

Minutes

1. Welcome and opening statement

The President of the Tribunal de Contas da União (TCU), Ministro Ubiratan Aguiar opened the meeting and extended his warmest welcome to the PSC delegates and the representatives of the IIA, the World Bank, IFAC and the IDI.

For copies of meeting papers, delegate presentations and President Ubiratan Aguiar's welcome speech, please see <http://psc.rigsrevisionen.dk>.

2. Opening of the meeting

Bettina Jakobsen chaired the meeting and thanked the President of the TCU for the generous offer to host this important event and for the excellent preparations that had been made. The Chair then welcomed the members of the Steering Committee and the observers from the IIA, IDI, IFAC, and the World Bank.

The agenda was approved without any comments.

3. Theme discussion: Consistency in the ISSAI Framework

Bettina Jakobsen introduced the agenda item by referring to the decision taken by the Steering Committee in Bahrain to make it PSC's goal for 2010 to provide a comprehensive set of guidelines. Several committee members had observed that this goal did not mean that no further work would have to be done after 2010. In the next term it would be time to solve the issues of gaps, overlaps and other inconsistencies in the ISSAI Framework which had so far been postponed. This would be a challenging task which would require careful consideration. As a novelty, the committee was therefore invited to devote most of the day's meeting to consider a single subject of great importance: How could level 3 of the ISSAI framework best be revised in order to achieve consistency in the ISSAIs? She emphasised that the purpose of the agenda item was only to have a first discussion on a

possible project to revise the fundamental auditing principles (level 3). Based on the comments received and the directions agreed, it was the intention to carry out an initial assessment as defined by PSC's due process. This would allow the Steering Committee to consider a project proposal at its next meeting in Copenhagen and decide whether to move forward with the project.

Kristoffer Blegvad facilitated the theme discussion. He opened by summing-up the PSC's strategy and progress made so far. The ISSAI Framework had been established and the goals set for the PSC for 2010 included the development of a comprehensive set of guidelines and a due process to ensure reliable maintenance. The last outstanding task was to ensure consistency in the text of the framework. The PSC should maintain its strategy and dual approach. This meant that the ISSAIs should both build on standards issued by other standard-setting bodies and provide supplementary guidance in areas where SAIs have special needs. As stated in the PSC mandate, the guiding principle was that "where the tasks are the same, the standards should be the same, where the tasks differ the standards should differ".

Kristoffer Blegvad then did a summary presentation of the theme discussion paper that had been circulated to the members of the Steering Committee prior to the meeting. The meeting materials also included an overview of the different types of auditing assignments included in the legal mandate of a sample of 15 SAIs.

The theme discussion revolved around the following four key questions:

- A. How can we best use level 3?**
- B. How can we solve the main inconsistencies in the concepts and definitions?**
- C. How can we ensure that the ISSAIs are useful for all SAIs?**
- D. How do we move forward after today's discussion?**

Ad A: How can we best use level 3?

The Steering Committee discussed the overall purpose of the fundamental auditing principles at level 3 (ISSAI 100 – 400), the need to fill the gap between level 1 and level 4 and the need to provide a common language for INTOSAI to describe the different types of auditing assignments. Among the comments made were:

Jens Gunvaldsen complimented the Secretariat for the splendid groundwork done to start the process of achieving consistency. He agreed that providing a common language and filling the gap between level 1 and level 4 should be a priority, but he went on to emphasize also the need to arrive at clear definitions of the audit branches, in particular compliance and performance auditing, and how they interact. On the issue of resources, *Jens Gunvaldsen* expressed the opinion that the Steering Committee should discuss the scope of effort to be devoted to this task.

Gail Vallieres commended the Secretariat on the work done to frame the discussion. She emphasized that one of the key challenges of the theme discussion would be to keep it on a high principles level.

Greg Schollum said that he had previously been of the view that level 3 should be abolished rather than revised. However, after having read the theme paper he was now convinced that level 3 should be maintained and used as a bridge between level 1 and 4. In his opinion, providing a link between the different levels of the framework was the most important part of the discussion.

Gert Jönsson suggested that it may also be reconsidered whether level 3 should contain principles, summaries of level 4 documents or be developed into auditing standards. He suggested that the Steering Committee members should consider whether the different levels of the framework should direct themselves towards different audiences, i.e. the leadership of SAIs or the auditors in the field.

Angelina Chin informed the delegates that the IIA had been through the same exercise and had separated the levels, divided them into principles, standards and guidance and thereby aimed them at different target groups.

The Steering Committee further discussed whether the word “auditing standards” would imply that it in some sense would be “compulsory” for INTOSAI members to follow them.

The members agreed that it is important to maintain level 3 in the framework. It was furthermore agreed that level 3 should contain high-level principles. If at a later stage, the

Steering Committee wants to reconsider if the framework should also include a heading called “auditing standards” this heading would be placed at level 4 rather than level 3.

Based on the discussion the Steering Committee agreed on the following directions for the envisaged project to revise level 3:

The fundamental auditing principles should:

- *Provide a “common language” which can be used for explaining and comparing the tasks of SAIs across their different national settings. This will be relevant for the SAI leaderships’ considerations of auditing strategy and for SAIs’ 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.*
- *Bridge the gap between the Lima Declaration and the guidelines of FAS, PAS and CAS by providing a coherent definition of public auditing and its three branches - financial, performance and compliance auditing*

Ad B. How can we solve the main inconsistencies in concepts and definitions?

The Steering Committee discussed the tentative suggestions made in the discussion paper with regard to the definition of the key terms to ensure consistency in the ISSAI Framework and provide a common language for INTOSAI. Among the comments made were:

Jens Gunvaldsen and Gert Jönsson emphasized that the suggested definitions should be discussed in the subcommittees in connection with their debates on the future work and line of thinking. They considered the PSC Secretariat’s discussion paper a good starting point for the discussions.

