The ISSAI Harmonisation Project

The ISSAI Harmonisation Project

The following materials are presented for the purpose of agenda item 2:

This agenda item also includes approval of (separate documents):

- Endorsement version: ISSAI 100 Fundamental Principles of Public Sector Auditing
- Endorsement version: ISSAI 200 Fundamental Principles of Financial Auditing
- Endorsement version: ISSAI 300 Fundamental Principles of Performance Auditing
- Endorsement version: ISSAI 400 Fundamental Principles of Compliance Auditing

Overview of the decisions to be taken by the PSC Steering Committee

Proposals from the project group

At the PSC Steering Committee meeting in Stockholm 18-19 June 2013 the ISSAI Harmonisation Project group will ask the committee to consider the following:

1) **Approval of the Endorsement Versions (EV):**
   - **EV ISSAI 100**
   - **EV ISSAIs 200, 300 and 400**

   See papers on 'Approval of EV ISSAIs 100, 200, 300 and 400' **and** 'Considerations on comments to ED ISSAIs 100, 200, 300 and 400'

2) **Proposal on 'Drafting conventions for auditing guidelines'**
   The proposed drafting conventions is the result of the project goal C and D on consistency of the ISSAIs 1000-5999 at level 4 of the ISSAI Framework. The project group suggests that the drafting conventions are decided on by the PSC Steering Committee and published on www.issai.org.

Further issues

The PSC Steering Committee will further consider the following matters:

3) **The maintenance frequency**
   The guaranteed maintenance is to be indicated on the issai-website with the words - 'To be reviewed at least every xx years'. The responsibility for initiating the review will fall upon the PSC Chair after 2016. When the Chair consulted the Steering Committee in 2011 it was concluded that the frequencies should be decided on after the revision.

   ISSAI 100 - *A maintenance frequency around 12-18 years would be in line with the PSC Steering Committee's previous directions that this document should provide the basic concepts and high level principles that can be drawn upon by all other ISSAIs*

   ISSAI 200, 300 and 400 – *A maintenance frequency around 6-9 years would ensure that the close link to the General Auditing Guidelines is preserved in the future.*

4) **A 'transition period' for SAIs that wish to continue to refer to the old 'INTOSAI Auditing Standards' after 2013.**
   As a result of the PSC Steering Committee's discussion in Johannesburg in 2012 the PSC Chair has asked INTOSAI members whether they would need in a transition period to refer to the old 'INTOSAI Auditing Standards'. The PSC Chair will present a proposal on how a transition in 2013-2016 can be achieved

5) **Consequences for the "Introduction to the ISSAI Framework"**
   In October 2011 the Steering Committee issued the paper 'The purpose and authority of INTOSAI's Professional Standards' which serves as an overall introduction to the ISSAI Framework on www.issai.org. With the endorsement of the new ISSAI 100 at INCOSAI, this introduction should either be withdrawn or updated.

6) Decision to dissolve the ISSAI Harmonisation Project Group

> *With the approval and decisions suggested above the project group can be considered dissolved.*
>
> *Among the many comments received there a few SAIs have raised issues that relate more generally to the PSC's activities. A list of these is included for information – cf. 'Comments on other PSC matters - received through the exposure of ISSAIs 100, 200, 300 and 400'*
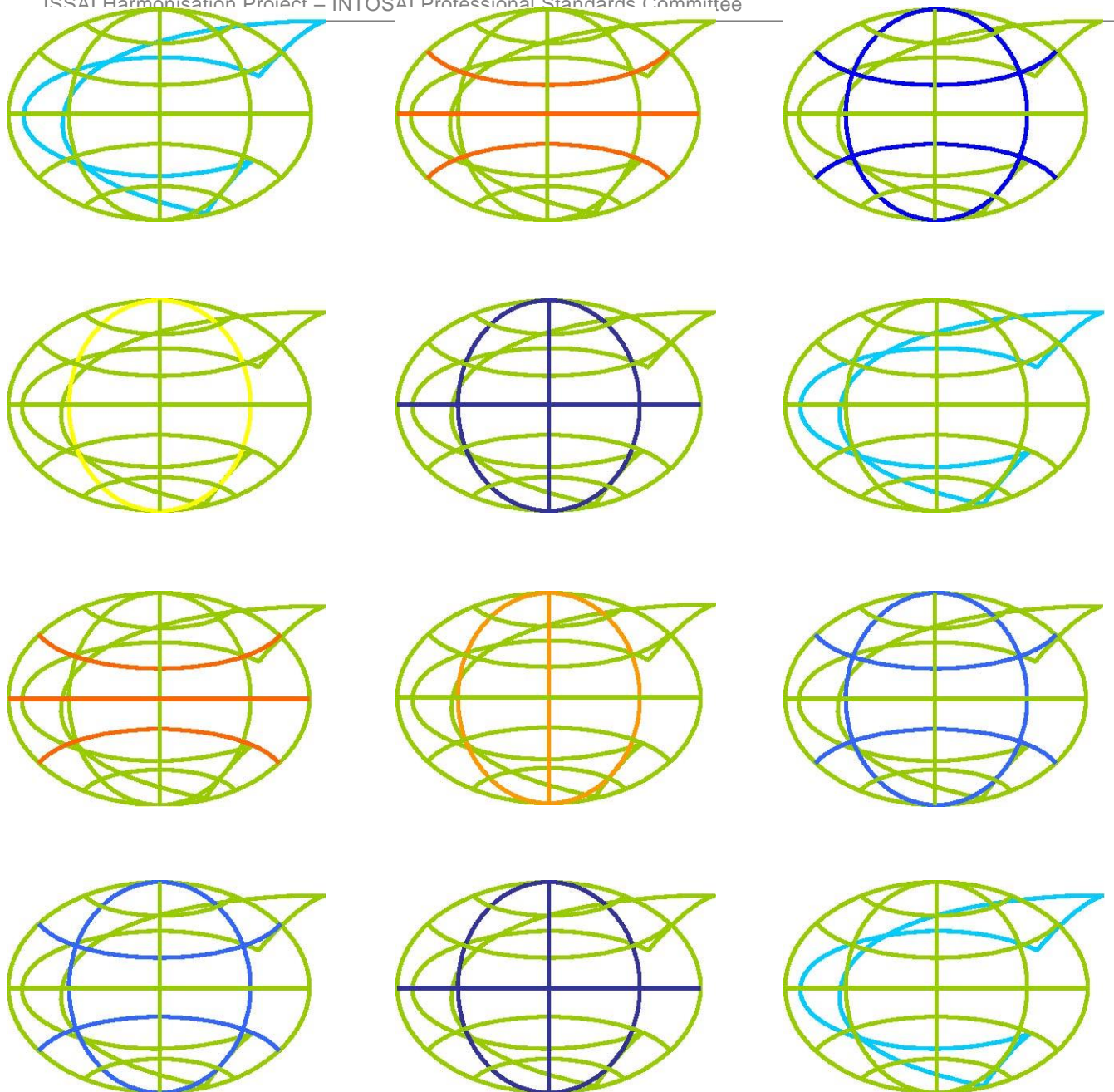
The ISSAI Harmonisation Project
INTOSAI Professional Standards Committee

Final Report
PSC Steering Committee Meeting, June 17-19, 2013

The Harmonisation Project is finished
– A new set of fundamental auditing principles for INTOSAI
has been developed!

The harmonisation of ISSAIs 100-400 is a strategic goal for the PSC in the mandate period 2011-2013 and the finalisation of the ISSAI Harmonisation Project marks the end of the third step towards creating a common, credible and consistent set of standards for public sector auditing.

The first step was taken in 2007 by INCOSAI in Mexico. At that time, all relevant existing and planned official INTOSAI documents and nine new ISSAIs for financial auditing were gathered in the ISSAI framework; the framework for International Standards of Supreme Audit Institutions.

The second step was taken in 2010 by INCOSAI in South Africa, where congress approved 37 new ISSAIs and thereby launched the first comprehensive set of ISSAIs. All members of INTOSAI were encouraged to use the ISSAIs as a common frame of reference for public sector auditing, measure their own performance and auditing guidance against the ISSAIs and implement the ISSAIs in accordance with their mandate and national legislation.

The third step will be the endorsement of the revised Fundamental Auditing Principles in the new ISSAI 100, 200, 300 and 400 in October 2013 at INCOSAI in China. With this endorsement, the Harmonisation Project will have achieved its overall purpose which was to provide a conceptual basis for public sector auditing that will ensure consistency in the ISSAI framework. The new ISSAIs 100, 200, 300 and 400 provide INTOSAI with an improved basis for international cooperation and the continued improvement of the ISSAIs. The new ISSAIs also provide each INTOSAI member with a clearer foundation for their individual decisions on how the ISSAIs can best be implemented and used within the national context. It will be a continued effort for the PSC and the subcommittees to ensure that the new ISSAIs are used as a basis for future revisions of the ISSAIs on level 4.

This report presents an overview of the main achievements of the project. It also explains how the endorsement of the new set of fundamental auditing principles will contribute to the continued improvement of the full set of ISSAIs, and it provides the most important insights on how the project group has conducted their work.

The following is attached to this report:
- The approved mandate and project proposal (Annex A)
- List of participants in the ISSAI Harmonisation Project (Annex B)
- Overview of key milestones (Annex C)

Further information on the ISSAI Harmonisation Project can also be found under 'PSC' on www.psc-intosai.org. In accordance with the Due Process for INTOSAI's Professional Standards all comments received to the Exposure Draft ISSAIs 100, 200, 300 and 400 have been published together with the project group's considerations on www.issai.org.

A. The main achievements of the project

The project group takes pride in presenting four new ISSAIs to the PSC Steering Committee, namely ISSAIs 100, 200, 300 and 400, which will replace the existing ISSAIs 100-400

pending on the PSC Steering Committee's approval and the endorsement by INTOSAI's Governing Board and INCOSAI.

On 15 November 2012 all four draft ISSAIs were published on www.issai.org for exposure until 15 February 2013. Following the exposure period, the project group reviewed all comments received, thoroughly considered the relevance of the comments and revised the ISSAIs accordingly.

The comments received to the four exposure drafts reflected a reassuringly high level of engagement by INTOSAI's members with this key stage of the standard-setting due process. We have received a total of 1216 comments from 47 SAIs or other organisations, which has contributed significantly to the improvement of the drafts. The comments received generally express a wide support for the overall ambitions of the project and reflects that many SAIs have given the drafts developed a very thorough consideration.

With the finalisation of the Harmonisation Project, INTOSAI now has a solid foundation in the ISSAIs for its various activities. The new fundamental auditing principles present INTOSAI's definition of public sector auditing and create a common platform for SAIs around the world. This includes the key auditing concepts that will serve as a common language for the INTOSAI community.

