

Financial Audit Subcommittee

Project proposal submitted to the Professional Standards Committee Steering Committee (PSC-SC) meeting to be held in Copenhagen Denmark on 26-27 May 2016

“Preconditions For Effective Financial Audit ISSAI Implementation”

The content to be developed is, by nature, guidance. Due to its nature, it is technically not part of the ISSAI framework. It will exist only to support the implementation efforts of users of the ISSAI framework but will not impose technical requirements.

The proposal described below was presented and discussed at the 2016 FAS annual meeting on February 24th and 25th, 2016 in Abu Dhabi, UAE. It therefore reflects the current views of the FAS membership.

1. Initial assessment

Effective application of the financial audit ISSAIs is dependent on the existence of specific and mandatory preconditions. These preconditions are necessary to ensure that both the auditor and the audited entity are able to effectively fulfil their respective responsibilities necessary to successfully complete an ISSAI financial audit. These preconditions are not present in all environments therefore an analysis must be performed prior to initiating an ISSAI financial audit to conclude on the existence of these preconditions. Initiating an ISSAI financial audit prior to completing this analysis does not comply with specific ISSAI requirements, increases the risk of resource loss for both the auditor and the audited entity as both parties attempt to complete an inefficient and ineffective audit process, and increases the risk that an auditor will reach an inappropriate audit conclusion.

ISSAI 1210 defines the preconditions that are the responsibility of the management and of those charged with governance of the entity to be audited. ISSAI 1220 defines the preconditions that are the responsibility of the auditor. These standards also define the requirements for evaluating the preconditions. The purpose of this project is to create an application guidance document that will help public sector auditors effectively evaluate the preconditions. Whilst in the private sector, the auditor can decide not to accept an engagement if the preconditions are not met, this is often not an option for the public sector auditor. Furthermore, the mandates of some SAIs may also require them to support audited entities in their attempts to establish the preconditions defined in ISSAI 1210.

The guidance we develop will support public sector auditors as they endeavour to effectively and permanently establish the preconditions in ISSAI 1220 and support audited entities in their efforts to permanently and effectively establish the preconditions in ISSAI 1210.

2. Scope, deliverables, and timing

FAS is undertaking this project to help SAIs effectively meet specific requirements necessary to conclude if mandatory preconditions necessary for the effective application of Level 4 financial ISSAIs exist in their respective environment. This is especially important for SAIs in developing environments as this analysis is necessary to allow them to conclude if they are ready to embark on the journey to Level 4 financial audit ISSAI implementation or if they must first focus their efforts on making the changes necessary to establish these preconditions.

The final product of this project will be guidance on ISSAI 1210 and 1220.

FAS anticipates presenting the first draft of the application guidance document to the PSC Steering Committee at its annual meeting in 2017. This timeline is subject to change as FAS is committed to taking the time that is needed to produce a high-quality product that will meet the community’s needs.

3. Task plan

The task plan will be dictated by the structure of the document that is produced. Project groups will assume responsibility for individual sections of the document and the project leader will ensure that the efforts are properly coordinated. Based on the current draft plan, the following sections will be developed:

- a) Understanding and effectively evaluating the following ISSAI 1210 preconditions for an ISSAI financial audit:
 - Determining whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable
 - Obtaining the agreement from management that it acknowledges and understands its responsibility for:
 - The preparation of the financial statements in accordance with the applicable financial reporting framework including, where relevant, fair presentation
 - For such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error
 - Unrestricted access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation, and other matters
 - Unrestricted access to additional information that the auditor may request from management for the purpose of the audit
 - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence

- b) Understanding and effectively evaluating the ISSAI 1220 preconditions for an ISSAI financial audit
 - Maintaining an effective system of quality control to provide reasonable assurance that:
 - The office, its audits, and its personnel comply with professional standards and applicable legal and regulatory requirements
 - The office, its audits, and its personnel comply with relevant ethical requirements (e.g independence)
 - Acceptance and continuance procedures are effectively performed
 - Sufficient competent personnel are available to perform engagements in accordance with professional standards and applicable legal and regulatory requirements to enable the firm or engagement partners to issue reports that are appropriate in the circumstances
 - Audit teams are properly supervised and audit work is properly reviewed
 - Effective quality reviews are performed
 - Documentation requirements are effectively met
 - The system of quality control is effectively monitored to ensure that it remains relevant and effective