Jens Gunvaldsen said that the work done by all the subcommittees at level 4 should provide the platform for the work on level 3. He mentioned that a lot of resources have been spent on developing new concepts in each of the subcommittees, and there was an imminent need to align definitions and decide on the meaning of the main concepts. At present, the concepts of, for instance assurance, objective, criteria, subject matter, conclusions, etc. are used differently. He therefore strongly agreed to the proposal that the

revision of level 3 should be carried through as a common PSC project involving FAS, PAS and CAS.

Pramesh Bhana suggested – in light of the work in the INTOSAI Working Group on Value and Benefits of SAIs – that the PSC should focus less on comparing the work of SAIs with the work performed in the private sector and instead focus on “what makes us valuable to the public sector.” On the question of how to categorise SAI audits of reports presenting non-financial information on the performance of public entities, he preferred to conceive of this as “assurance engagements” rather than a kind of “performance auditing”.

On the scope of level 3, *Greg Schollum* emphasized that the scope of public auditing, and thus the scope of the framework is the broad view, and consequently level 3 should not be narrowed down too much: performance, compliance and financial audits are the main branches, but they are not the only branches covered by SAIs, and level 3 should allow for this. On the audit of non-financial information, he acknowledged that there were different views around the table, but he considered it essential that the PSC at some point provided guidance also within this type of auditing.

Philippe Adhemar pointed to the need to maintain that level 3 should include regularity and legality audits.

Jens Gunvaldsen emphasized that the starting point for level 3 should be the definitions provided in the Lima Declaration and care should be taken when considering widening the boundaries of what should be considered an audit.

Based on the discussion, the Steering Committee agreed on the following directions for the envisaged project to revise level 3:

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.*

- *“Regularity” and “legality” audits should be treated as one particular manner in which to organize the audits (but not be especially recommended over other ways to organize financial and compliance auditing).*

Ad C. How can we ensure that the ISSAIs are useful to all SAIs?

Kristoffer Blegvad presented the different public auditing assignments identified by the pre-study of the mandate of 15 SAIs. The distinction between the three branches of public auditing (financial, performance and compliance auditing) was a distinction with regard to audit criteria and subject matter. He suggested that it was equally important to distinguish with regard to the kind of resolve the audit should end up with. In the pre-study, three kinds of assignments had been identified: Assignments to provide a statement expressing assurance, assignments to provide an assessment of a topic matter and assignments to make an inquiry or audit investigation into a particular case for the purpose of taking a legal decision concerning the responsibility of individuals. He presented a matrix which combined the two approaches used to distinguish between the different assignments. None of the studied SAIs appeared to have all the different assignments in the matrix. However, it appeared that different parts of the matrix would be relevant for different SAIs depending on the nature of the assignments which the mandate provided for. The precise terminology would have to be decided on in all five INTOSAI languages at a later stage. First, the presented concepts and definitions needed to be further developed. When revising level 3 it was important to take a “customer oriented approach”: The ISSAIs should be relevant for all public auditing assignments given to SAIs by their mandates.

Kristoffer Blegvad also showed the assignments which the implementation guidelines at level 4 will cover. He suggested that these could be considered the most important assignments requiring in-depth guidance. He further suggested how the different kind of assignments (statements of assurance, assessments and inquiries) might be compared to key distinctions made in the standards of IAASB/IFAC. The IAASB/IFAC standards distinguish between assurance engagements and other kinds of services. Within the category of assurance engagements, the standards make a distinction between reasonable and limited assurance engagements as well as between assertion based and non-assertion based (“direct reporting”) engagements. These distinctions had already been introduced into ISSAI 4000-4200 by CAS and could therefore be relevant to consider at level 3. The latter distinction (assertion based/direct reporting) could perhaps be

compared to the difference identified in the pre-study of SAI mandates between assignments concerning “reporting requirements” and assignments concerning “process and outcome requirements”. He emphasised that it was also very important for INTOSAI to consider the parts of the matrix that are beyond the scope of the IAASB standards on assurance engagements. These “non-assurance engagements” were important to many SAIs. He suggested that it was especially in these areas that supplementary guidance from INTOSAI would be needed. In order to achieve consistency in the ISSAI Framework, it was important to provide as clear recommendations as possible on the use of IAASB/IFAC standards: Which kind of SAI assignments are they recommended for and which assignments are beyond their scope of applicability? At present there was no concept of an “assurance engagement” in the ISSAIs at level 3.

The following discussion raised a number of important aspects that the Steering Committee decided to consider further:

Greg Schollum asked if the matrix could be adapted and made the following suggestions: adding a fourth type of auditing in addition to financial, performance and compliance auditing, i.e. “other”, which could include, for instance inquiries, dividing the column headed “Reporting requirements” into an audit “opinion” or another report, and finally he made the comment that the concept of assurance is not directly related to the form of reporting.

Renée Prichard explained that in the SAI of Canada defines “assurance engagements” in terms of a series of key characteristics. This includes that it is a three party relationship and that a subject matter is compared to a set of audit criteria in order to reach a conclusion. Conceptually the long form performance auditing reports provided by the SAI of Canada is therefore considered an “assurance engagement”. *Renée Prichard* warned that it should be avoided to change the meaning of “assurance engagements” when the term was already well established. She suggested that financial, compliance and performance auditing could all be considered different kinds of subject matter within the IAASB framework.

Pramesh Bhana, suggested solving the problem of defining the various audit branches by dividing tasks into “assurance” and “other service”.

Johanna Gardmark said it was important that the ISSAIs constitute something to strive for, while not limiting the framework to narrow the scope of ISSAIs too much.

