Standard setting of INTOSAI

On its way to becoming sustainable

Past - present - future

FAS - PAS - CAS

Common discussion paper

PSC and subcommittees meeting in Copenhagen 2nd-4th of April 2014

INTOSAI

EXPERIENTIA MUTUA
OMNIBUS PRODEST

Innhold

Status of the standard setting process of INTOSAI and the work of the subcommittees of the PSC

The standard setting process of INTOSAI has been a long journey of professional development, the gradual change from document production into a framework for public sector auditing and the parallel learning and cohesion of the specialist environments belonging under the umbrella of public sector auditing. At present we are about to visualize an ISSAI framework, still with some work to be done in order to give it its final polish, having received a tremendous focus within the INTOSAI community and about to enhance the role and function of SAIs as auditors of public resources on the world scene.

This document is an outcome of this process, in the sense that the three subcommittees of the PSC, representing the major specialist environments of public sector auditing, have come together in one written story. This story is discussing the stage of development we are in as standard setters and how to proceed forward, both short term and long term, in order to achieve a sustainable solution for standard setting within INTOSAI, in the sense of standard setting being of a nature that is perceived as relevant and enhancing audit quality within SAIs and in achieving long term organizational viability in order to be able to assess the task at hand.

In order to find common solutions for the ISSAI framework and public sector auditing as a whole, it is crucial to take into account the different historical roots and dynamics of the audit branches of INTOSAI, recognizing the particularities of each group and look for common solutions that encompass the particularities. Hence, a short introduction to each of the audit branches and the work of the subcommittees is needed:

Financial audit

It is probably more appropriate to term this sub-committee the Audit of Financial Statements sub-committee. This is due to the very specific nature of the mandate of the sub-committee and its consequent actions. During the Chairmanship of the Swedish National Audit Office a very close relationship has been established with the International Federation of Accountants (IFAC) and in particular with the International Auditing and Assurance Standards Board (IAASB) which has a representative who participates actively in the FAS meeting.

Essentially FAS has developed practice notes and which are attached to the IFAC International Standard of Auditing (ISA) which constitute the ISSAI on level 4 for financial

audit. There are no amendments to the underlying ISA and inputs are provided when these ISA are updated for incorporating the public sector perspective as far as possible. The practice note process has been developed through FAS members as well as a reference panel that was funded through the SNAO and the World Bank (around US$3.7 million for 2003 to 2013 of which 70% was funded by the Swedish National Audit Office).

Now the practice notes are established the key responsibility as outlined by the PSC is to maintain and update the standards. In addition, at the FAS work plan meeting in Dubai March 2014 the assessment of looking into the ISSAI 1000 and the relationship with the other sub committees was also identified as a priority. The greatest area of concern was the support (or non-support) that can be offered by FAS to implementation agencies such as IDI.

Performance audit

Performance auditing has its roots in the social sciences and in programme evaluation. The development of performance audit is related to the introduction of management by objectives as a governing principle within the state. Performance audit deals with the issues if economy, efficiency and effectiveness. The first E, economy, means that we as performance auditors should pay attention to how and on what public entities use their resources. Efficiency is very much about how public entities organize the work to ensure that they produce and deliver services and conduct all other work in an efficient and effective manner. Effectiveness is about the extent to which objectives are achieved with a satisfactory quality and efficiency, and the relationship between an activity's desired impacts and actual impacts. Effectiveness includes both user impacts and society impacts.

Compliance Audit

Compliance Audit is the youngest of the audit types identified of INTOSAI at the standards level. Yet the audit of compliance with authorities has a long history within many SAIs and has existed under a variety of labels and names across the globe. The inception of this as an audit type came with the establishment of the INTOSAI working group on compliance audit in 2004, as INTOSAI recognized that the audit of financial statements in the public sector has a broader perspective not covered by the existing standards at that time. When working with the development of standards on compliance audit, it became clear that SAIs perform compliance as a stand alone audit, and further in combination with performance audit.

