

SDP 2020-2022: COMPONENT 1

Do the concepts of ‘principles’ and ‘standards’ refer to documents, or elements of their content, and what do they mean in practice?

(a summary of views raised during the discussion session held on 15 December 2020)

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 discussion revealed a variety of views on, and differences of opinion about, the meaning and purpose of principles and standards in the IFPP.

A number of participants agreed that principles and standards are an element of content, and that as such should be implementable. Some participants refer to them as to documents setting out requirements and relevant explanations.

A lack of clarity arises from the applying the same naming convention – principle – to very different categories as are INTOSAI-Ps and ISSAI audit principles. There are inconsistencies in addressing institutional, organisational and professional issues within these categories, and the audience at which these are addressed (practitioners, SAI management, and the legislators).

Some consider that audit standards should underpin and flow from audit principles, while others did not see a necessity to create such a link. Some welcome a hierarchy between the three categories of documents (INTOSAI Ps, ISSAIs, GUIDs), some consider no such relationship should be seen between the three.

As already mentioned in previous discussions, some see the hundred series documents (audit principles) as a practical tool to distinguish between pronouncements serving as a basis for developing own standards as opposed to a set of directly implementable requirements in the form of the standards (thousand series documents). Others questioned the need to distinguish between and maintain these categories due to the similarities between the two. Given that this difference is of an administrative nature rather than based on content, an idea raised was to call both requirements.

Principles should only apply to organisational and institutional matters (and could effectively be elevated to the INTOSAI-P level).

Participants generally favour applying a principles-based approach in IFPP, agreeing that this means focusing on the objective (what should be achieved) and not procedure (how it should be achieved). Requirements should be complemented by explanatory material. In this context, they highlighted the importance of allowing flexibility in implementing them.

The current framework is too complex and could benefit from a clear drafting convention. IAASB and IAESB frameworks and pronouncements can serve as good examples of combining a user-friendly

structure and clear pronouncements. To make pronouncements useful and relevant, these could be “pre-vetted” by practitioners.

Are principles an abstract concept or an element of content?

In the case of the former, does this mean everything in a document entitled as such are considered principles? In the case of the latter, can the individual principles be identified?

Principles are an element of content. They should be fully applicable.

Principles define the high-level framework. They must make sense, be operational as well as aspirational.

Principles are something all SAIs strive for, an ultimate objective. They set out what you want to achieve but not how.

Principles are more foundational in nature – they describe general behaviors of a professional (unlike standards, which are specific). They have similar elements and both are important. This labeling is not particularly useful.

Principles should be very clear in purpose. They define the elementary at a higher level.

IFPP principles underpin the standards, and the latter guide us in the work. There are overlaps with which we must deal, but the general distinction is clear.

It is quite possible that the concept of principles in IFPP is not clear to all users. IFPP should better distinguish between INTOSAI-Ps and audit principles of the ISSAI hundred series documents.

It is not clear if a SAI has to fulfil all INTOSAI-Ps to claim that it is ISSAI compliant.

There is a good distinction between principles and standards. However, principles are more about responsibilities, so some standards should be elevated to principles to improve clarity.

INTOSAI-Ps could be extended to include ISSAI 100, because they are so general in their nature.

The current framework is plainly too complex, which is a legacy of the past. Another constraint of the ever-changing framework has been an unconfirmed and inconsistent drafting convention and sometimes compromises to encourage adoption. This is not useful to the intended user or – for that matter – the drafter of a new pronouncement, who typically would be a subject matter expert whose main job responsibility may not be one of drafting standards. Pronouncements produced by the IAASB and the IAESB can serve as an example of what a simple basic structure, easy to follow requirements v guidance, etc mean.

The aim should be to make it clear what represents the “must do”, the “must consider”, and what sits at the level of guidance / examples.

We have more principles-documents than standards-documents, which is interesting.

There are too many categories of principles with different audiences. INTOSAI-Ps address both external bodies and SAIs. Some ISSAI principles directly apply to audit work, while other address SAI organizational matters (ISSAI 130, 140). We should make it clear for the practitioners to see what applies to their work directly, and what we address to SAI hierarchy and external bodies.

The standard setters introduced the term “principles” for the new set of documents because ISSAIs took over the ISAs, which already contain the word “standards”. The framework needed to distinguish the new hundred series documents from these (thousand-series) standards during the INTOSAI harmonization project.

Standards are an element of content to facilitate the implementation of principles. This was also the reason for having introduced the INTOSAI P 50.