Gail Vallieres and Renée Prichard emphasized the need to make the matrix more recognisable in alignment with the IAASB/IFAC framework. They presented a simpler matrix in which the right hand side (assessments and inquiries in the original matrix) was less detailed. They suggested that the main distinction to make was between assurance engagements and non-assurance (or “other”) engagements. The latter would include many different kinds such as inquiries, studies, evaluations and assessments. However the ISSAIs should not attempt to distinguish between them. On the left hand side of the matrix they suggested to highlight the distinction between different levels of assurance rather than between reporting requirements (or assertion based engagements) and process/outcome requirements (direct reporting engagements). In line with the original matrix they emphasised that there are “assurance” assignments of all three branches of auditing (financial, performance and compliance).

Subject matters	Assurance engagement		Non-assurance engagements (including evaluation, inquiries, assessments)
	Reasonable assurance	Limited assurance	
Financial			
Performance			
Compliance			
Other			

Philippe Adhemar asked why the distinction between assurance and non-assurance should be the only distinction made: What about those SAIs for whom non-assurance tasks are the major part of the activities? He also asked *Gail Vallieres* in which category she would place “evaluation”. *Gail Vallieres* replied that if specific criteria were laid down, an opinion would be issued and evaluated against the criteria. To her this was an assurance engagement. *Philippe Adhemar* said that he found the right hand side of the original matrix very useful. He emphasized that many SAIs are Courts and therefore it was important to maintain a concept such as “inquiries”. He also pointed to the need of taking account of programme evaluation and other kinds of assessments which do not result in a “qualified or unqualified” opinion.

Mohammed Kamal Daoudi emphasized that the concept of assurance is quite difficult to handle for Courts of Accounts. In Morocco, the public and parliament is expecting much more from the Moroccan Court of Audit than an assurance statement.

Greg Schollum suggested that the PSC should map its experience up against IFAC. He said that the PSC should ensure that the different audit concepts were defined in great detail and categorized accordingly.

Kristoffer Blegvad concluded that when the steering committee project is to consider how to organise the project it will be important to ensure that those SAIs who will make most use of the respective parts of the matrix are grouped together. Those SAIs who will mainly use the “left hand side” of the matrix should be the primary drafters of recommendations concerning these kinds of assignments while those who by virtue of their mandate will mainly use the “right hand side” should draft recommendations on those kinds of assignments.

Based on the discussion the Steering Committee agreed on the following directions for the envisaged project to revise level 3:

The fundamental auditing principles should:

- *Ensure the ISSAIs are applicable to the many different kinds of public auditing assignments, which SAIs in the different regions of the world have been given by their legal mandates*
- *Define how claims of compliance with the ISSAIs should be understood*

Ad D. How do we move forward after today’s discussion?

Kristoffer Blegvad said the discussion so far had shown that the envisaged revision of the ISSAIs at level 3 would have to be a common PSC process and require the commitment and involvement of FAS, PAS and CAS. It had been agreed that it will be important to distinguish between “assurance” assignments and other kind of assignments and that the efforts to define the latter should be continued. The approach should be “customer-oriented” and ensure that the categorisation of different assignments should make sense to SAIs in all parts of the world. He then presented the proposal outlined in theme paper 2

on the initial assessment which was to be carried out before the next steering committee meeting. He emphasised that when considering “standards from other standard-setting bodies” under the dual approach it was important not only to consider the choice of standards but also the advantages and disadvantages of the different ways such standards should be drawn upon by INTOSAI.

Jens Gunvaldsen asked for clarification whether the envisaged project to revise level 3 would affect the work now going on in the Subcommittees to provide guidelines at level 4. *Kristoffer Blegvad* answered that the guidelines at level 4 should be finalised as planned for INCOSAI 2010.

Based on the theme discussion the steering committee agreed to the following:

At the next meeting the Steering Committee will consider a project proposal on the revision of the fundamental auditing principles at level 3. To define the project an initial assessment should be carried out.

Phase 1 of the assessment should be conducted by the PSC Chair and the regional representatives of the PSC Steering Committee. The purpose in this phase is to:

- *Gather information from INTOSAI’s regions on the mandates of SAIs on the following characteristics of the auditing assignments: The object, subject, criteria and resolve of the audit and the reporting to intended users.*
- *Develop the necessary and appropriate distinctions between different kinds of assignments (e.g. assignments to provide a statement of assurance vs. other assignments).*

Phase 2 should be conducted by the PSC Chair and the chairs of FAS, PAS and CAS. The purpose is to:

- *Consider the feasibility and organization of the project.*
- *Consider standards from the relevant national, regional and international sources which may be of relevance to the assignments identified (“the dual approach”).*

- *The dual approach will not be fully applied to assignments designed to provide assurance statements. Instead, the consideration of other standard setters will from the outset be limited to the standards of IAASB/IFAC.*
- *The key criteria when considering standards from other standard setters will be: applicability, relevance, usefulness, languages and user concerns, reciprocity and wide recognition.*

Phase 3:

- *A consultation process should be carried through within PSC to ensure that sufficient agreement has been reached on the overall directions of the project before the project is launched.*

Bettina Jakobsen thanked the participants for their input and concluded that there seemed to be agreement that level 3 is necessary in the framework, but that the current principles need to be revised. The PSC will therefore begin work on the initial assessment in accordance with the proposal presented by Kristoffer Blegvad and the directions approved by the Steering Committee. It will take into consideration that different SAI models including the court model as well as different kinds of mandates and assignments should be reflected in the ISSAIs.

The Chair concluded by saying that a decision regarding a project on revising level 3 would be taken at the next meeting based on a project proposal, which will be developed in light of the results of the initial assessment.

The theme papers have been updated with the conclusions agreed on and posted on www.psc.rigsrevisionen.dk.