The compliance audit ISSAIs have been developed through a wide and engaging INTOSAI process, both within the Compliance Audit Subcommittee itself, and further extending into the INTOSAI community. In order to achieve relevant common standard requirement for all SAIs, the standards have been developed on the basis of inputs from SAIs across the globe on how they audit. Because of this global involvement, the standards express the generic

level of public sector compliance audit, based on wide differences amongst SAI practices. The Compliance Audit Subcommittee works as a big engaged group, containing professionals of different backgrounds, with a strong focus on group process leadership.

Paving the way towards sustainability

Sustainability is the key concept supporting the coordination initiatives within the PSC. In ecology, where the concept was first given force, sustainability refers to how biological systems endure and remain diverse and productive. As this concept was used in other areas, specifically in social science, new dimensions were incorporated, such as equity.

When it comes to the world of international cooperation in the Supreme Audit Institutions, and more specifically in the job of providing standards and guidance to the work of public sector auditing or governmental auditing, those concepts are still fundamental to express the different dimensions of sustainability.

Diversity

Governmental auditing is not a monolith. It comprises different approaches, with different purposes and practices, which requires different professional backgrounds and abilities. A Supreme Audit Institution will only be able to deliver a complete set of governmental audit services if it embodies professional teams with complementary different skills.

As such, the standard setting activity must be organized in a way not only to mirror but to help organizations to shape their institutional structures and functions in a way to allow and ensure the existence and activity of different audit approaches. This diversity is also to be found within the three types of audits of INTOSAI. Sustainability in public sector standard setting implies finding solutions both at an organizational and operational level that is apt to attend to this diversity.

Professionalism

Professionalism is the first dimension to be incorporated to better describe sustainability for the standard setting activity, as it links the concepts of diversity and productivity.

It links the concepts as specialization is a requirement for productivity. It implies that quality, excellence, are basic natural requirements for the standard setting activity. It implies that in order to be productive with extreme quality, the institutional structures and processes responsible for setting out the golden standards and practices, the do´s and don´ts, have to be composed of highly skilled individuals, used effectively in the areas of knowledge that

they truly master. Hence, the standard setting of INTOSAI is specialized into audit types, yet with the same objective of enhancing professionalism.

Productivity

For our purposes, productivity can be defined not only by being able to meet the demand for guidance, but to remain active in high level of quality.

There are some basic requirements to be fulfilled for the standard setting activity to remain productive. A minimum set of resources have to be made available for it to function. The resources have to be effectively distributed considering different tasks, needs and skills. There has to be an effective way of communication or feedback loop between the standard setting activity and the auditing community that uses its products, in order to enable that proper information about the outcome of the standard setting activity is conveyed to its source.

These principles of diversity, professionalism and productivity forms the basis of how the three subcommittees of the PSC approach the issue of sustainability of standard setting within INTOSAI.

Fundamental issues still unsolved

In developing the standard setting of INTOSAI into a sustainable model, we need to take into account the stage we are in, what inheritance there is from decisions taken and what is yet ahead of us. There are standard procedures for the operation of the subcommittees and the process of endorsing ISSAIs. The ISSAI framework contains a diversity of types of documents with diverse strength of authority, yet there are decisions as to level 3 and 4 expressing the main audit types of public sector auditing and the level 4 general auditing guidelines to be developed into authoritative standards. Besides these two levels, there are still uncertainties as to the connection between and authority of ISSAI documents at level 1 and 2, and further on the ISSAI 5000 series. Looking back on the decisions taken, they leave us with an inheritance, but also with some open questions as to the some fundamental issues related to public sector standard setting in need of consideration in order to finalize the current maintenance process of the subcommittees and channeling these short term tasks into a sustainable future where diversity, professionalism and productivity forms the basis of INTOSAI standard setting.

1. What is a standard?

As standard setters we have yet to identify our common definition of what a standard is. We suggest an unequivocal definition of what a standard is as a means both to focus our work and avoid future conflicts on the issue. A standard might be characterized either by its structure, technical design or basic features. Yet, taking into account the diversity of public sector auditing, we think a standard should be defined according to what it does to the audit process and the audit practices of SAIs. A suggested definition of a standard might be the following:

"A public sector standard developed by INTOSAI has the innate nature of containing unequivocal requirements on audit quality, aiming at professionalizing audit processes within a SAI and making the audit practice transparent and subject to evaluation, comparison and further development."