With the endorsement of these four new ISSAIs, INTOSAI will therefore further strengthen its position as a recognised provider of professional standards for SAIs. Rather than being technical auditing standards, they provide the overall description of the principles that guide public sector auditing

With the INCOSAI endorsement, the main results of the project will be:
- A new ISSAI 100 that sets out the fundamental principles of public sector auditing
- New ISSAIs 200, 300 and 400 that define the foundation for financial, performance and compliance auditing in the public sector
- A new set of ISSAIs that define the common elements of public sector auditing
- An explanation of the authority of the ISSAIs which also explains what it means to comply with the ISSAIs.

These results are further explained below.

The new ISSAI 100 sets out
the fundamental principles of public sector auditing

ISSAI 100 – The Fundamental Principles of Public Sector Auditing are expected to be the new flagship for INTOSAI in promoting public sector auditing and good auditing practice. It covers all types of public sector audits whatever their form or context. ISSAI 100 presents a definition of public sector auditing and provides the essential concepts, elements and principles that apply to all public sector audits; it can therefore be used by all SAIs, regardless of their tasks and mandate. Great efforts were made to ensure that, as far as possible, the new ISSAIs reflect the perspectives of all members of the INTOSAI family.

ISSAI 100 conveys that public sector auditing is essential in providing independent and reliable information to legislatures, oversight bodies, those charged with governance and the public. Public sector auditing enhances the confidence of intended users by providing information and independent and objective assessments on deviations from accepted

standards or principles of good governance. Audits are required to be objective and results are based on findings supported by sufficient and appropriate evidence. However, due to inherent limitations, audits can never provide absolute assurance for the intended users.

The new fundamental auditing principles also improve coherence and consistency between the levels in the ISSAI framework. The new ISSAIs make consistent reference to the ISSAIs on level 1 and 2 so overlaps between them are avoided. ISSAI 100 sets out the elements of public sector auditing as well as the principles that apply to public sector auditing, both the general principles related to an audit, and the principles related to the different phases of the audit process. In this way ISSAI 100 also provides the basis for the specific principles and concepts that are contained in ISSAIs 200, 300 and 400 and defines the three areas of auditing; financial, performance and compliance auditing that are explained further in these ISSAIs.

The new ISSAIs 200, 300 and 400 define the foundation for financial, performance and compliance auditing in the public sector

Whereas ISSAI 100 lays out the basic principles for public sector auditing in general, ISSAIs 200, 300 and 400 have a more targeted scope of application and contain the fundamental principles for financial, performance and compliance auditing. They also provide the core of the more detailed financial, performance and compliance auditing guidelines on level 4. Along with ISSAI 100, the key principles described in ISSAIs 200, 300 and 400 provide the basis for any further development of the guidelines on level 4.

ISSAI 200 – Fundamental Principles of Financial Auditing – provides an overview of the nature, the elements and the principles of auditing financial statements as conducted by SAIs. The principles presented are consistent with the ISAs and the Financial Auditing Guidelines on level 4, and ISSAI 200 provides references (links) to ISSAIs 1000-1999 (ISAs with practice notes), which contain the requirements for such audits.

ISSAI 300 – Fundamental Principles of Performance Auditing – defines and expresses INTOSAI's recognition of the principles for the auditing of economy, efficiency and effectiveness. The framework for performance auditing is provided, together with the general principles for performance audits.

ISSAI 400 – Fundamental Principles of Compliance Auditing – provides an overview of the nature, the elements and the principles of compliance auditing as conducted by SAIs and thus defines and expresses INTOSAI's recognition of the principles for auditing of compliance with authorities (laws and regulations and principles of sound public sector financial management and conduct of public sector officials).

The ISSAIs define the common elements of public sector auditing

It was a key priority for the project group to ensure that ISSAI 100 could be of use to all INTOSAI members. ISSAI 100 provides a common language and common concepts that describe and define public sector auditing, and thus engenders a common understanding and application of public sector auditing standards.

The section 'Elements and the Principles of Public Sector Auditing' in ISSAI 100 sets out the elements of public sector auditing. The purpose of public sector auditing is defined by the

Lima Declaration: the concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Public sector auditing enhances the confidence of intended users by providing information and independent and objective assessments on deviations from accepted standards or principles of good governance.

All public sector audits include the same basic components. Auditing is in INTOSAI's standards divided between financial, performance and compliance auditing. The section on elements in ISSAI 100 elaborates on the description of public sector auditing in the Lima Declaration, and defines a set of concepts – the elements – that can be used to describe what public sector auditing is. The elements add amplification and specification to the concepts of financial, performance and compliance auditing and allow for a more technical definition of public sector auditing.

The elements define the basic framework within which public sector auditing is carried out. The elements include a definition of the three parties of an audit (the auditor, the responsible party, intended users) and their roles. ISSAI 100 defines how public sector audits can be categorized as two different types of audit engagements; attestation engagements and direct reporting engagements. In attestation engagements it is the responsible party who measures the subject matter against criteria. In direct reporting engagements – such as performance audits and certain compliance audits - it is the auditor, who measures or evaluates the subject matter against criteria.

Intended users seek confidence about the reliability and relevance of the information used as the basis for their decisions. In ISSAI 100 define that the outcome of a public audit will be a form of assurance.. ISSAI 100 defines that assurance can be communicated in two ways, depending on the needs of the users and the audit. One option is through opinions and conclusions which explicitly conveys the level of assurance. This applies to all attestation engagements and certain direct reporting engagements. Second option is through "other forms" when the auditor does not provide an explicit statement of assurance on the subject matter; this applies to some direct reporting engagements. In this case, the auditor conveys the confidence required by the user by providing explicit explanations of how findings, criteria and conclusions were developed in a balanced and logically reasoned manner, including why the combinations of findings and criteria result in a certain overall conclusion or recommendation.

The elements described in ISSAI 100 are technical concepts that can be used when writing standards, and constitute the concepts used to explain public audit and what type of audit SAIs perform. This common professional language will facilitate more efficient knowledge sharing and cooperation and add further credibility to audit reports of SAIs.

The authority of the ISSAIs is defined in ISSAI 100, which also explains what it means to comply with the ISSAIs

The new Fundamental Auditing Principles provide a common professional base for SAI's audits. The section "Purpose and Authority of the ISSAIs" in ISSAI 100 explains the authority of the Fundamental Auditing Principles. The purpose of the section is to clarify what it means to comply with the ISSAIs and to explain how SAIs can make reference to them, thus providing a means of indicating implementation of the ISSAIs. This information has not previously been a part of the ISSAI framework.

ISSAI 100 recognises that SAIs conduct their audits according to different national, regional, or international auditing standards. Each INTOSAI member is encouraged to define its own auditing standards on the basis of the principles and its mandate. The principles can be used as a basis for developing authoritative standards in three ways: To form a basis on which standards are developed by a SAI, to form a basis on which consistent national standards are adopted or to form the basis for adoption of the General Auditing Guidelines (ISSAIs 1000-4999) as standards.

Depending on the SAI's choice, the ISSAIs can be referred to in two principal ways:
1. audit reports may state that the audit was conducted in accordance with a national standard based on or consistent with the ISSAI Fundamental Auditing Principles
2. audit reports may state that the audit was conducted in accordance with the ISSAIs. In the latter case, the auditing guidelines on level 4 for financial, performance, or compliance auditing are applied as the authoritative standards.

By providing these two options, ISSAI 100 provides a high degree of flexibility whereby each SAI can define its own approach and use the standards relevant within its context and mandate.

SAIs should declare the standards applied in the conducting of audits and this declaration should be accessible to users of the SAI's report. SAIs are encouraged to declare which standards they applied in the conducting of audits in their audit reports, however, a more general form of communication may be used.

New drafting conventions will guide the revision of the auditing guidelines on level 4 of the ISSAI framework (ISSAIs 1000-5999)

The new Fundamental Auditing Principles have an impact on the future revisions of level 4 of the ISSAI framework – both for the general auditing guidelines (1000-4999) and the guidelines on specific subjects (5000-5999). To ensure that the harmonisation continues on level 4 of the framework, the project group has developed a set of drafting conventions that should be applied to the text of all guidelines on level 4.

The purpose of the drafting conventions is to ensure uniform use of concepts and writing style throughout level 3 and 4. The drafting conventions guide, to whom the ISSAIs should be directed at and what the purpose of the guidance of the audit is. This is to ensure that the guidelines on level 4 are in compliance with the definition of level 4 in the ISSAI framework, which states that the ISSAIs on level 4 provide specific, detailed and operational guidance that can be used by the auditor on a daily basis in the conduct of auditing tasks. The drafting conventions also highlight that the guidelines on level 4 should support the general requirements defined on level 3 of the framework, and that the guidelines on level 4 should distinguish between requirements that are mandatory and further guidance that is included in the guideline for further explanation or elaboration of the requirement.

The drafting conventions are presented to the PSC Steering Committee in a separate document.

B. The continued improvement of the full set of ISSAIs

The endorsement of the new ISSAIs 100-400 will have implications for the continued maintenance and improvement of the auditing guidelines on level 4 of the ISSAI framework. It will be for the PSC Steering Committee and subcommittees to consider how these implications can best be included in the Committee's and subcommittee's work plans for 2014-2016 and 2017-2019. These implications include:
- Editorial consequences for the auditing guidelines on level 4 (ISSAIs 1000-4999)
- New opportunities for more operational auditing guidelines on level 4 (ISSAIs 1000-4999)
- The development of the General Auditing Guidelines towards a clearer set of auditing standards
- An accentuation of the cooperation between the Professional Standards Committee and the Knowledge Sharing Committee in improving the auditing guidelines

Editorial consequences for the auditing guidelines at level 4 (ISSAIs 1000-4999)

In the approved project proposal, it was assumed that it would be necessary to make editorial corrections to the auditing guidelines on level 4 after the new fundamental principles were finalised. Since the new Fundamental Auditing Principles set out a harmonised set of concepts and principles for public sector auditing, it is the project group's assessment, that the auditing guidelines on level 4 of the framework should be aligned with this established terminology. At the same time, it will be necessary to make corrections to the auditing guidelines where they refer to the fundamental principles and update cross-references between the auditing guidelines.

The extent of revisions needed of the ISSAIs on level 4, may have to be clarified as part of the next maintenance review of level 4 required by the Due Process. For the financial auditing guidelines the next review is due after 2013, for the performance auditing guidelines the next review is due by 2014 and for the compliance auditing guidelines by 2016.