Every standard should be underpinned by a principle in some way. Practitioners generally understand the distinction between audit principles and standards, but some are disconnected from INTOSAI-Ps for the lack of understanding of the IFPP standard setting process. They do not understand how they apply to their work. INTOSAI-Ps could be renamed to better distinguish them from the audit principles (e.g. postulates).

The IFPP is a new framework filled with old documents, which sometimes do not fit as well as need a revision. ISSAI 130 and 140 are good examples of a dilemma of whether they represent principles or standards.

There is significant duplication. For instance, too many documents – both “principles” and “standards” – address independence, which increases the risk of inconsistency. We need a cohesive framework addressed primarily to the practitioner.

IFPP addresses through its content several users, not exclusively to practitioners. There is a clear distinction between INTOSAI-Ps, ISSAIs and GUIDs. However, confusion arises between audit principles and standards. The existence of standards is logical for their sufficient level of detail and ability to serve to the auditor as “stand-alone” document. Principles-documents must be read in conjunction with standards. It appears that the hierarchy of importance between the two sets of documents is reverted.

IFPP is clearer than the previous framework, which had four levels. Users should not see the current three levels of documents in a hierarchical relationship. The INTOSAI-Ps do not stand higher than ISSAIs.

Hierarchy is important and serves the IFPP well. One document builds on another.

It is confusing to have principles in ISSAIs. Principles should only apply to institutional requirements, and standards to practice requirements, to how we work.

Some of the overlaps are also linked to the layers of documents. Speaking of distinctions between ISSAIs 300 (principles) and 3000 (standards), one can ask if we need ISSAI 300 as a separate document. As a minimum, they should complement but not overlap.

Even the new framework – IFPP – is somewhat confusing, too complicated.

There are not difficulties in keeping ISSAIs 300 and 3000 separate. By keeping two levels we serve a certain purpose (*allowing to develop own standards as opposed to implementing ISSAIs directly*).

‘Principles-based’ has a number of different meanings, what are they?

Which meaning of ‘principles-based’ is the one the framework is or should be based on, and what implications could this have?

Principles-based means that we do not focus on procedure but on purpose. The aim is not to provide an explanatory step-by-step approach. This is important as SAIs operate in varying conditions and therefore need flexibility.

Principles-based can have two meanings. One is to distinguish between principles-based and rules-based approaches. The difference being in the flexibility of approach. It can also mean that requirements are general enough to allow for auditing regardless of the area being audited. Both should be applicable to IFPP. This does not relate to how detailed the standards should be. The IFPP is generally principles-based, even if there is space for improvement.

Principles-based means allowing room for professional judgement. Even the ISAs, despite their lengthiness, allow a lot of room for professional judgement. The nature of the requirements is more important than the wording.

The term is not specific enough. Maybe we should consider using the term requirements rather than distinguishing between principles and standards. We should name things the right way, what they truly represent.

It is important to maintain a principles-based approach to ensure flexibility in approach.

A principle-based standard cannot mean just a sleek set of principles. Principles must be supplemented by application guidance. This is because not all SAIs have the resources to invest in adding to the principles to get to methodology level.

An ideal solution of developing such principles would be to combine technical accuracy of pronouncement-drafter and stakeholder "sign-off" on practicality.

Are standards an abstract concept or an element of content?

In the case of the former, does this mean everything in a document entitled as such are considered standards? In the case of the latter, can individual standards be identified?

Standards are not abstract. They clearly present requirements that must be applied.

Standards set out requirements and provide an explanatory note to facilitate understanding. They also in provide explanations on concepts used in the documents. However, difficulties exist: we must clean up the documents to remove irrelevant parts, repetitions, etc.

Some concepts in standards are not clear (e.g. materiality, audit risk, etc.). This differs country to country and to a certain extent depends on the linguistic vocabulary (e.g. materiality).

Rather than issues linked to the numbering of standards and requirements, a bigger problem is that practitioners do not really understand the requirements and how to apply them.

Requirements should be easily identified in the framework, and the wording explaining that requirement needs to be clear and easy to understand. The pronouncements in themselves already have unique identifiers.

Requirements and explanations accompanying them in the standards are well listed and referenced to. Paragraph numbers serve the purpose.

Closing comments

We should aim for a principles-based approach for IFPP, as the idea of the IFPP is to connect through principles. The rest of the framework is there to help shape the SAI's own standards, improve quality, ensure professionalism and maintain reputation.

We should indicate for each set of documents in the framework at whom they are aimed.