The further consolidation of the ISSAI framework should be based on such a definition.

2. What is the purpose of developing standards for public sector auditing?

| Mandate | Process | Products |

As standard setters of the public sector we are still lacking a common focus and a common purpose of our standard setting activity. Our work processes as subcommittees have mainly been those of drafting documents and following procedures of decision making. This leaves us with an open question as to what is the common purpose of the standard setting of the ISSAIs on how a common purpose may lead our activities onwards.

Mandate

The PSC harmonization project was initiated through a systematic mapping of SAI mandates in order to identify specific aspects of public sector auditing. The purpose of the exercise was to identify the variety of audit assignments performed by SAIs, in order to depict the basis of public sector auditing as the point of departure for the three audit types, related to the constitutional arrangement of each SAI. In this sense, the mandates of the SAIs is a crucial feature in identifying the basis of standard setting for public sector auditing in the sense of what is expected as SAI deliveries from the stakeholders.

Process

The audit standards on level 3 and 4 are mainly process-based. They describe the audit process step by step, adding on general principles governing all steps of the process. The standards provide principles and existing or upcoming requirements of how to perform the audit. These requirements form the main part of the existing standards, and we have already defined the aim of a standard as to professionalize audit practices. Hence, we may conclude that the purpose of developing ISSAIs may be to enhance professional audit processes within SAIs and making these practices transparent and subject to evaluation.

Products

Yet, at the end of every standard there are also requirements on the audit report, which is the final product of the audit process. In the opinion of the three subcommittees, the purpose of our standard setting should also be related to the quality and relevance of these reports and to their further accessibility, value and benefit for good governance and financial stability in in the public sector.

Hence, our proposed approach in identifying an explicit purpose of the standard setting activity of INTOSAI, we should take into account both mandates, processes and products. A suggested purpose may be the following:

"In developing standards for public sector auditing, the PSC and its subcommittees are aiming at developing well-respected standards of high technical quality enhancing professional audit practices within SAIs. Standards of public sector auditing need to take into account the diversity of SAI mandates as part of national constitutional systems, yet aiming at becoming a consistent and coherent framework of quality requirements on audit processes leading to readable, relevant and trustworthy audit reports enhancing good governance and financial stability in the public sector."

3. What do we mean by consistency in the ISSAI framework?

The aim of the ISSAI framework to become a consistent and coherent framework requires a thorough consideration of what consistency implies when arriving at the concrete level of standard setting. Consistency might be perceived as the opposite of diversity. Yet, an ambition of consistency is necessary in order to develop well respected standards and for the ISSAI framework to become coherent as a framework.

Consistency might be conceived as both between the levels of the framework and between the three main audit types. In assessing consistency between the three audit types, the aim would not be to make them similar, but to develop the framework such that the diversity of the audit types is expressed in manner accessible and understandable to the SAIs applying the standards.

Consistency can be viewed across different dimensions and with differing objectives. Hare we are touching upon the dimensions of consistency considered relevant by the FAS, PAS and CAS:

What is an audit

A major step of consistency within the ISSAI framework was taken when ISSAI 100 was endorsed with a common definition of what is an audit in the public sector, applicable to all audit types:

An audit

A systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria.

ISSAI 100 paragraph 18

INTOSAI

Regardless of inconsistencies in structure and terminology, the ISSAIs of level 4 now are relating to this common definition and explaining the audit process based on a common professional and conceptual basis.

Terminology

Terminology is a crucial part of the standards. The use of concepts and choice of wordings is fundamental as to how the standards will be conceived and used, and the choice of terminology is often related to substantial professional debate. In relation to the need for consistency, there should be an aim of the framework that equal contents should be covered by equal terminology. Where terminology differs due to differences between audit types, these differences should be explained and be accessible to SAIs applying the standards.