New opportunities for more operational auditing guidelines on level 4 (ISSAIs 1000-4999)

According to INTOSAI's decisions on the ISSAI framework the purpose of the auditing guidelines on level 4 is to translate the Fundamental Auditing Principles into more specific, detailed and operational guidance that can be used by the auditor on a daily basis in the conduct of auditing tasks. The purpose of the guidelines is to provide a basis for the standards and manuals on public sector auditing that may be applied by the individual members of INTOSAI. Each guideline has a defined scope of application and may be adopted in full or adapted as necessary to reflect the individual circumstances of the jurisdiction.

When the existing performance and compliance auditing guidelines on level 4 were developed, references to performance and compliance auditing on level 3 were limited. The endorsement of ISSAI 3000 in 2004 and of ISSAI 3100 and ISSAI 4000-4200 in 2010, was therefore ground-breaking achievements, which established performance and compliance auditing as two types of public sector auditing. Each of these ISSAIs reflects a diversity of views and practices within the INTOSAI community with regard to the different ways performance and compliance audits are conducted.

The new Fundamental Auditing Principles create an opportunity to develop the performance and compliance auditing guidelines towards a series of more focused and more operational guidelines. The principles provide a generic description of different activities of the audit process, which can be drawn upon in the future development of guidelines.

The new Fundamental Auditing Principles also provide the elements of public sector auditing and the further concepts and principles, which can be used to distinguish between different aspects or types of compliance and performance auditing. The most general description of performance and compliance auditing and their different forms is now provided on level 3.

In the coming years it will therefore be for the PSC and its subcommittees to explore and decide on whether and how such more focused guidelines can be developed. Reinforced coordination will be needed in order to maintain and improve the consistency achieved in the ISSAIs.

The development of the General Auditing Guidelines towards an improved set of auditing standards

The new ISSAIs 100, 200, 300 and 400 allow SAIs to adopt the General Auditing Guidelines (ISSAIs 1000-4999) as their auditing standards and refer to the ISSAIs in the audit reports, if they wish to do so. To some extent this is already an established practice within the INTOSAI community and is well in line with the decisions of INCOSAI in 2007 in 2010 on the ISSAIs. However, many SAIs will also prefer to adopt or develop other national standards based on the Fundamental Auditing Principles. For these SAIs the General Auditing Guidelines will continue to serve the wide range of other purposes, which the PSC identified through its Survey in 2007, before the guidelines were developed and endorsed. The drafting conventions proposed by the project group provide practical solutions on how texts on level 4 can serve these various purposes.

The Fundamental Auditing Principles provide an important basis for the development of the ISSAIs on level 4 in much the same way as they provide the basis for the development of auditing standards by the individual SAIs. The guidelines on level 4 should therefore support the general requirements defined on level 3 of the framework and the guidelines on level 4 should distinguish between requirements to the audit and any further guidance provided.

It will be an important and demanding challenge for the INTOSAI community to develop the guidelines towards an improved and more generally recognized set of auditing standards in the coming years. It will require the time, resources and processes necessary to achieve a result of high quality and wide support within INTOSAI. It will be for the PSC and its subcommittees to consider how this work can best be organized and planned in the future.

The Professional Standards Committee and the Knowledge Sharing Committee should work together towards improving the auditing guidelines

The responsibility for the ISSAIs on level 4 is currently split between the subcommittees in the Professional Standards Committees (for ISSAIs 1000-4999) and the subcommittees in the Knowledge Sharing Committee (for ISSAIs 5000-5999). This split is recognized in INTOSAI's Strategic Plan 2010-2016. The mandate of the project group includes considering

the extent to which the Specific Auditing Guidelines (ISSAIs 5000-5999) can be aligned with ISSAIs 100-4999 and the general ISSAI terminology

The project group has especially considered the situation of SAIs that have adopted the General Auditing Guidelines (ISSAIs 1000-4999) as their authoritative standards and state in their audit reports that the audit has been conducted in accordance with the ISSAIs. In this case the ISSAIs developed by the KSC do not only provide valuable guidance on specific subject matters but may to some extent also influence the perceptions of the users of audit reports as well as the general recognition of the ISSAIs in the national environment.

With the proposals made in the ISSAIs 100, 200, 300 and 400 and in the drafting conventions for level 4 the project group has aimed to provide the best possible solution for these SAIs at the current stage of development. However it seems only natural that the implementation of the drafting conventions and the further development of ISSAIs on level 4 of the framework should involve close cooperation between the PSC and the KSC. It will be for the PSC and KSC Steering Committees and subcommittees of the PSC and the KSC to consider, how this work can best be organised and decide how the new opportunities created by the revised Fundamental Auditing Principles can be explored.

C. The project group's work

The new ISSAIs were developed by the ISSAI Harmonisation Project group in the period from March 2011 to November 2012. The project group had particular focus on ensuring that the new revised ISSAIs should reflect the special role and functions of SAIs and that they should be useful to all members of INTOSAI.

It was significant for this project that it brought together auditing specialists from all parts of the world as well as from all three types of auditing - financial, performance and compliance auditing. One of the lessons learned from the Harmonisation Project is, that developing high-level and high quality standards that encapsulate the essence of public sector auditing requires a lot of resources, both in terms of man hours and in terms of participation of experts with previous experience in developing and writing standards. In total we carefully estimate that around 2000 working days have been used.

All costs of the project were covered by the participating SAIs. Based on reactions from project group members it is the Project Chair's overall assessment that the amount of resources and work being contributed by the project group members verged on the limit of what can reasonably be expected from SAIs' voluntary contribution.

It has been a major task to make the ISSAIs work as a package and develop common principles for public sector auditing that also takes the differences of the three fields of auditing into account. The amount of resources used may not be directly reflected in the number of pages, but is reflected in the underlying discussions, hearings etc. to reach the final result. The group has been very ambitious in wanting to create a high quality product.

Thirteen SAIs participated in the project group. In addition to the chair (Denmark) it included members from FAS (Sweden, UK, USA), PAS (Brazil, Sweden, Austria) and CAS (Norway, European Court of Auditors, Slovakia) as well as INTOSAI's Chair (South Africa) and 1. Vice Chair (China) and the Chairs of the Knowledge Sharing Committee (India) and the Task Force on SAI's Information Database (Mexico).

The project group held five meetings for all members (Copenhagen, Denmark; Washington, USA; Copenhagen; Mexico City, Mexico and Chandigarh, India) with a total of 18 working days. In addition to this, a number of drafting group meetings and meetings of other subgroups were held in-between meetings of the full project group. Between meetings the project group worked extensively through e-mail correspondence and phone. In addition to these project group activities, the drafts produced by the drafting group were discussed at meetings and through written consultation in the subcommittees FAS, PAS and CAS

The work of the project was extensively discussed at two meetings of the PSC Steering Committee (Wellington 2011, Johannesburg 2012).

A great effort was made to clarify the way the different types of auditing are described in the ISSAIs in order to provide a common international set of concepts and principles for public sector auditing. This was very challenging at times, but it proved also to be the strength of the project, and it raised the level of quality of the four new ISSAIs considerably.

Annex A:
The approved mandate and project proposal

Extract from the PSC's mandate as approved by XX INCOSAI in 2010:

In light of the results achieved in 2007-2010 the PSC will in 2011-2013:

- Harmonise the present collection of ISSAIs, and thereby ensure the consistency of the ISSAI Framework.

[…]

The existence of a 4 level framework with a comprehensive set of ISSAIs and INTOSAI GOVs in November 2010 allows the PSC to move on to the next challenge: To develop the present collection of ISSAIs that have been developed over a long time span by a range of different Working Groups, Task Forces and Subcommittees, into a truly coherent set of standards. This work will be conducted within the Harmonisation Project.

The purpose of the Harmonisation Project is to provide a conceptual basis for public sector auditing and ensure consistency in the ISSAI framework. Therefore the Harmonisation Project will focus on revising and developing the Fundamental Auditing Principles on level 3 in the ISSAI Framework, which will provide consistency throughout the Framework. The numbering and timing of the different draft ISSAIs will be addressed by the project group and agreed upon by the PSC Steering Committee, and the project will be carried out in accordance with the due process for developing, revising and withdrawing ISSAIs and INTOSAI GOVs.

The Harmonisation Project proposal has been approved by the PSC Steering Committee at its meeting in Copenhagen 5-7 May 2010 and a project group will be established to complete the project by 2013.

Approved project proposal:

Harmonization of the International Standards of Supreme Audit Institutions - Revision of the Fundamental Auditing Principles

The project proposal has been elaborated and agreed upon by the Chairs of the PSC Sub-committees on Financial Audit, Compliance Audit, Performance Audit and the PSC Chair. Emphasis has also been put on input from the initial assessment and the regional representatives of the PSC Steering Committee.

1. Purpose and scope of the project
The purpose of this project is to provide a conceptual basis for public sector auditing and en-sure consistency in the ISSAI framework.

The project has the following goals:

Goal A: Revise the ISSAI 100-999 Fundamental Auditing Principles, in order to ensure that:
- they describe the general role and auditing function of a SAI and are relevant and useful for all members of INTOSAI;
- they provide overview and further references to the full set of ISSAIs where more operational guidance is provided;

- they provide a consistent set of concepts and an improved link between IS-SAI 1 The Lima Declaration and the new set of comprehensive guidelines that are launched in 2010

Goal B: Make the limited editorial changes in ISSAIs 10-99 which are necessary in order to carry the revision of ISSAIs 100-999 through and improve consistency between the two levels of documents.

Goal C: Ensure alignment between the ISSAI 1000-4999 Implementation Guidelines and the new set of ISSAIs 100-999 Fundamental Auditing Principles. The alignment includes:
- consolidating the terminology of the full set of ISSAIs 100-4999 in accordance with a general glossary for the ISSAI Framework and ensure updated cross-references between the different ISSAIs;
- considering the extent to which there is a need to make further amendments in the ISSAI 1000-4999 guidelines as a consequence of new ISSAIs 100-999 Fundamental Auditing Principles, e.g. in areas where text is moved from the guidelines to the principles, or where unintended differences between the different sets of guidelines exist.

Goal D: Consider the extent to which the ISSAI 5000-5999 Specific Guidelines can be aligned with the ISSAI 100-4999 and the general ISSAI terminology established under goal C.
The scope of the project is the guidance on auditing provided by the ISSAIs.

This does not include:
- the further overlaps and inconsistencies which may exist between the differ-ent documents at level 2 ISSAIs 10-99;
- harmonization of the INTOSAI GOVs or between the INTOSAI GOVs and the ISSAIs.

2. Background
INTOSAI's Framework for Professional Standards was established by an INTOSAI official document approved by INCOSAI in 2007. By this decision a range of different documents that had been approved by INCOSAI in the past many years were classified into four levels and systematically numbered. All documents relevant for auditing were collected into one set of standards – The International Standards of Supreme Audit Institutions (ISSAI).

