated that they have access to a translation of the ISAs, but reckoned that not all SAIs have the luxury of access to translated documents. This does not solve the issue of stakeholder access to such standards, and the fact that the ISAs must generally be accessed through a transcontinental server. Stakeholders must know where to find the standards and which/how they are applicable. It is not always easy to find a certain standard in the IAASB website.

The current system of accessing the ISAs through an account in the IAASB website is not necessarily difficult but is burdensome.

There are advantages of linking to the IAASB or national equivalents, as these have often been adapted to local requirements.

We must understand how practitioners use the IFPP and overcome any obstacles. Regardless of what arrangement we find, we must always be mindful of the need to maintain the framework, keep it up to date, and ensure it is of high quality.

The national technical alignment, and access to it, is important but in other countries there are no national standard setters, so INTOSAI needs to make sure that its user needs are met including access to the standards.

What do you see as the challenges for INTOSAI's financial audit standard-setting strategy? Are there particular issues you would like to see addressed in the future?

While the public sector perspective in the ISAs has increased over the past few years, it does not yet cover all relevant aspects. GUID 2900 is therefore needed to complete the picture.

The ISAs are international generally accepted audit standards. The discussion is how these should be addressed in the INTOSAI framework to meet the need of the community. The current process is comfortable, even if ISAs are not designed specifically for the public sector or do not cover public sector issues significantly. GUIDs 2900 – 2999 are in place to overcome this hurdle with public sector-relevant details.

There is room to broaden the applicability of ISSAI 200 to other types of financial audit-type work carried out by SAIs, not limited to the audit of financial statements. However, this would need to be seen in respect of the relationship with the ISAs.

INTOSAI could elaborate more on issues linked to aspects such as is budget planning and execution, which are specific to public sector auditing.

Another participant supported the comment, appreciating that the discussion was moving from discussing administrative to subject matter issues.

INTOSAI could also address the audit of performance indicators. Regardless of the subject matter, work should be done together, otherwise SAIs will start developing their own guidance.

The new proposals should be covered by an overall standard setting strategy, given that some of the new elements go beyond the audit of financial statements, and the mandate of FAAS clarified accordingly. With regard to the audit of budgets, there is still some confusion as to which standards apply and in which circumstances.

The debate on ISSAI v ISA very futile when it gets to financial auditing. The ISAs should be more than adequate for most scenarios. If we honestly believe that there are vast areas that need to be addressed as public sector perspectives, I would think that INTOSAI's limited time and resources will be best invested to address these as part of the IAASB processes, rather than opting for yet another fragmentation, hidden somewhere in the IFPP.