Structure

Another dimension of coherence of the ISSAIs is structure. One aim of structural consistency might be that all documents follow the same technical design and document structure. Yet, today the situation is quite different:

Different structures on level 4 for the three audit types

Performance audit	Compliance audit	Financial audit
short document with few requirements followed by series of documents with guidance and no additional requirements	long document with each requirement followed immediately by guidance	series of short documents composed by practice note (separate document attached to the document of reference; requirements and guidance, in separate sections of a series of documents
focus on concepts	focus on process	focus on the process understanding, risk assessment, risk response and reporting on the audit of financial statements
General guidance followed by examples and case studies	general guidance	
dual nature of level 4: requirements and guidance	dual nature of level 4: requirements and guidance	dual nature of level 4: requirements and guidance

There are reasons for the differences in structure between these documents related to the genuine nature of each audit type and issues like the relationship with IFAC for financial audit. Yet, there should be an attempt to look for measures that would reduce the inconsistencies, learn from each other and make the standards easily applicable as a framework.

The ISSAIs at level 3 and 4 are at present based on a common audit process model in ISSAI 100. Due to differences between audit types, the process will differ when the audit process becomes more detailed on level 4. Yet, for SAI applying the standard series in combination, it might be difficult to detect when, where and how the audit process differs and how to connect the standard series in practice.

Hence, there is a need to look at the framework from the perspective of the SAIs applying the standards and discuss further: Given the level of consistency achievable within the possibilities of development of the framework, given the inheritance of the work done, the upcoming cooperation between the PSC and its subcommittees and a future sustainable standard setting solution of INTOSAI, will there be a need for additional documents or other tools in order for SAIs to apply the standards from a practical perspective?

Summing up, the three audit types of INTOSAI are now consistently connected through a common definition of an audit, yet there will be differences in terminology, structure and audit process due to the diversity of the audit types of INTOSAI. Yet, these differences must not be of such a nature that

In order to address the issue of consistency the PSC and its subcommittees has to acknowledge the unavoidable differences between the three Subcommittees and the three types of audit that might lead to inevitable differences and determine what the inconsistencies to be addressed through a common effort are. These issues are subject to differing opinions within the subcommittees, and they will require discussions between the Subcommittees and the PSC.   A common agreement on the ambition of consistency should be made between the PSC and the subcommittees, followed by clear decisions and directions of the PSC steering committee and scheduled common projects and activities between the PSC and the subcommittees. This is necessary to harmonize different viewpoints and possibly argue in favor of changes in the direction of work already done.

4. How do we conceive of the standard setting process?

In order for the ISSAIs to be enhancing professional audit practices within SAIs, we need to look at the standard setting process in a wider perspective than the final drafting of paragraphs. As standard setters we need to have a common approach to what are the

crucial steps of the standard setting process before arriving at the drafting and decision making processes. These are the steps where we identify the contents of the genuine public sector aspects of the standards. If standards are to be relevant and enhancing audit quality within SAIs, the work of the standard setters needs to be organized such that the implementation initiatives of INTOSAI are connected with the standard setters in order for the relevant competencies from standard setting to be supporting implementation. For standards to be of continuous relevance for SAI audit practices, the standard setting process also needs built in feedback mechanisms from the practical use of the standards back to the standard setters in order for the standards to address the needs of further development identified through their application.