4. Due Process for ISSAIs and INTOSAI GOVs

Mette E. Matthiasen presented the updated due process that had been expanded to include also a due process for revising and withdrawal of ISSAIs and INTOSAI GOVs. The due process implied that any future work to launch new ISSAIs or INTOSAI GOVs or make substantial revisions in existing ISSAIs or INTOSAI GOVs starts by the approval of a project proposal by the PSC Steering Committee. Upon a suggestion from the INTOSAI Secretariat General the due process had been expanded so it is not limited to the PSC but

potentially also covers CBC (goal 2) and KSC (goal 3) to extend they maintain or develop ISSAIs or INTOSAI GOVs.

It was agreed that when the comments to the due process provided by the delegates at the meeting had been incorporated, the document would be circulated to the delegates for final consultation and then considered approved by PSC.

A final version of the due process is attached to these draft minutes for consideration and approval.

5. Awareness raising

Bettina Jakobsen introduced this subject by saying that the Chair during the last INTOSAI Governing Board meeting has been approached by SAIs indicating the importance of ensuring implementation of the ISSAIs and INTOSAI GOVs. Implementation as such is not considered a task that should be performed by the PSC, but raising awareness of the ISSAIs most certainly is. The PSC Chair has been in close contact with the INTOSAI Development Initiative (IDI) on this subject to ensure a combined effort. *Bettina Jakobsen* then gave the floor to the representative of the IDI: *Bernt Nordmark* initially emphasized the importance of the close cooperation between the IDI and the PSC and stressed the fact that this cooperation will become even more important in the years ahead when the awareness-raising activities are gaining momentum. He then did his presentation on the implementation of ISSAIs as a means to build SAI capacity stressing that raising awareness of the ISSAIs should be considered the first step on the capacity building ladder. *Bernt Nordmark's* presentation was followed by a discussion of the way forward:

Gert Jönsson stated that awareness-raising was an important task for the PSC that would contribute to safeguarding the heavy investment made in the development of the ISSAI framework. Regarding the material that should be produced for the awareness-raising activities, *Gert Jönsson* suggested that different sets of material aimed at different target audiences should be worked out, preferably in cooperation between the subcommittees. If possible, a first version of a communications kit should be ready for testing at the seminar in Poland in October this year.

In *Erna Lea's* opinion, the experts of the various subcommittees should consider it an obligation to participate in the efforts to increase awareness of the ISSAIs.

Roberto Tarallo emphasized the importance of providing the SAIs with the right tools to ensure implementation, and he asked how the IDI would work together with the PSC subcommittees.

Bernt Nordmark responded that the IDI after the INCOSAI 2010 would rely on the feedback from the SAIs and plan its work on this basis.

Pramesh Bhana reminded the delegates of the requirement to raise awareness of the ISSAIs in the private sector also.

Kelly Ånerud stressed the importance of finding or training the right people with excellent communications skills and expert knowledge for this important task.

The Chair summed up the discussion and concluded that there was agreement among the delegates that raising awareness of the ISSAIs is essential and that the task should be solved in close cooperation with the IDI. Taking into consideration the many different occasions and target audiences of the future awareness-raising presentations, it was further agreed to develop a range of tailor-made communication kits.

6. Mapping of SAI Mandates (separate meeting for regional representatives)

The purpose of this item on the agenda was to discuss the practical implications of the first phase of the initial assessment discussed under item 3 and determine what the regional representatives are required to do. The representatives of New Zealand, the US and Belgium along with the Chair participated in this separate meeting. It was agreed that in early September the regional representatives should submit information on the assignments performed by their respective SAIs (along with copies of relevant reports) in a special template provided by the PSC Secretariat. Subsequently, in mid-December, the regional representatives would be required to submit the same data on two to three SAIs or Courts of Audit in their region.

7. ISSAI awareness-raising seminar (separate meeting for seminar speakers)

The representatives of Morocco, Belgium, Brazil, Norway, Sweden, IDI, and France participated in this meeting arranged to go through some of the practical details relating to the forthcoming awareness-raising seminar in Poland. It will not be possible to produce a full communication kit for the seminar, but a master slide with the logo and design normally used for PSC presentations will be forwarded to the delegates. The presentations should be sent to Mette Hjort-Madsen at Rigsrevisionen no later than 1 October 2009.

8. Subcommittee and Project Reporting

a) Report and proposal from the Project on Transparency and Accountability

Philippe Adhémar thanked the committee for the many valuable comments on ISSAI 20 and ISSAI 21 received during the exposure period. All relevant comments had now been incorporated and translation was progressing as planned.

The endorsement versions of ISSAI 20 and ISSAI 21 were both approved and applauded.

b) Report and proposal from the Project on Audit Quality

Greg Schollum presented a draft version of ISSAI 40 and informed the Steering Committee that the project group was aiming for endorsement at the INCOSAI 2010. At the previous meeting in Beijing the Steering Committee had agreed that the ISSAI should be based on IAASB/IFAC's standard on quality control, the ISQC 1. The project group had so far worked by e-mail but was to meet in September 2009.

He asked for the committee member's opinion on three issues which were considered by the project group:

- 1) 'Companion' or 'integrated' approach?
- 2) Overlap with part 1 of ISSAI 200
- 3) Any comments on the material within ISSAI 40

He also asked the steering committee to consider:

- 4) The timeline and process of approval as the steering committee needed to approve the exposure draft as well as the endorsement version but had only one meeting left before INCOSAI 2010.

Re 1) 'Companion' or 'integrated' approach?

Greg Schollum outlined two alternatives:

- The “companion approach” which was used in the present draft: This implied that ISSAI 40 would consist of the full original text of the ISQC 1 together with a “companion” text which was developed by INTOSAI and provided further comments on how the ISQC 1 should be applied in a SAI environment.
- The “integrated approach” which would imply that the ISSAI 40 would take the text of ISQC 1 as a starting point but adapt the text to a SAI environment. This would imply that the document can be read independently from the ISQC 1.

Both approaches were fully in line with the dual approach. Within the project group a majority had favoured the present draft while a minority had favoured the “integrated approach”. He said that in both approaches the key recommendations of the ISQC 1 which are applicable to SAIs would be maintained. He therefore considered the issue a question of “packaging” rather than substance.