In the six years leading up to INCOSAI 2010, the PSC has filled the Framework with further documents in areas, where no guidance existed or the existing guidance was considered in-sufficient by the PSC Steering Committee and the PSC Subcommittees.

By 2010 the PSC's accomplishments will include achievement of its goal to provide a comprehensive set of practical guidelines at level 4 of the ISSAI Framework:
- FAS has developed a full set of ISSAI 1000-1999 Financial Auditing Guidelines, that provide practice notes to the International Standards on Auditing issued by IFAC.
- PAS has supplemented the existing guidelines with a new ISSAI 3100 with improved guidance on performance auditing.
- CAS has provided a full new set of ISSAI 4000-4999 Compliance Auditing Guidelines establishing compliance auditing as the third branch of auditing

This will allow the PSC to move on to the next challenge: To develop the present collection of ISSAIs, which have been developed over a long time span by a range of different workings groups, task forces and subcommittees, into a truly coherent set of standards.

3. Planned ISSAIs

The planned deliveries may be changed by the project group during the project with approval of the PSC Steering Committee. Deliveries include the following:

ISSAI 100-series – Basic concepts:
- Purpose of the ISSAI framework.
- The objective of public sector auditing [terminology from the mapping].
- The role and function of SAIs [terminology from the mapping and the work on "Value and benefits of SAIs"].
- Authority of the ISSAI framework:
  - The ISSAIs are not mandatory.
  - What does it mean to state compliance?
  - How do we refer to the ISSAIs?
- Considerations for judicial role [terminology from CAS].
- Basic concepts: assurance, materiality, assertion based and direct reporting, audit criteria, subject matter, risk assessment, using the work of others [the meaning of the different concepts will depend on the nature of the auditing task].
- Basic structure of audit processes [depending on the audit conclusion]:
  - Reporting and communicating our findings.
- The three areas of auditing and different ways of combining them [briefly relate the terms to the concepts used in ISSAI 1 The Lima Declaration].

ISSAI 200 Financial Auditing
Overview
These will be based on ISSAIs 1000 – 2999.

ISSAI 300 Performance Auditing
Overview
These will be based on ISSAIs 3000 – 3999.

ISSAI 400 Compliance Auditing
Overview
These will be based on ISSAIs 4000-4999.

The PSC Subcommittees will consider making editorial changes in the ISSAIs 1000-4999 in order to establish the consolidated general ISSAI glossary as described under goal C.
In addition, the considerations provided for by goal D may result in changes in the ISSAI 5000-5999 Specific Guidelines. This will be the responsibility of the INTOSAI Knowledge Sharing and Knowledge Services Committee (KSC).

4. Organization and process

A project group is established in order to complete the project by 2013.
The group is chaired by Denmark in its capacity as PSC Chair and responsible for the ISSAI Framework. The group should include the following appointed members:

- At least 2 members from each of the three PSC Subcommittees that are responsible for implementation guidelines: FAS, PAS and CAS. We will strive for regional representation and for representation of various SAI models in this group.

The project group will consult representatives of INTOSAI as deemed necessary.

The numbering and timing of the different draft ISSAIs should be addressed by the project group and agreed upon by the PSC Steering Committee.

The project should be carried out in accordance with the due process for developing, revising and withdrawing ISSAIs and INTOSAI GOVs.

The project group will consider existing ISSAIs, the initial assessment made and other relevant standards in line with the dual approach.

Should the project group during the conduct of the project find that the planning, organization or key project directions need to be revised, it may at any time ask the PSC Steering Committee to take renewed decision.

5. Approval of this project proposal
This project proposal was approved by the PSC Steering Committee at its meeting in Copenhagen on 5-7 May 2010.

Annex B: The ISSAI Harmonisation Project Group

List of participants in the ISSAI Harmonisation Project Group's meetings 2010-2012

Mr. Kristoffer Blegvad	Project Chair, Senior Adviser	National Audit Office	**Denmark**
Ms. Ane Elmose	Senior Advisor	National Audit Office	**Denmark**
Mr. Rasmus Hyll Bruun	Adviser	National Audit Office	**Denmark**
Ms. Nanna Schnipper	Head of Section	National Audit Office	**Denmark**
Mr. Norbert Weinrichter	Deputy Director	Court of Audit	**Austria**
Mr. Carlos Alberto Sampaio de Freitas	Head of Unit	Court of Audit	**Brazil**
Ms. Gloria Maria Merola da Costa Bastos	Director	Court of Audit	**Brazil**
Mr. CHEN Yu	Deputy Director	National Audit Office	**China**
Mr. LIU Shaotong	Deputy Director General (ex-staff)	National Audit Office	**China**
Mr. LUO Quan	Director	National Audit Office	**China**
Mr. Manfred Kraff	Director	European Court of Auditors	**European Union**
Mr. Niels-Erik Brokopp	Head of Unit	European Court of Auditors	**European Union**
Ms Anna Baya Ramoun		European Court of Auditors	**European Union**
Mr. L. V. Sudhir Kumar	Director General	Office of the Comptroller General	**India**
Ms. Meenakshi Gupta	Director General	Office of the Comptroller General	**India**
Ms. Meenakshi Sharma		Office of the Comptroller General	**India**
Mr. Juan Javier Pérez Saavedra	Deputy Auditor General	Superior Audit Office	**Mexico**
Mr. Benjamin Fuentes Castro	International Liaison Officer	Superior Audit Office	**Mexico**
Mr. Erwin Ramírez Flores	Director of International Relations	Superior Audit Office	**Mexico**
Mr. Fernando Cervantes Flores	Director General	Superior Audit Office	**Mexico**
Ms. Mona Paulsrud	Head of CAS Secretariat	Office of the Auditor General	**Norway**
Ms. Ulrike Schroeter-Skaug	Deputy Director General	Office of the Auditor General	**Norway**
Ms. María Kysuckâ		Supreme Audit Office	**Slovakia**
Ms. Shelmadene Petzer	Deputy Business Executive	Office of the Auditor General	**South Africa**
Mr. Jonas Hällström	Director	National Audit Office	**Sweden**
Mr. Tony Angleryd	Senior Advisor	National Audit Office	**Sweden**
Mr. Iain Johnston	International Relations Manager	National Audit Office	**United Kingdom**
Ms. Janette Franzel	Managing Director	Government Accountability Office	**USA**
Ms. Beryl H. Davis	Director, Financial Management and Assurance	Government Accountability Office	**USA**
Ms. Marcia Buchanan	Assistant Director	Government Accountability Office	**USA**
Ms. Heather I. Keister	Assistant Director, Financial Management and Assurance	Government Accountability Office	**USA**
Ms. Gail Vallieres	Assistant Director General	Government Accountability Office	**USA**

Annex C:
Milestones in the development of the Fundamental Auditing Principles

2004

XIIX INCOSAI in Budapest (Hungary)
The INTOSAI Strategic Plan 2004-2010 is launched. Goal 1 of the plan - 'Accountability and Professional Standards' - is to ensure that INTOSAI can provide an up- to-date framework of professional standards that is relevant to the needs of its members.

PSC Steering Committee meeting Oslo (Norway)
The inaugural meeting of the Steering Committee. First discussion on the framework of professional standards.

2005

PSC Steering Committee meeting Washington D.C. (USA)
Discussions and decisions on the Framework of Professional Standards. The names ISSAI and INTOSAI GOVs are agreed on. The text of the INTOSAI Auditing Standards from 1992 is included at level 3 in the Framework. However the name of level 3 is changed by the Steering Committee from 'Auditing Standards' to '*Fundamental Auditing Principles (ISSAI 100-999)*'. This reflects that the content of level 3 is likely to evolve over time and that efforts to improve on the framework as well as the individual documents will continue with a renewed mandate after 2007.

PSC Steering Committee meeting in Yaounde (Cameroon)
Development of a survey on the needs and priorities of Supreme Audit Institutions (SAI) in the future development of professional standards.

2006

PSC Steering Committee meeting in Manama (Bahrain)
Discussion on the PSC's mandate 2007-2010 based on the survey results. 3/4 of all SAIs use INTOSAI Auditing Standards - often in combination with other standards. There is widespread consensus that there are differences between public and private sector auditing and almost all SAIs find that there is a need for further INTOSAI guidance. The PSC decides to fill in the ISSAI Framework with new guidelines and provide a first comprehensive set of ISSAIs by 2010.

2007

XIX INCOSAI and PSC and Governing Board meetings in Mexico City (Mexico)
Endorsement of the Framework for Professional Standards and launch of the new names International Standards of Supreme Auditing Institutions (ISSAI) and INTOSAI Guidance on Good Governance (INTOSAI GOV). Level 3 of the Framework (ISSAI 100-999) contain the fundamental principles for carrying out audits of public entities. Level 4 (ISSAI 1000-5999) provide auditing guidelines that translate the fundamental auditing principles into more specific, detailed and operational guidelines that can be used on a daily basis for auditing tasks. The decision states that the Fundamental Auditing Principles (ISSAI 100-999) presently consist of the INTOSAI Auditing Standards. To underline the importance of these

standards and allow for flexibility in the future development, each of the 4 chapters is given its own ISSAI-number.

2008

PSC Steering Committee meeting in Beijing (China)
Decision to develop a due process for developing, revising and withdrawing INTOSAI Professional Standards.

2009

PSC Steering Committee meeting in Brasilia (Brazil)
Theme discussion on consistency in the ISSAIs. Decision to revise the Fundamental Auditing Principles and agreement on a set of initial directions for the revision. In preparation of the project, representatives from INTOSAI's Regional Working Groups should carry out a mapping of mandates. Based on this the chairs of PSC, FAS, PAS and CAS should elaborate a project proposal.

INTOSAI Governing Board meeting, Cape Town (South Africa)
Decision on the Due process for INTOSAI Professional Standards. The PSC presents its plans to launch a project on ISSAI Harmonisation that should revise the Fundamental Auditing Principles and improve consistency in the ISSAIs.

2010

Meeting of the PSC representatives of INTOSAI's Regional Working Groups in Brussels (Belgium)
Elaboration of the report 'The auditing function of Supreme Audit Institutions - A systematic mapping of the auditing assignments of 31 selected Supreme Audit Institutions across the regions of INTOSAI '. The regional working groups agree on a set of recommendations on the future Fundamental Auditing Principles.

PSC Steering Committee meeting in Copenhagen (Denmark)
The joint project proposal from the chairs of the PSC, FAS, PAS and CAS is approved in line with proposed new Due Process for INTOSAI Professional Standards. The project is named 'Harmonisation of ISSAIs – Revision of the Fundamental Auditing Principles' (The ISSAI harmonisation project).