A standard setting process aimed at enhancing professional SAI audit practices should be conceived of as a systematic feedback loop between standard setting and the practical use of standards:
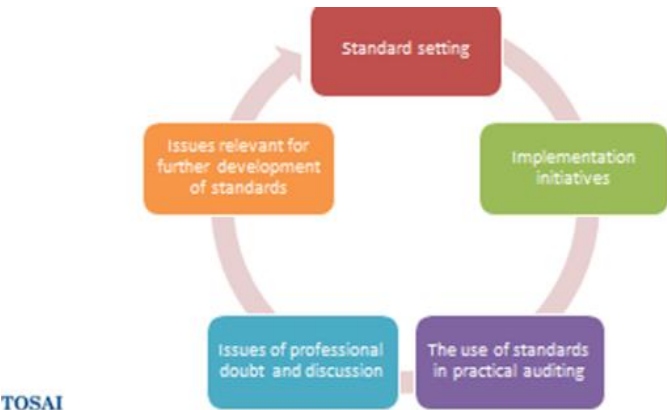
A feedback loop is a circular arrangement of causally connected elements, in which an initial cause propagates around the links of the loop, so that each element has an effect on the next, until the last "feeds back" the effect into the first element of the cycle. The consequence of this arrangement is that the first link ("input") is affected by the last ("output"), which results in self-regulation of the entire system, as the initial effect is modified each time it travels around the cycle. Feedback, in Wiener's words, is the "control of a machine on the basis of its actual performance rather than its expected performance." In a broader sense feedback has come to mean the conveying of information about the outcome of any process or activity to its source.

The feedback mechanism is vital to understand not only what is the need for guidance but also the appropriateness of the existing set of ISSAIs to their users, allowing for improvements. Given the current institutional INTOSAI design, feedback can be expected from the SAIs directly to the standard setters, but a strong link with the IDI, responsible for running the 3i Program, is currently the most robust way provide feedback in a systematized way. Yet, the IDI is not an implementing SAI in itself, and therefore there is at present a lack of institutionalized mechanisms to arrange for the feedback mechanism needed.

The three subcommittees are of the opinion that the standard setting process must comprise a system of permanent feedback between the implementation initiatives and the standard setting groups.

5. Solving issues as a path towards a sustainable standard setting solution

The subcommittees of FAS, PAS and CAS are of the opinion that a sustainable standard setting solution should base its work on a common definition of what is a standard, an agreement of the purpose of standard setting and the level of consistency achievable between the audit types and across the levels of the framework, adding on an agreed process of standard setting, inclusive of the experiences and use of the audit standards within SAIs. This will require a more rigorous governance of the ISSAI framework as a whole and the process of developing and implementing standards within INTOSAI.

The objective of diversity - professionalism - productivity of a sustainable solution for INTOSAI standard setting should contain the following

- A strong direction of the governance of the ISSAI framework as a whole.
- Processes and procedures that take into account the diversity and historical roots of public sector auditing.
- Expressing clearly the purpose of public sector auditing being enhancing the quality and relevance of SAI products by professionalizing processes adapted to SAI mandates and position within national constitutional arrangements
- The major characteristic of a standard is to be of relevance for SAI practices across INTOSAI by expressing clear requirements of quality both in audit processes and products.
- Working procedures of any standard setting body organized within INTOSAI in the future will need to depend mainly on the competence and capacity of performing SAIs.

A short term approach to initiate activities and further cooperation between the subcommittees and the PSC

On the basis of the considerations above, the three subcommittees are proposing to start cooperating through aligning work plans and act on a set of concrete projects between the PSC and the subcommittees. This cooperation will initiate concrete paths illustrating crucial characteristics of how we envision the work of a sustainable solution for standard setting within INTOSAI.

1. Measures addressing the need for consistency

A common glossary

As stated above, where terminology differs due to differences between audit types, these differences should be explained and be accessible to the SAIs applying the standards. The three subcommittees believe this can be achieved through a common glossary of public sector auditing. At present there is a glossary of financial auditing in the ISSAI 1000 series. Yet, there is a lack of a common glossary containing all concepts of public sector auditing in one document and explaining related concepts and the use of differentiated terminology between the audit types. Such a glossary should be directive of the use of terminology within the standards.

A system of cross references between the level 4 documents

The audit process is different between the audit types, yet level 3 explains how SAIs may combine the standards according to the objective of the audit. In order for the standards to be used in combination, it should be easily detectible for a SAI where and how they differ in prescriptions of audit process. This may be achieved through a process where the subcommittes compare the existing documents and develop a common system of cross-references between them.