Gail Vallieres and *Jens Gunvaldsen* complimented the project group on a very robust and important document, which was very similar to the work done by FAS in producing practice notes to IAASB/IFAC’s ISAs. *Gail Vallieres* emphasised that one of the big advantages of companion documents lies in that less work load is needed in the future maintenance, because changes made in the ISQC 1 should not necessarily be made in ISSAI 40.

Kristoffer Blegvad also found that the document was well developed and reflected that a thorough benchmarking of the SAI context against the “firm” context of ISQC 1 had been carried out. He found that the choice of approach was more than merely a question of “packaging” or “work load”. The steering committee also needed to consider to what extent it wanted to decide on any future changes in the recommendations provided by ISSAI 40. The proposal made by the majority of the project group implied that the ISQC 1 issued by IFAC/IAASB would be included in the ISSAI Framework on the same level as the ISSAI 10 Mexico Declaration on Independence and the ISSAI 20 Principles on transparency and accountability of SAIs. Any future changes in the recommendations decided by IAASB would be carried over into ISSAI 40 without any consideration by the PSC Steering Committee or other organs of INTOSAI.

Philippe Adhemar asked if the level of detail would be appropriate for level 2 documents and wondered whether it should not be much more on a principle level if it was to be placed on level 2. To this, *Greg Schollum* responded that the ISQC 1 is about 40 to 50 pages.

Re 2) Overlap with part 1 of ISSAI 200

Greg Schollum asked if the steering committee would agree that part 1 of ISSAI 200 (ISSAI) would need to be withdrawn in order to avoid overlaps with ISSAI 40.

The steering committee agreed that the project group should consider the issue and that the exposure draft should include a proposal to withdraw the relevant parts of ISSAI 200 if necessary to avoid overlaps.

Re 3) Any comments on the material within ISSAI 40

Kristoffer Blegvad encouraged the project group to also consider in what ways the measures to ensure quality in a SAI environment may go beyond the measures recommended for “firms” in the ISQC 1. The present draft took the text of ISQC 1 as the sole starting point and pointed to a number of ways auditing quality control within a SAI would differ from the wording of the ISQC 1. He feared this might leave readers with the wrong impression that INTOSAI made a number of exemptions from the requirements of ISQC 1 rather than setting alternative requirements in light of the different nature of the quality risks faced by SAIs. He emphasized that the approach taken by IAASB/IFAC so far was that SAIs or “public sector auditors” using the ISAs or other IAASB standards should not necessarily apply ISQC 1 itself but should apply quality standards on “ the same level or above ISQC 1”. He also emphasized that the legislators which have provided the SAIs with their statutory auditing mandates might expect SAIs to deliver a higher rather than lower quality than private auditing firms. For both reasons it was important that the final ISSAI 40 could not in any way be used to argue that the quality standards of SAIs were lower than those of the ISQC 1.

To this *Greg Schollum* responded that the Project on Audit Quality had no intention to exceed the standards set by the IAASB nor go below it in ISSAI 40. He went on to say that he considered the ISQC1 to be a very coherent and high standard document, but if the

PSC Subcommittee was of another view, then the preliminary draft of ISSAI 40 would be adjusted accordingly.

Kelly Ånerud said IFAC found that the draft ISSAI 40 was a good document. She suggested that a first step is to start with the ISQC 1 and make sure that SAIs leaves up to the requirements defined by IAASB/IFAC. She suggested that any considerations as to whether SAI's may apply "higher" standards would be a second step and considered only when compliance with ISQC 1 had been achieved.

Roberto Tarallo congratulated *Greg Schollum* with an excellent draft – clear and concise. His question was relating to the discussion of the first meeting day on assurance engagements and other assignments: Should it be attempted to include also the work categorized under "other assignments" into the picture. ISSAI 40 is referring to the three audit branches, but perhaps the other types of assignments carried out by SAIs should also be included.

Greg Schollum thought this a good point and said that a paragraph on other assignments performed by SAIs would be added to the draft version.

Jens Gunvaldsen had just one comment to the preliminary draft of ISSAI 40, and suggested that the starting point should be that the SAI has the adequate resources and skills to do the job. In this relation, he wondered if *Greg Schollum* and his team had reflected on how ISSAI 40 relates to ISSAI 20, page 6, which mentions the risk of compromising the quality of the work done if some tasks are outsourced. *Philippe Adhemar* added that perhaps principle 5 of ISSAI 20 was exactly what *Jens Gunvaldsen* was after. *Greg Schollum* considered this a valid comment and informed the Steering Committee that the project would work a little more on the wording of that particular section of the document to avoid confusion and perhaps include a cross-reference to ISSAI 20.

Pramesh Bhana added by saying that he did not read the text as indicating any lack of skills, but rather lack of capacity. It is impossible for SAIs to have the capacity to cope with all tasks. Outsourcing should be done while safeguarding quality.

Re 4) Timeline and process of approval

Greg Schollum suggested that a preliminary draft of ISSAI 40 would be published and circulated within INTOSAI after the project groups meeting in September. He found the Governing Board meeting would be a good occasion to increase the awareness on the project. He asked if the steering committee would approve the exposure draft by a written procedure after the governing board meeting. This would allow the steering committee to approve the endorsement version at its meeting in May 2010.

Jens Gunvaldsen said that it was probably more important to make sure to have INTOSAI's full support than achieving the target of INCOSAI 2010.

Kristoffer Blegvad agreed that consensus was more important than the deadline, but found that the draft was so advanced that the deadline of INCOSAI 2010 was not too difficult to meet. He supported the proposed timeline and emphasized the need to make sure that the preliminary draft gained sufficient attention within INTOSAI. It was important that there was general agreement on the principal issues before the exposure draft was released for comments. The reactions to the preliminary draft would give a good indication as to whether the draft was "mature" for exposure.