XX INCOSAI and PSC and Governing Board meetings in Johannesburg (South Africa)
Launch of the first comprehensive set of ISSAIs and the new due process for INTOSAI professional standards. In the South Africa Declaration INTOSAI calls upon its members to use the ISSAI framework as a common frame of reference for public sector auditing; measure their own performance and auditing guidance against the ISSAIs; and implement the ISSAIs in accordance with their mandate and national legislation. At the same time INCOSAI mandates the PSC to move to the next challenge: To develop the present collection of ISSAIs into a truly coherent set of standards. By 2013 the ISSAI harmonization project should result in a revised set of fundamental auditing principles.

2011

First ISSAI Harmonisation project group meeting in Copenhagen (Denmark)
The project group started its work on the basis of the existing text of level 3 (The old INTOSAI Auditing Standards) as well as the guidelines on level 4 endorsed in 2010. A drafting group is established for each of the 4 planned drafts ISSAI 100, 200, 300 and 400.

PSC Steering Committee meeting in Wellington (New Zealand)
Discussion on a first draft for ISSAI 100 Fundamental Principles of Public Sector Auditing and initial outlines of ISSAI 200, 300 and 400. The Steering Committee develops an overall introduction to the ISSAI Framework in order to clarify the purpose and authority of the ISSAIs at each level.

Meetings in PSC's subcommittee for financial auditing in Washington D.C. (USA) and compliance auditing in Tbilisi (Georgia)
Discussions on the draft ISSAIs 200 on financial auditing and draft ISSAIs 400 on compliance auditing. The draft ISSAI 300 on performance auditing was commented on in written by members of the PSC performance audit subcommittee.

INTOSAI Governing Board meeting in Vienna (Austria)
Report on progress within the first year of the project.

Second ISSAI Harmonisation project group meeting in Washington D.C. (USA)
The project group discuss and compare the drafts ISSAI 100, 200, 300 and 400. Cross-cutting issues are discussed including the authority of the 4 new ISSAIs on level 3 and references to the ISSAIs in audit reports.

2012

Meetings in the ISSAI 100 drafting group in London (UK) and the PSC's subcommittee for performance auditing in Vienna (Austria)
Further development of the draft ISSAIs 100 Fundamental Principles of Public Sector Auditing and the ISSAI 300 Fundamental Principles of Performance Auditing.

Third ISSAI Harmonisation project group meeting in Copenhagen (Denmark)
The project group finalise the exposure draft ISSAI 100 Fundamental Principles of Public Sector Auditing based on comments from the PSC Steering Committee. The draft ISSAI 300 is also finalised for presentation to PSC Steering Committee.

PSC Steering Committee meeting in Johannesburg (South Africa)
The draft ISSAI 100 and 300 approved with a number of comments to be included in the exposure drafts.

30 August 2012 - The first two exposure drafts, ISSAIs 100 and 300, are published on www.issai.org and sent around to all INTOSAI members for comments.

Meetings in PSC's subcommittee for compliance auditing in Vilnius (Lithuania) and financial auditing in Stokholm (Sweden)
Elaboration on the draft ISSAIs 400 on compliance auditing and 200 on financial auditing.

Fourth ISSAI Harmonisation project group meeting in Mexico City (Mexico)
Finalisation of the draft ISSAIs 200 and 400. The drafts are subsequently approved by the PSC Steering Committee.

14 November 2012 – Start of the exposure period. Exposure drafts ISSAI 100, 200, 300 and 400 are all published on the www.issai.org and sent to INTOSAI members and other interested parties

INTOSAI Governing Board meeting in Chengdu (China)
The Governing Board welcomes the 4 exposure draft ISSAIs and encourages all INTOSAI members to provide their comments before 15 February 2013.

2013

15 February 2013 – End of the exposure period

Preparation group meeting in Copenhagen (Denmark)
Some members of the project group meet in Copenhagen to consider the comments to the exposure versions and prepare the full project group's meeting in Chandigarh

Final ISSAI Harmonisation project group meeting in Chandigarh (India)
The proposed endorsement versions of ISSAIs 100, 200, 300 and 400 are finalised. The project group also decides on a proposed set of drafting conventions for auditing guidelines.

Planned:

PSC Steering Committee meeting in Stockholm (Sweden)
The PSC Steering Committee's approval of endorsement versions of ISSAIs 100, 200, 300 and 400.

XXI INCOSAI and Governing Board meeting in Beijing (China)
The ISSAIs 100, 200, 300 and 400 are to be presented for endorsement by INCOSAI

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Proposal:
Drafting conventions for Auditing Guidelines

Proposal: Drafting conventions for Auditing Guidelines

The project group proposes that the PSC Steering Committee decides on a set of ISSAI drafting conventions which should take effect from November 2013.

It will be the aim of the ongoing process of ISSAI maintenance after 2013 to ensure that the drafting conventions are applied to the text of all auditing guidelines (ISSAI 1000-5999). The ISSAIs are subject to maintenance reviews at regular intervals. The next review for each ISSAI is announced on www.issai.dk. The needs for any revisions in order to comply with the drafting conventions are to be considered in connection with these reviews.

The proposed drafting conventions

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1. These drafting conventions apply to the following ISSAIs at level 4 of the ISSAI Framework:

a) <u>The General Auditing Guidelines (ISSAI 1000-4999).</u> These guidelines contain the recommended requirements of financial, performance and compliance auditing and provide further guidance to the auditor. The ISSAI 1200-1810 contain the International Standards on Auditing issued by IFAC and the additional public sector considerations developed by INTOSAI. The drafting conventions should therefore only be applied to the ISSAIs 1200-1810 to the extent it is relevant and appropriate.

b) <u>The Guidelines on specific subjects (ISSAI 5000-5999).</u> These provide supplementary guidance on specific subject matters or other important issues which may require the special attention of Supreme Audit Institutions.

Only exposure drafts and endorsement versions that are fully in line with these drafting conventions may be submitted for approval by the Steering Committee as provided for by the Due Process.

2. The ISSAI should be directed to the auditors and provide guidance for the conducting of audits:

a) The ISSAI should use the term **'the auditor'** and define what can be expected from the auditor. Where it is relevant – e.g. where institutional issues are involved - reference may also be made to 'the SAI'.

b) The ISSAI may **not** provide any guidance on what can be expected from the legislators or administrative authorities or advice on how the aims of public authorities can best be achieved. Such guidance and advice may instead be communicated through other means – e.g. an INTOSAI GOV.

c) The ISSAIs at level 4 may **not** provide any guidance on what types of audits, SAIs or other auditors should be mandated to carry out (such guidance may be found at level 1 and 2 of the ISSAI framework)
(Cf. INCOSAI's decision from 2007 on the establishment of the ISSAI framework)

3. It should be easy for auditors to assess whether the ISSAI applies to the audit task at hand:

a) The ISSAI should include a section in the beginning of the document entitled **'Scope of this ISSAI'** which should clearly identify the types of audits, or combinations thereof, which it applies to.

b) The types of audits that fall within the scope of the ISSAI should be identified by using the concepts of financial, performance and compliance auditing as well as the further distinctions between different approaches, objectives and further distinctions defined by the Fundamental Auditing Principles. If relevant the section may further specify the specific circumstances under which the ISSAI applies or do not apply.

c) <u>For guidelines on specific subjects (ISSAI 5000-5999):</u> The section 'Scope of this ISSAI' should also describe the subject matters that define the scope of the ISSAI.

d) <u>For General Auditing Guidelines (ISSAI 1000-4999):</u> The scope of the ISSAI should not overlap with the scope of any other ISSAI in the set of General Auditing Guidelines (ISSAI 1000-4999). The set of General Auditing Guidelines (ISSAI 1000-4999) do not necessarily cover all possible audits provided for by the Fundamental Auditing Principles. The ISSAI should reflect that an audit may combine different objectives and may therefore require the auditor to apply two or more ISSAIs in conjunction or observe further requirements that are not established by the ISSAIs. The ISSAI may contain the relevant cross-references to other ISSAIs in order facilitate their joint application.

4. The ISSAI should support the general requirements which are defined by level 3 of the ISSAI framework – The fundamental auditing principles (ISSAI 100-999):

a) The ISSAI should **refer** to the relevant principles and requirements in the fundamental auditing principles and elaborate further on these by providing the more operational guidance relevant for the types of audits covered by the ISSAI. In the fundamental auditing principles (ISSAI 100-999) the main content of each principle is highlighted in bold and the word 'should' is used to express the requirements that audits can generally be expected to live up to. Reference to principles can for example be made by quoting the statements highlighted with bold.

b) The ISSAI should avoid any statements that contradict the prerequisites for the functioning of SAIs (ISSAI 10-99) or the fundamental auditing principles (ISSAI 100-999). The ISSAI should not cover matters dealt with in the prerequisites for the functioning of SAIs (ISSAI 10-99), but may contain references to these where appropriate.

c) The ISSAI should use the same terminology as the fundamental auditing principles (ISSAI 100-999). Additional terms or concepts may be introduced in order to deal with matters that are not addressed in the principles.

5. The ISSAI should distinguish between requirements and further guidance:

a) The fundamental auditing principles (ISSAI 100-999) defines the different options for SAIs on how the ISSAIs can be used and how references can be made to the ISSAIs. The distinction between requirements and further guidance is relevant for SAIs that have chosen to adopt the General Auditing Guidelines (ISSAI 1000-4999) as their authoritative standard. In this case the auditor should

determine the financial, performance and compliance audit guidelines that apply to the audit and comply with all relevant requirements (cf. ISSAI 100/xx-xx).

b) <u>For General Auditing Guidelines (ISSAI 1000-4999):</u>

- The ISSAI should use the word **'shall'** to indicate that a sentence is to be understood as a requirement when the ISSAIs are used as the authoritative auditing standard (referred to in audit reports). 'Shall' statements will normally provide for aims that the auditor shall achieve or conditions the auditor shall consider (rather than specific actions the auditor shall take).
- The ISSAI should contain the following statement towards the end of the section 'Scope of this ISSAI':
  'In cases where the ISSAIs are used and referred to as the authoritative auditing standards, the auditor should determine the financial, performance and compliance audit guidelines (ISSAI 1000-4999) that apply to the audit and comply with all relevant requirements (cf. ISSAI 100/63-64). In this ISSAI the word 'shall' is used to provide such requirements'.
- The ISSAI should provide requirements ('shall' statements) that are sufficient for audits within the defined scope to ensure that the audits are conducted in accordance with the fundamental auditing principles. The ISSAI may also provide for additional or more detailed requirements. However, there may be ISSAIs within the set of general auditing guidelines that do not serve the purpose of providing such requirements. In this case the above statement in the section 'Scope of the ISSAI' is replaced by the following statement:
  '*This guideline provides [application material in relation to ISSAI xxx] and does not contain any further requirements to the conduct of audits*'

c) <u>For Guidelines on specific subjects (ISSAI 5000-5999):</u>

- The ISSAI cannot provide requirements for the audit and **may not** use the word 'shall' in a way that could be understood as providing such requirements.
- The following statement should be made towards the end of the section 'Scope of this ISSAI':
  '*This guideline provides supportive guidance in relation to [the financial/performance/compliance auditing guidelines (ISSAI xxx-xxx)] and does not contain any further requirements for the conducting of audits*'.