A common document telling the story of the ISSAIs as a framework and how to combine them for the practical use within a SAI

In addition to such a technical solution to the issue of usability of the standards, we think there is a need for a more practical approach to explaining how to apply them. This may be achieved by the PSC and the subcommittees developing a common and easily accessible document explaining the ISSAI framework as a whole, how the levels of the framework relate and how to apply and possibly combine the standards in relation to the SAI mandate.

A common document structure at level 4 - including interpretation guidance

Even though the standards themselves differ in form and contents at level 4, there might be an opportunity to structure level 4 in a more coherent manner. PAS is presently working on what is named a "framework of performance auditing" at level 4, which includes both standards and guidance on how to interpret and apply the standards at a more operational level. In working with standard implementation, all subcommittees acknowledge the need for interpretation guidance. And possibly, in a sustainable future, level 4 could have a common structure of types of documents containing both authoritative standards and interpretation guidance. This would bridge the present gap between the standards and audit practices within SAIs, and level 4 would appear to a much larger degree consistent.

2. Measures addressing the need for a standard setting process inclusive of SAI practices

A common ToR with the IDI and structured cooperation with other implementation agencies within INTOSAI

The coordination of the three subcommittees with other stakeholders involved in implementation such as the IDI (through, for example, the ToR as circulated by CAS) is necessary to ensure an effective strategy for implementation of the ISSAIs has to be in place.

In this context, the Subcommittees, PSC , the CBC and the IDI must work on some definitions of roles and boundaries. Since for instance the handbook of the IDI aims at helping the SAIs in their efforts of establishing an implementation strategy, the role of the IDI/3i should be defined because the 3i is at present the only INTOSAI project for ISSAI implementation.

It would be important to count upon information from the IDI, since they have directly dealt with SAI issues regarding implementation and, therefore, can contribute with the Subcommittees by providing feedback on the SAIs' greatest expectations and difficulties. This could help the Subcommittees to better give a direction to part of the content. Other issues involved in the standard setting process are capacity building and professionalization, themes also in the scope of the IDI and CBC work.

Reference panel/project team

In addition to a more predictable and defined cooperation with implementation agents of INTOSAI, like the IDI and the CBC, the PSC and its subcommittees should consider establishing some kind of feedback forum directly cooperation with SAIs implementing the standards in order to ensure systematic feedback loops from implementation to standard setting. This could be envisioned as some sort of reference panel or feedback project team, consisting of SAIs selected to represent the diversity across INTOSAI, both in terms of size, audit model, regional diversity and audit types performed.

Consequences in the practical cooperation and coordination between the PSC and the subcommittees short term

At this stage the three subcommittees have already begun a process of communication amongst the Chairs of the Subcommittees. However, to speak on behalf of our members it is important that any discussions take place from authoritative documents such as agreed upon work plans. From this position there are three easily identifiable practices that can take place:

- Specific projects being taken forward by task or reference teams represented by each sub-committee;
- One sub-committee taking the lead and ensuring representative of other sub-committees; or
- One sub-committee takes responsibility and receives feedback from other sub-committees prior to issuance of any output

The main areas for collaboration fall into two categories, namely:

- Working with implanting agents such as IDI
- Working with matters affecting the ISSAI framework and its use, such as a glossary of terms

Within the recent meeting of FAS (March 2014), the idea of looking into the glossary and revision of ISSAI 1000 was discussed. This matter will be researched further a proposal will be put forward to the next meeting in 2015. It may be an opportunity for method one or two above to be tested.

Furthermore, a MoU is proposed with IDI and will form the basis of a discussion in the PSC Bahrain meeting May 2014, this again could become a combined response to IDI.

Proposals:

On the basis of our Copenhagen discussions, the three subcommittees suggest the present document to be elaborated into a discussion paper at the PSC steering committee meeting in Bahrain in May, highlighting the crucial issues to be considered in a sustainable solution for standard setting within INTOSAI.

The three subcommittees further proposes that the Copenhagen meeting of the PSC and its the subcommittees agrees on a priority of activities of concrete cooperation to be initialized short term and long term, incorporated into the work plans of all, in order to address the present challenges of the ISSAI framework and pave the way into a new and sustainable future.