The following process was agreed:

The project group will release a preliminary draft after its meeting in September. The project chair will promote awareness of the draft in the autumn 2010 and encourage informal comments and reactions to the draft. In December the project group will consider the reactions obtained and finalize the exposure draft. If there are no outstanding principal issues the PSC Chair will then ask the Steering Committee to approve the exposure draft by a written procedure in order to allow the endorsement version to be presented for approval by the PSC Steering Committee at its next meeting.

c) Report and proposal from the Financial Audit Guidelines Subcommittee

Gert Jönsson did a presentation on FAS' accomplishments since the previous meeting in Beijing. FAS is expecting to have 28 new ISSAIs endorsed by INCOSAI in 2010. Gert Jönsson also mentioned the evaluation of FAS that was performed at the request of the

World Bank by Harry Wilkinson, former Director of Accounting Practice at the Audit Commission in London. There were points noting room for improvement in the Harry Wilkinson's report, but all in all it was a favourable evaluation. In line with the PSC's current focus on ISSAI awareness raising, FAS is planning to take every opportunity available to raise the awareness of the financial audit guidelines in the coming year. FAS had appointed members to IAASB Task Forces on ISA 610 and the ISAE 3000.

Gert then presented exposure drafts of two new ISSAIs; ISSAI 1000 (which is a merger of the three originally planned ISSAIs, i.e. ISSAI 1000, ISSAI 1001 and ISSAI 1002), and ISSAI 1003.

Exposure drafts of ISSAI 1000 and 1003 were approved for exposure on issai.org.

FAS's proposal to change the name of the subcommittee from the Financial Audit Guidelines Committee to the Financial Audit Subcommittee was also approved.

d) Report and proposal from the Performance Audit Subcommittee

Carlos Alberto informed the Steering Committee that PAS had met in April 2009 and had now produced two draft documents in line with the revised work plan approved by the PSC Steering Committee at its last meeting in Beijing. As decided in Beijing, the exposure draft of ISSAI 3100 was based on the existing ISSAI 3000 and stated the most important performance auditing standards. PAS's intention had been that this should be placed at level 3. However since level 3 was likely to be revised in a common PSC project, PAS now proposed that the document should be placed at level 4. He asked if the Steering Committee found the document ready for exposure. ISSAI 3200 was a first draft and provided guidance on how to establish a sustainable performance auditing function within a SAI. An exposure draft would be presented to the Steering Committee at a later stage.

The Steering Committee discussed at some length how to move forward with ISSAI 3100 in light of the discussions under item 3 on a common project within PSC to revise level 3. *Greg Schollum* summarised the issue by suggesting that the two options were either to finalise and issue ISSAI 3100 at level 4 or postpone the document until after INCOSAI 2010 and reconsider it as part of the common PSC project on a revision of level 3.

Kristoffer Blegvad said that it would be best to finalise PAS's current projects and place them at level 4. This way, the timing of FAS, PAS and CAS would be aligned as all three subcommittees will have completed their task to produce a comprehensive set of auditing guidelines by 2010. This would place the three committees in the same position when the PSC enters into the process of stating the revised principles at level 3 based on the guidelines.

Roberto Tarallo suggested that "equity" should be considered along with the 3 E's (economics, efficiency and effectiveness) in the document. *Stuart Barr* said that in his opinion the draft ISSAI 3100 showed that performance auditing had many of the characteristics of an assurance engagement. He therefore wondered why PAS had not stated this explicitly and suggested the document should define assurance and non-assurance engagements, respectively. *Carlos Alberto* said that personally he did not agree that this document necessarily needed to consider the concept of assurance engagement. He had, however, taken note of the remarks from Stuart Barr and the remarks from Roberto Tarallo and they would be considered by the subcommittee.

Jens Gunvaldsen found that more work should be put into the document in order to align it to the work of CAS and FAS, before an exposure draft is presented for approval. He found that ISSAI 4100-4200 developed by CAS had defined an outline which should also be followed by PAS.

Bettina Jakobsen summed up the discussion and it was agreed that both ISSAI 3100 and 3200 should follow the same timeline as ISSAI 40 to allow for approval of the exposure drafts by a written procedure. There would be a possibility for PAS, CAS and FAS to get together in relation with the awareness-raising seminar in Poland in the autumn to discuss this and other issues of coordination between the three subcommittees.

Both draft ISSAI 3100 and 3200 should be kept at level 4. Draft versions of ISSAI 3100 and ISSAI 3200 are to be circulated for comments within PSC. PAS will consider the reactions obtained and finalize the exposure draft. If there are no outstanding principal issues the PSC Chair will then ask the Steering Committee to approve the exposure drafts by a written procedure in order to allow the endorsement versions to be presented for approval by the PSC Steering Committee at its next meeting. Any general questions

concerning “assurance” vs. “non-assurance” engagements will be considered in the initial assessment and future project discussed under agenda item 3 and is therefore not to be considered in PAS’s project on performance auditing guidance. The future project discussed under item 3 may also consider the need to include parts of the text from ISSAI 3000-3200 in the new principles at level 3.

e) Report and proposal from the Compliance Audit Subcommittee

Jens Gunvaldsen thanked the delegates and subcommittees for the many valid comments on ISSAI 4000, 4100 and 4200 provided during the recent exposure period. All relevant comments have now been incorporated and the three documents should be ready for approval as endorsement versions.

Marcelo Luiz Souza da Eira referred to the meeting held by CAS in March where the issue of limited versus reasonable assurance was discussed at great length: According to ISSAI 4100, aiming for reasonable assurance is considered an audit whereas aiming for limited assurance is referred to as a review. At the meeting in March, all agreed with this definition, because it fitted well into the IAASB framework. However, yesterday’s theme discussion has changed the perspective considerably and the SAI of Brazil would not be comfortable reporting that it had performed a review and not an audit, when it had concluded a performance test based on limited assurance.