6. The common layout should be followed:

a) The template for ISSAIs should be used

b) References to other ISSAI's have the format ISSAI xxx/yy where xx is the ISSAI number and yy is the item-number. Cf. ISSAI classification principle 6.

Considerations regarding the comments to the exposure draft ISSAIs 100, 200, 300 and 400

Considerations regarding the comments to the exposure draft ISSAIs 100, 200, 300 and 400

Draft
Presented to the PSC Steering Committee for information
– elaborated for the purpose of issai.org

The PSC's Project Group on *Harmonisation of ISSAIs – revision of the Fundamental Auditing Principles* has developed the following ISSAIs that will be presented for final endorsement at the XXI INCOSAI in Beijing in October 2013:

- ISSAI 100 Fundamental Principles of Public Sector Auditing
- ISSAI 200 Fundamental Principles of Financial Auditing
- ISSAI 300 Fundamental Principles of Performance Auditing
- ISSAI 400 Fundamental Principles of Compliance Auditing

The four ISSAIs represent the result of the process of public exposure. All INTOSAI members and other interested parties were invited to provide their comments and suggestions by 15 February 2013. The four final ISSAIs represent the result of Project Group's efforts to accommodate all comments and suggestions to the furthest extent possible.

The Due Process for INTOSAI's Professional Standards requires that the considerations of Project Group regarding the comments received are published on www.issai.org. These are described in this paper.

47 SAIs or other parties have provided comments. A total of 1216 comments of substance have been registered. These have been divided into 7 different lists which are annexed to this paper. *(The lists will be made available electronically to the PSC Steering Committee members along with the meeting materials on the psc-intosai.org website – expected 6/6 2013)*

List 1 contains 893 comments**.** These generally relates to a particular issue in one of the four drafts. The project group's consideration regarding each comment is noted on the list.

Lists number 2-6 contains 322 comments that concern cross-cutting issues of relevance to the four drafts or matters requiring reconciliation of a wider range of different views and considerations. The project group has strived to provide a more general solution in order to accommodate these comments. **The project group's considerations are explained in this paper** (in a few cases supplementary information in relation to individual comments is also provided in the lists).

List 7 contains a few comments that touch upon matters that fall beyond the Project Groups mandate. These have been passed on to the PSC Steering Committee and are not further described here.

The paper contains the following sections:
1) General considerations
2) Authority of the ISSAIs – how the ISSAIs can be referred to (cf list 2)
3) The elements of public sector auditing – especially 'assurance' (cf list 3)
4) Clarity in terminology – providing concepts for the full set of ISSAIs (cf. list 4)
5) Matters relating to the Prerequisites (ISSAIs 10-99) at level 2 (cf. list 5)
6) Alignment of presentation of the four ISSAIs (Cf. list 6)

A more general presentation of the four ISSAI's and project's achievements is provided in the **Project Group's final report**. This and further information can be found on the project's homepage: http://www.psc-intosai.org/composite-280.htm

1. General considerations

The volume of comments received to the four exposure drafts reflected a reassuringly high level of engagement by INTOSAI's members.

The comments received generally supported the overall ambitions of the project and reflects that many SAIs have given the drafts developed a very thorough consideration.

As explained in the letter by which the PSC Chair presented the exposure drafts, it has been the Project Group's overall ambition that the revised ISSAIs 100, 200, 300 and 400 should:
- Provide a common professional foundation for the INTOSAI community that all members will support
- Strengthen the International Standards of Supreme Audit Institutions (ISSAI) and further their general use and acceptance
- Support each SAI in its efforts to adopt appropriate auditing standards, ensure high quality in audits and meet the needs of the users of the SAI's reports
- Convey the essence of public sector auditing in ISSAI 100 and provide the appropriate additional fundamental principles of financial, performance and compliance auditing in the ISSAIs 200,300 and 400

The project group has been encouraged by the answers received and has carefully considered all comments in order to achieve the above ambitions to the furthest extent possible.

The project group's resources and working time represent a contribution in kind from the participating SAIs to INTOSAI. The project group's work is therefore subject to constraints in terms of time and resources, which has made it necessary to prioritize as follows:

- 711 comments included a suggested text, while 504 comments did not. In general these two groups of comments have been treated on an equal basis. However, in some cases a SAI has suggested that more than a few lines of additional text should be developed without providing a proposal. It must be recognized that such wishes have only be accommodated to the extent that members of the project group have been prepared to undertake the additional work of elaborating proposals for consideration.

- 78 registered comments were received more than 3 working days after deadline. The belated comments were therefore available after the project group had organized the comments and started its analyses and considerations. To the extent possible, these comments have been considered and accommodated at a later stage of the project group's work. It must however be recognized that this might not in all cases have had the same effect on the drafts as it could have if the comments had been available by deadline.

2. Authority of the ISSAIs – how the ISSAIs can be referred to

The comments received – cf. List 2

34 comments concerned the sections in ISSAI 100, 200, 300 and 400 on the authority of the ISSAIs. This included:

a) Suggestions that simplification or more clarity was needed – especially in ISSAI 100

b) Proposals to explain the expression 'authoritative auditing standards' as well as to clarify that some SAIs issue auditing standards

c) Various comments and suggestions regarding the accuracy of the description of the relationship between ISSAIs and ISAs in ISSAI 100 and ISSAI 200

d) It was suggested to delete the possibility to 'communicate in a more general form' in ISSAI 100 as an alternative to including the statement on standards in each single report

e) It was suggested to specify the requirements to the SAI's standard setting. It was also proposed to describe the different kinds of documents (eg policies and procedures that are systematically established by the SAI) that may be regarded as 'authoritative standards'.

f) Suggestion to include language on what to do if some (relevant) principles are deviated from. It was proposed that the statement in the audit report should include a specification of any principles deviated from. (To some extent this reflected that some requirements in the Exposure Drafts – e.g. in ISSAI 200 – were perceived to be detailed).

g) some points out that the reality in performance auditing may be that no standards exists and suggests that the principles in themselves may be valuable as a basis for internal quality control

h) confusion over the difference between audit report/auditor's report

How the comments are reflected in the endorsement versions

The project group has elaborated an explanatory note to the exposure drafts in order to highlight the many different situations the text accommodates and the different supported options for whether and how to refer to ISSAIs. The proposed endorsement versions fully preserve these flexibilities. The explanatory note can be found on the Project Group's homepage (http://www.psc-intosai.org/composite-280.htm).

In light of the comments achieved and the importance of the issue the project group has given this matter a high priority and considered each comment carefully. The texts of ED ISSAI 100/7-9 and ED ISSAI 100/56-65 were merged into EV ISSAI 100/7-12, so all 4 EV ISSAIs now contain a section on 'purpose and authority' in the beginning. The section in ISSAI 100 was edited through in order to achieve a simpler and more readable presentation that would preserve the full flexibility to accommodate for the different needs of SAIs. This has involved:

1) References to ethics, quality control and other prerequisites have been moved out of this section and stated elsewhere. The distinction between audit report and auditor's report has also been moved and explained elsewhere.

2) In EV ISSAI 100/8 it is clarified that the principles can be used as a basis for 'authoritative standards' in three ways: Standards developed by SAIs, national standards adopted or by adoption of the General Auditing Guidelines. This is opposed to the wider concept of 'professional standards' that is used by INTOSAI as a common name for ISSAIs and INTOSAI GOVs.

3) The explicit recognition of combined financial/performance/compliance audits conducted in accordance with the General Auditing Guidelines has been moved to EV ISSAI 400/9 in order

to reduce complexity in EV ISSAI 100/10. This solution reflects that it is primarily the ISSAIs 4000-4200 (cf ISSAI 4000/6) that provides for such combined audits.

4) All matters relating to the financial auditing guidelines have been broad together in ISSAI EV 100/11.

The project group has especially considered the suggestions of comment no. 1003 to specify the list of different documents that could be regarded as standards by a SAI; the suggestions of comment no. 797 to the effect that all audit reports (including performance audit reports) should contain a statement on the auditing standards used and the suggestions of comment no. 1002 that the national standards developed or adopted by SAIs should require auditors to specify in their audit reports if there were principles in ISSAIs 100-999 which had not been applied/applicable in the audit. There were arguments that suggested that further limitations were needed in order to ensure good practice as well as arguments for recognizing certain specific sources or solutions for SAIs national standard setting. The group has however found it important to maintain the flexibility provided for by the exposure drafts that leaves it to the responsibility of each SAIs to define the appropriate solution. This is reflected in EV ISSAI 100/8. In order to fully accommodate comment no. 1003 this also includes a recognition that the SAI's standard may be '*based on several sources taken together*'.

This solution also leaves it for each of the SAIs that develops standards to decide whether or not to require that auditors should specify explicitly in their statements in case there are requirements of the standards that have not been applied or applicable. Questions over whether the ED ISSAIs 100,200, 300 and 400 contained too detailed principles has been considered in relation to the individual items in the documents and has led to a shortening of ISSAI 200 (cf. comments on list 1).

If INTOSAI as some point wishes to provide further guidance relating to the role of SAIs as a national standard setter for public sector auditing this could be achieved through the ISSAIs at level 2 of the ISSAI Framework.

The text of EV ISSAI 100/7-12 draws on and supplements previous INCOSAI decisions most notably:
- The Mexico Declaration on SAI Independence endorsed in 2007 that provides that *SAIs should use appropriate work and audit standards, and a code of ethics, based on official documents of INTOSAI, International Federation of Accountants, or other recognized standard- setting bodies* (ISSAI 10/Principle 3).
- The Principles of Transparency and Accountability endorsed in 2010 as a result of INTOSAI's Strategic plan 2004-2010. These provide that *SAIs adopt standards and methodologies that comply with INTOSAI fundamental auditing principles elaborated under the International Standards of Supreme Audit Institutions. SAIs communicate what those standards and methodologies are and how they comply with them.* (ISSAI 20/Principle 3).
- The further recognition of the importance of auditing standards in ISSAI 30 and 40.
- The South Africa Declaration on the ISSAIs by which the INCOSAI in 2010 encouraged all INTOSAI members to use the ISSAIs as a common frame of reference for public sector auditing and implement the ISSAIs in accordance with national legislation.

3. The elements of public sector auditing – especially 'assurance'

The comments received – Cf. list 3
Approximately 69 comments touches upon the concepts described in the exposure draft's sections on 'Elements' of public sector auditing and reflect a wide diversity of views.

The comments can be grouped in two general "camps": Those emphasizing the importance of the assurance concept and asking for a more consistent use of the concept across all four drafts and those emphasizing that SAIs have special role, i.e. in the field of performance audit that makes it difficult to apply the assurance concept in all cases:

Comments emphasizing the general importance of assurance
a) Suggestions that the ISSAI definition of "audit" should somehow be aligned with IAASB's definition of assurance engagements
b) Observations that the levels of assurance are not consistent across the drafts. Suggestions that it should be mentioned in ISSAI 100 and possibly also in the other drafts
c) Suggestions that attestation engagements standards should be incorporated in the ISSAI in a manner that applies beyond compliance audit. Text should be moved from ISSAI 400 to ISSAI 100.
d) Suggestions that the concept of (reasonable) assurance is critical to all audits, including performance auditing, and ISSAI 300 should reflect this. Each type of audit should include a discussion of assessment of audit evidence and the provision of assurance.
e) Comments that in ISSAI 300 audits that aim to provide assurance have been set apart as non-typical. Legitimate approaches and objectives should be portrayed with an even hand.
f) Comments that the two concepts 'levels of confidence' and 'levels of assurance' were unclear in ISSAI 100

Comments emphasizing the need to consider the special role of SAIs - or in other ways improve upon the drafts
g) Suggestions that it will often be the SAI that selects the topic/scope or subject matter and/or criteria
h) Suggestions that this may be part of a strategical planning process before the planning of the individual audit.
i) Suggestions to include principles regarding such selections (e.g. based on risk/materiality)
j) The notion that some SAIs do not issue an opinion/standardized conclusions on whether the subject matter is in accordance with criteria
k) Suggestions that it should be clearly stated in ISSAI 300 that auditors are not normally expected to provide an overall opinion on economics, efficiency and effectiveness.
l) Comments suggesting that the concepts of direct/attestation engagements and limited/reasonable assurance should not be considered principles of compliance auditing or is more general relevant
m) Suggestions that the forms of compliance auditing (direct / attestation engagements) have no influence on assurance
n) Comments to clarify that a compliance audit may either result in an opinion or in a (non-standardized) conclusion and suggestions that reports may contain findings of importance to the users (cases of non-compliance) without expressing a limited/reasonable assurance-style conclusion.
o) Suggestions that the "two levels of assurance" may not always apply to compliance audit.

p) Suggestions that in performance audits the analysis is done as a part of the process of writing the report - not "after the audit procedures".

q) Suggestion that the section on reporting should be expanded in ISSI 100 (cf. "old ISSAI 400") and a more uniform description of reporting applied in the other 3 drafts and a number of suggestions that concepts used in relation to reporting needs explanation

How the comments are reflected in the endorsement versions

The project group has tried to accommodate these many different views in the best possible way. This has involved the following:

1. The definitions of attestation engagements and direct reporting engagements in the context of the ISSAIs have been edited and moved from ED ISSAI 400/50-51 to a new section entitled 'Types of engagement' in EV ISSAI 100/9. This distinction is also reflected in EV ISSAI 100/30 regarding financial, performance and compliance auditing and EV ISSAI 100/51 regarding reporting.

2. The section on confidence and assurance has been clarified in EV ISSAI 100/31-33. This section now includes:
- A distinction between two *forms* of assurance. This is based on ED ISSAI 300/5-7,30-32 and ED ISSAI 400/6, 35, 49, 52 (as well as ED ISSAI 200).
- A distinction between two *levels* of assurance. This is based on ED ISSAI 400/53-54, 74 in comparison with ED ISSAI 300/5-7, 31 (as well as ED ISSAI 200). This distinction is also reflected in EV ISSAI 100/40 concerning audit risk.

The separation between these two distinctions will better convey the concept of assurance in the context of public sector auditing as it recognizes the two forms which are especially relevant for financial and performance auditing on an equal basis. It also provides a measure of flexibility that will better accommodate for the different applications within INTOSAI. These include:
 - SAIs that wishes to apply the concept of 'reasonable assurance' in the context of evaluation of evidence in performance auditing, but may not always provide an overall view/conclusion/opinion in a standardized format on whether the subject matter is in accordance with (criteria derived from) the principles of economics, efficiency and effectiveness.
- SAIs that wish to apply the concept of assurance in the context of compliance audits of the direct reporting type by providing various forms of conclusions that may not necessarily be in the standardized format of either reasonable or limited assurance.

The expression 'level of confidence' is eliminated. The term 'confidence' is used as follows:
- in relation to the overall purpose of public sector auditing, which includes – as one aspect - *enhancing the overall confidence in the appropriate use of funds and assets and of public administration performance* (EV ISSAI 100/20)
- In relation to the need of users: *Intended users seek confidence about the reliability and relevance of the information used as basis for their decisions* (EV ISSAI 100/31).

3. The special role of SAIs has been better reflected in EV ISSAI 100:
- The notion that SAIs decide which audits it will conduct and that audits may have different objectives is clarified through an improved order of presentation in ISSAI 100 – cf. ISSAI 100/16-21
- It has been clarified that in the case of 'direct engagements' (performance audits and some cases of compliance audits) it is the auditor that measures or evaluates the subject matter against criteria and

presents the outcome in a report. The auditor selects the subject matter and criteria taking into consideration risk and materiality. (Cf. EV ISSAI 100/29 compared with ED ISSAI 400/51).
- A distinction has been made between 'strategic' and 'operational' aspects of planning in EV ISSAI 100/48. This also aligns the concept of 'scope' used in ED ISSAI 400 with the concept of 'approach' used in ED ISSAI 300. Strategically, audit planning should define the scope, objectives and the approach to be applied in the audit. The objectives are what the audit is intended to accomplish. The scope defines the subject matter and criteria that the auditors will assess and report on and is directly related to the objectives. The approach describes the nature and extent of the audit procedures for gathering the audit evidence. The audit should be planned to reduce audit risk to an acceptably low level.

4. The reporting section of EV ISSAI 100 has been elaborated so EV ISSAI 100 can better be read without prior knowledge to ISSAIs 200, 300 and 400 and/or generally used concepts. The content is based on ED ISSAI 200/161-168, ED ISSAI 300/32 and ED ISSAI 400/74

With the section on the elements the project group has strived to provide a set of concepts that serve as a common ground for all INTOSAI members. The IAASB's definitions of assurance engagements in the IFAE and the ISAE 3000 (currently under revision) has been used and referred to by project members in the course of the project together with many other sources including the existing text of the ISSAIs, the PSC's Survey from 2007 on the needs of INTOSAI's members and the mapping of SAI mandates elaborated by the PSC Steering Committee in preparation of the project as well as national standards used by some SAIs.

The project has provided a more general explanation of these considerations in a separate paper which can be found on project's homepage: http://www.psc-intosai.org/composite-280.htm.

4. Clarity in terminology – providing concepts for the full set of ISSAIs

The comments received – cf. list 4
159 pointed to the need for a more consistent use of terminology or more clearly stated definitions/explanations on the terms. In a number of comments this was stated in general together with a number of specific examples.

How the comments are reflected in the endorsement versions
The project group has clarified the definitions of a range of key concepts. The project's mandate (approved project proposal) and the PSC Steering Committee's directions provides that the ISSAI 100 should provide the basic concepts for the full set of ISSAIs. The project group has therefore strived to reflect all key concepts in ISSAI 100 (cf. also the explanation on assurance above). The ISSAI 100 will therefore provide a general conceptual basis for public sector auditing that will be relevant for all future INTOSAI activities in relation to standard setting as well as knowledge sharing and cooperation.

The list of key terms can be found on the project's homepage: http://www.psc-intosai.org/composite-280.htm. A draft is included in the materials for the PSC Steering Committee – cf. paper on 'Key terminology in ISSAI 100'

5. Matters relating to the Prerequisites (ISSAIs 10-99) at level 2

The comments received – cf. list 5

27 comments touched upon issues that relates to matters that are covered by the Prerequisites for the Functioning of SAIs (ISSAIs 10-99) at level 2 of the ISSAI Framework. This included:

   a) A number of SAIs asks for a more consistent reference to level 2.
   b) Some ask for more elaborate principles on quality control
   c) It was asked – what if a SAI has a well-functioning quality control system that differs from the system described in ISSAI 40?
   d) It was suggested to add language describing that information may be classified or otherwise prohibited from general disclosure by federal, state, or local laws or regulations and recognizing that audit organizations are subject to public records laws.

How the comments are reflected in the endorsement versions

The different purpose of level 2 and 3 of the ISSAI Framework as defined by previous INCOSAI decisions has been better reflected in the introduction of EV ISSAI 100. The references to ISSAI 10, 20, 30 and 40 has been more consistently stated so unnecessary repetition is avoided.

ISSAI 40 concerns the system of quality control established by the SAI at the organizational level and was endorsed by INCOSAI in 2010. The ISSAIs 100, 200, 300 and 400 should not duplicate, contradict or add to the content of ISSAI 40 and it is for the SAI to consider the concrete measures needed. The reference in EV ISSAI 100/35 is therefore stated as follows: *'A SAI should establish and maintain procedures for ethics and quality control on an organizational level to provide it with reasonable assurance that the SAI and its personnel comply with professional standards and applicable ethical, legal and regulatory requirements. ISSAI 30 Code of Ethics and ISSAI 40 Quality Control for SAIs contain guidance in this regard which should be seen as reflecting minimum requirements. The existence of these procedures at SAI level is a prerequisite for applying or for developing national standards based on the Fundamental Auditing Principles'.*

The auditor's consideration of quality control at the level of *individual audits* is reflected in EV ISSAI 100/38. Further is provided in the context of financial audits (ISSAI 200), performance audits (ISSAI 300) and compliance audits (ISSAI 400).

The project group especially considered the general concern expressed by comment no. 1047 on legal requirements of confidentially. The group has found that this is well accommodated by the following: 1) The reference to ISSAI 20 in EV ISSAI 100/9 (Cf. ISSAI 20/Principle 1 regarding *the balance between public access to information and confidentiality of audit evidence and other SAI information.* 2) EV ISSAI 100/7 which states that the principles *do not override national laws, regulations or mandates* 3)The sentence '*The auditor has to respect existing requirements of confidentiality*', which was added to EV ISSAI 100/49 as a result of the group's discussions.