Greg Schollum supplemented these comments by saying that he had had his concerns when reading the guidelines and in particular ISSAI 4100, and he wondered how realistic it was to aim for reasonable assurance and by exception fall back on limited assurance.

Jens Gunvaldsen said that these were important issues indeed and that the Subcommittee will continue working on them.

The Steering Committee approved ISSAI 4000, 4100 and 4200 (endorsement versions).

f) Report from the Internal Control Standards Subcommittee

Ignace Desomer summed up the progress of the Subcommittee on Internal Control Standards with respect to INTOSAI GOV 9140 and 9150. He thanked the Steering Committee and subcommittee members for the valuable input received, and informed the

delegates that all relevant comments had now been incorporated into the two documents which would be put on exposure if approved by the Steering Committee. He concluded his presentation by thanking *Gail Vallieres* for having checked the language of the final versions of the two new guidelines.

On behalf of *Angelina Chin (IIA)*, *Ignace Desomer* said that the IIA agreed with the content of the two closely linked new INTOSAI GOVs and was very happy that independence, objectivity and compliance with the Code of Ethics were stressed as being vital for the quality of the work performed by internal auditors.

Greg Schollum mentioned that he had had concerns about both documents at the previous Steering Committee meeting, but he was now pleased with the final products and he thanked the subcommittee for having reacted to his concerns.

Exposure drafts of INTOSAI GOV 9140 and INTOSAI GOV 9150 were subsequently approved for exposure.

g) Report from the Accounting and Reporting Subcommittee

Stuart Barr updated the delegates on progress made since the last meeting in Beijing where the subcommittee presented a work plan with three strategies for the next couple of years. 1) survey of INTOSAI members to seek information on the accounting standards used by SAs, 2) drafting a paper on the independence of a standard-setting body and 3) continue to update members on the IPSASB activities. He went on to present the preliminary results of the survey, emphasising the results regarding respondents' plans to move to an international standard, i.e. from cash based to accrual based accounts. The subcommittee chair expected to distribute the results of the survey to the Steering Committee members during the winter of 2009 and have a final report ready in the spring of 2010.

Roberto Tarallo enquired into the remit of the Accounting and Reporting Subcommittee and asked what the subcommittee's role would be in the future in terms of stimulating and encouraging the use of international standards.

Stuart Barr responded that the subcommittee still had a role in providing periodic updates on the development within IPSASB. The subcommittee would like to add value perhaps by communicating case studies and good practices from the IPSASB.

9. Cooperation with External Partners

a) The International Public Sector Accounting Standards Board (IPSASB)

Stuart Barr then turned to his presentation on the cooperation with IPSASB outlining the structure and work field of the IFAC and IPSASB. IPSASB was established by IFAC to issue accounting standards aimed at the public sector. IPSASB was making progress on 4 strategic themes: It worked to define a public sector conceptual framework, it was aiming to complete its projects on IFRS convergence by 31 December 2009 (6 Exposure Drafts approved this year), it was working on 5 public sector specific projects (Long-term fiscal sustainability, review of cash basis standard, Service concession arrangements, Social benefits and heritage assets) and it was working on promotion, communications and outreach. The goal was to achieve universal approval of the IPSAS.

b) The International Federation of Accountants (IFAC)

Kelly Anerud took the delegates through the various steps of IFAC's translation process and informed the Steering Committee of the initiatives that IFAC is currently preoccupied with, like for instance the role of accountants in addressing the current financial crisis.

Greg Schollum asked which languages the ISQC1 had been translated into, and was informed that it was expected to be available in the five official INTOSAI languages by the end of 2009.

c) The International Auditing and Assurance Standards Board (IAASB)

Kristoffer Blegvad reported on the activities of the IAASB on behalf of Steen Bernt Jensen who is serving on the IAASB in 2009 upon INTOSAI's suggestion. All IAASB members are appointed by IFAC while 3 external parties participate as observers. The PSC Chair had hoped that IFAC would have now revised IAASB's set up so INTOSAI could be officially represented at the meetings. However this was for IFAC to decide on. He thanked the members of the Steering Committee for their understanding of these circumstances, which

had made it necessary to ask for a swift decision in order to suggest to IFAC that Mr. Gert Jönsson is appointed as a member of the IAASB for the years 2010-2013.

He went on to say that there were a number of important items on IAASB's agenda which could be followed in the executive briefings on the IAASB meetings on the PSC website. He highlighted two issues:

At the ongoing meeting in Lisbon Steen Bernt Jensen had earlier in the same week given a presentation to the IAASB on INTOSAI including the status and function of SAs and the work of the PSC. He had among others presented the ISSAI Framework and explained the PSC's strategy to build on standards from other standard setting bodies. Jonas Hällström had updated IAASB on the work of FAS in the field of financial auditing guidelines.

At its previous meeting, the IAASB had decided to launch a project to revise its general standard on assurance engagements other than audit or review of financial statements, the ISAE 3000. According to IAASB's project proposal the need to revise the standard concerned among others the need to clarify key definitions in the concept of an "assurance engagement" as well as the need to consider compliance auditing and performance auditing in the public sector. IAASB had therefore asked if INTOSAI would be represented in the IAASB's task force on the matter. IAASB's project was highly relevant to the PSC project discussed under agenda item 3. As the discussion had shown there were many different views on these matters within INTOSAI. Further the guidelines developed by CAS and approved under item 8 draw to a large extent on the ISAE 3000.

It was therefore the intention of the PSC Chair that the Steering Committee should consider two issues relating to this task force, i.e. 1) the appointment of a INTOSAI representative and 2) the need to establish a network of those SAs who were interested to provide inputs. However, the Secretariat of the Financial Auditing Subcommittee had already, due to a misunderstanding, appointed a representative. Gert Jönsson had informed of this in his report to the steering committee under agenda item 8 c. Since the decision had already been communicated to IFAC and the work had begun it would be unwise to take another decision now. *Kristoffer Blegvad* suggested that the PSC Steering Committee endorsed the representative chosen by the FAS Secretariat and moved on to

discuss the establishment of a network to provide input which could include the relevant subcommittees as well as SAIs that make specific use of the ISAE 3000.

Gail Vallieres said that it would be a good idea to appoint to the network subcommittee members with the necessary expertise and *Jens Gunvaldsen* seconded her in saying that the chair of CAS was quite happy with the idea of setting up an arrangement with participation from CAS and other relevant subcommittees.

The Steering Committee endorsed that Andrew Baigent from the SAI of UK will be PSC's representative in the IAASB's task force on the ISAE 3000 and decided to establish a network to follow the work. The network should include representatives of the relevant PSC subcommittees as well as other interested SAIs.

The executive briefings on the IAASB are found under "partners" at <http://psc.rigsrevisionen.dk>. Please send an e-mail to psc@rigsrevisionen.dk to subscribe.

10. The Establishment of a Permanent PSC Secretariat

Ane Elmoose presented a proposal on the future structure of the PSC. The main conclusion was that the PSC Steering Committee is quite happy with the current structure and does not see any need to change role or responsibilities of the subcommittees. The main challenge is to ensure that the ISSAIs and INTOSAI GOVs are available and updated in the future.

Bernt Nordmark said that from the IDI perspective, it was essential to safeguard maintenance and thereby the quality of the ISSAI framework. The IDI was determined to continue its cooperation with the PSC secretariat, irrespective of its composition and future location.

Gert Jönsson summed up the special circumstances of FAS relating to the need for continued financing and access to high technical expertise around the world. Basically, the chair of FAS could support a proposal to set up a permanent joint secretariat for the subcommittees under certain conditions. Gert Jönsson emphasized that such a permanent secretariat should be set up taking into consideration that 1. Technical issues should be resolved by the subcommittee chairs. 2. The subcommittee chair should have influence on

the appointment of members to the secretariat, and 3. The secretariat should provide technical support to the subcommittees. He stressed the importance of maintaining the roles of the main committee and its chair and steering committee versus the subcommittees and projects. Traditional matters linked to chairmanship (i.e. arranging meetings, reporting to the Governing Board etc.) should be the responsibility of the chairs in the future as well, not of the technical secretariat. What he wanted the joint secretariat to focus on is the need for technical support above and beyond what can be provided by ordinary auditors.

Gert Jönsson expressed some concern that a solution was expected to be put forward to the Governing Board and INCOSAI about 2010 and beyond, but now we are discussing 2013 and beyond. That leaves the subcommittees to deal with how to manage the next years – how to fund the work and how to get a broader technical input. We may need to be innovative, but the subcommittee needs to address the issue from now on.

The paper needs clarification to avoid misunderstanding and we need to work to solve these issues.

Roberto Tarallo remarked that he considered the establishment of a permanent PSC Secretariat an extremely important and worthwhile matter that requires careful consideration by the Committee. This is something new that will change the institutional framework. You need a slim and technically competent structure that can guarantee the timely management of development, revision etc. Common technical resources will also make it possible for more SAs to chair Subcommittees. A joint secretariat providing technical support can be subject of funding by the international donor community. That may assist in making it financially sustainable

The Chair summed up and it was agreed that the PSC Secretariat and others with an interest in the matter will look further into the possibilities mentioned in the discussion paper and report back on the next Steering Committee meeting.

11. Planning for the INCOSAI 2010

Pramesh Bhana started his presentation by informing the delegates that the dates of the INCOSAI 2010 in South Africa has been moved from 14 – 20 November to 22 - 27

November, as the original dates coincided with a Muslim holiday. He went on to say that South Africa was determined to make the Congress as “green” and environmental-friendly as possible. The Congress will revolve around three issues: “Value and Benefits of SAIs” under the Chair of the SAI of South Africa, “Environmental Auditing and Sustainable Development Reporting” under the Chair of SAI of China and endorsement of ISSAIs and INTOSAI GOVs. Much attention will be devoted to the latter and *Pramesh Bhana* called upon the delegates to come forward with ideas for the presentation of the many new ISSAIs.

In liaison with the SAI of South Africa, the Chair had circulated a document on the planning of the INCOSAI 2010 asking the delegates to discuss five issues on the practical presentation of the many ISSAIs that are up for endorsement. The Steering Committee supported the five proposals presented in the discussion paper.

12. Information from the Chair.

Ad a: There were no comments to the update on the INTOSAI strategic plan from the INTOSAI Director of Strategic Planning that had been distributed to the delegates at the meeting.

Ad b: Roberto Tarallo updated the delegates on the progress of establishing an INTOSAI Donor Trustfund. He said that the accord was quite short but dense without much detail, but principle based. It was aligned with INTOSAI’s objectives of continuing to pursue its own strategic goals. The document naturally is also focused on the needs of the developing countries in terms of capacity building, etc. The accord is scheduled for signing in September in Brussels.

Ad c: Bettina Jakobsen informed the delegates that the next steering committee meeting has now been scheduled as follows: 5 - 7 May 2010 in Copenhagen. The Chair went on to encourage the subcommittees to schedule their meetings next year to the months leading up to the PSC Steering Committee meeting to ensure that the common work on the initial assessment has been finalized and ready to be discussed at the respective subcommittee meetings.

13. Any other business

Bettina Jakobsen informed the Steering Committee members that she had truly enjoyed chairing the meeting and she thanked the delegates for their active and dedicated participation in the discussions. She went on to thank also the TCU for hosting the meeting in such a professional and competent manner. With these closing remarks, the meeting was adjourned.

7 October 2009