6. Alignment of presentation of the four ISSAIs

The comments received

29 comments concerned the alignment of presentation in the four ISSAIs. 3 of these provided proposals on how the order of presentation in the beginning of ED ISSAI 100 could be improved.

A further number of comments encouraged in different ways that the structure of the 'package' of all four ISSAIs could be improved and aligned. Individual comments suggested e.g.:

a) Same headlines (table of content) and same order/sequencing of principles and different subjects
b) More similar level of detail and length
c) Less repetition between the four documents

How the comments are reflected in the endorsement versions
The project group has rearranged the order of presentation in EV ISSAI 100 and aligned the outline (sequence) and titles of main headlines in all four documents. The ED ISSAIs 200, 300 and 400 draws on the guidelines of financial, performance and compliance auditing and reflect the differences between these areas as well as the current stage of development of the 3 sets of guidelines. The remaining differences in outline are therefore fully intended and reflect the project group's engagement of the 3 PSC Subcommittees FAS, PAS and CAS.

Key terminology in ISSAI 100

Key terminology in ISSAI 100
Appendix to 'Consideration of comments to ED ISSAIs 100,200, 300 and 400'
Draft - for information of the PSC Steering Committee

Term	Key description	References and notes
Framework of public sector auditing		
Public Sector Auditing	Public sector auditing is conducted in the environment where governments and other public sector entities are the parties responsible for resources raised from taxpayers and other sources for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and performance, and their use of resources to those that provide them with the resources and those that depend on them to use the resources to deliver necessary services, including citizens. Public sector auditing helps to create the conditions and to reinforce the expectation that public sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with laws and regulations. In general public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions correspond with established criteria. Public sector auditing is essential in providing information and independent and objective assessments of the stewardship and performance of government policies, programmes or operations, to legislatures, oversight bodies, those charged with governance and the public.	*ISSAI 100/17-18*
Objectives	All public sector audits begin with objectives which may differ depending on the type of audit being conducted. However all public sector auditing contributes to good governance by: • Providing intended users with independent, objective and reliable information, conclusions or opinions based on sufficient and appropriate evidence relating to public entities. • Enhancing accountability, transparencyand encouraging continuous improvement and confidence in the appropriate use of public funds and assetsand of public administration performance. • Facilitating the functions of those bodies within the constitutional arrangement that are exercising general monitoring and corrective functions over those responsible for the management of publicly funded activities. • Creating incentives for change by providing	*ISSAI 100/20*

	knowledge, comprehensive analysis and well founded recommendations for improvement.	
Types of public sector auditing:	The three main types of public sector auditing are defined as follows:	*ISSAI 100/22-23*
Financial Auditing	Financial Auditing focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion on whether the financial information is free from material misstatement whether due to fraud or error.	
Performance Auditing	Performance auditing focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. This is accomplished by examining performance against suitable criteria and by analysing causes of deviations from criteria or problems. The aim is to answer key audit questions and to provide recommendations for improvement.	
Compliance auditing	Compliance auditing focuses on whether a particular subject matter is in compliance with applicable authorities identified as criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity.	
	SAIs may conduct audits or other engagements regarding any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public resources. These engagements may include reporting on the quantitative measures of the outputs and outcomes of the entity's service delivery activities, sustainability reports, future resource requirements, adherence to internal control standards, real-time audits of projects or other matters. The audits conducted by SAIs may be a combination of financial, performance and/or compliance audits.	*It was decided to avoid 'auditing engagements' and refer to 'audits' instead. 'Engagements' is used in connection with 'other engagements' and 'types of engagements' .*
Elements of public sector auditing		
The 3 parties, the auditor, the responsible party, Intended users	Public sector audits involve at least three separate parties: The auditor, a responsible party and intended users. The relationship between the parties needs to be viewed within the context of the specific constitutional arrangements relating to the type of audit.	*ISSAI 100/25* *'Auditors' is generally used in plural.*

	• The auditor: In public sector auditing the role of auditor is fulfilled by the Head of the SAI and by persons delegated the task of conducting the audits. The overall responsibility for public sector audits within the SAI's mandate remains with the Head of the SAI. In this context he public sector auditor is hereinafter referred to as "the auditor". • The responsible party: In public sector auditing the relevant responsibilities are determined by the constitutional arrangement or the law. The responsible parties may be the party responsible for statements about the subject matter information, the party responsible for managing the subject matter, or the party responsible for addressing recommendations. The responsible party may sometimes be an individual or an organisation. • Intended users: The intended users are the individuals, organisations or classes thereof for whom the auditor prepares the audit report. The intended users can be legislatures, oversight bodies, those charged with governance and the public	*'The auditor' is used to emphasize a personal responsibility (e.g. in financial auditing, cf ISSAI 200).* *'Audit team' and 'members of audit team' is used where relevant (e.g. in connection with audit team management and skills, cf ISSAI 100/39)*
Subject matter	Subject matter refers to the information, condition or activity that is measured or evaluated by applying criteria. Subject matter can take many forms and have different characteristics depending on the audit objective. An appropriate subject matter is identifiable, and capable of consistent evaluation or measurement against identified criteria, such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion	*ISSAI 100/26*
Criteria	Criteria are the benchmarks used to evaluate the subject matter of an audit. Each audit should have criteria suitable to the circumstances of the audit. In determining the suitability of the criteria the auditor considers relevance, completeness, reliability, neutrality, comparability, acceptability as well as availability, understandability and objectivity. The audit criteria used may depend on a range of factors including the objective and the type of audit. Criteria can be specific or more general, and may be drawn from various sources including laws, regulations, standards, sound principles, best practices. The criteria should be available to the intended users to enable them to understand how the subject matter has been evaluated or measured	*ISSAI 100/27*
Subject matter information	Subject matter information refers to the outcome of the evaluation or measurement of the subject matter against the criteria. Subject matter information can take many forms and have different characteristics depending on the audit objective and audit scope	ISSAI 100/28
Types of engagement	There are two types of engagements:	ISSAI 100/29-30

	• In <u>attestation engagements</u> it is the responsible party who measures the subject matter against criteria and presents the subject matter information, on which the auditor gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion. • In <u>direct reporting engagements</u> it is the auditor who measures or evaluates the subject matter against criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of the measurement of the subject matter against the criteria may be presented in the format of findings, conclusions, recommendations or an opinion in the audit report. The audit of the subject matter may also provide new information, analyses or insights. Financial audits are always an attestation engagement and are based on financial information presented by the responsible party. Performance audits are normally direct reporting engagements. Compliance audits may be both attestation engagements or direct reporting engagements.	
Confidence and assurance	Intended users seek confidence about the reliability and relevance of the information used as the basis for their decisions. Therefore, audits provide information based on sufficient and appropriate evidence and auditors perform procedures to reduce or manage the risk of reaching inappropriate conclusions. The level of assurance that can be provided to the intended user should be communicated in a transparent way. However, due to inherent limitations, audits can never provide absolute assurance.	*ISSAI 100/31*
Forms to provide assurance	Depending on the needs of the users and the audit assurance can be communicated in two ways: • Through opinions and conclusions which explicitly conveys the level of assurance. This applies to all attestation engagements and certain direct reporting engagements. • By other forms: In some direct reporting engagements the auditor does not provide an explicit statement of assurance on the subject matter. In this case the auditor conveys the confidence required by the user by providing explicit explanations of how findings, criteria and conclusions were developed in a balanced and logically reasoned manner, including why the combinations of findings and criteria result in a certain overall conclusion or recommendation.	*ISSAI 100/32*
Levels of assurance	Assurance can be either reasonable or limited.	*ISSAI 100/33*

	Reasonable assurance is high but not absolute assurance. The auditor's conclusion is expressed positively, conveying that in the auditor's opinion the subject matter is / is not in compliance, in all material respects, or, when relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria. When providing limited assurance, the auditor's conclusion conveys that, based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe the subject matter is not in compliance with the applicable criteria. The procedures performed in a limited assurance audit are limited compared with what is necessary in a reasonable assurance audit, but it is planned to obtain a level of assurance that is, in the auditor's professional judgement, meaningful to the intended users. The limited assurance report communicates the limited nature of the assurance provided.	
Used in Principles for Public Sector Auditing		
Professional judgement, due care and scepticism	Auditors should maintain an appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the audit. Professional scepticism and professional judgement are to be applied when formulating the auditors' decisions about the appropriate course of action and to determine the attitude of the auditor. Auditors should further exercise due care to ensure an appropriate professional behaviour. Professional scepticism means maintaining professional distance and an alert and questioning attitude in assessing the sufficiency and appropriateness of evidence obtained throughout the audit. It includes also to remaining open-minded and receptive to views and arguments. Professional judgement represents the application of collective knowledge, skills and experience to the audit process. Due care means that the auditor should plan and conduct the audit in diligent manner. Auditors should avoid any conduct that might discredit the auditors work. These principles are based on the interaction of professional and behavioural characteristics that recognize the auditor's responsibility to perform the audit and reach conclusions.	*ISSAI 100/37*
Audit risk	Auditors should manage the risks of providing an	*ISSAI 100/40*

	inappropriate report in the circumstances of the audit The audit risk is the risk that the auditor's report may be inappropriate. An auditor performs procedures to reduce or manage the risk of reaching inappropriate conclusions, recognizing that there are inherent limitations in all audits. These limitations mean that an audit can never provide absolute certainty of the condition of the subject matter. When providing reasonable assurance the auditor reduces audit risk to an acceptably low level in the circumstances of the audit. The auditor may also provide limited assurance where the risk is greater than in a reasonable assurance audit. A limited assurance audit is planned to obtain a level of assurance that is, in the auditor's professional judgment, meaningful to the intended users.	*It was decided to avoid the term 'engagement risk'*
Risks, risk assessment and problem analysis	Auditors should conduct risk assessment procedures or problem analysis and revise this in response to audit findings as necessary. The nature of risks identified will differ depending on the objective of the audit. The auditor considers and assesses the risk of different types of potential deficiencies, deviations or misstatements that may occur in the subject matter. Risks are considered at both generaland detailed levels. This is achieved through understanding the entity and its environment including relevant internal control. The auditor should assess management's response to identified risks including implementation and design of internal controls to address the risks. In a problem analysis the auditor should consider actual problem indications or deviations from what should be or is expected. This process involves examining various problem indicators in order to define the audit objectives. The identification of risks and their impact on the audit should be considered throughout the audit process.	*ISSAI 100/47*
Materiality	Auditors should consider materiality throughout the audit process. Materiality is relevant in all audits. A matter may be judged material if knowledge of it would be likely to influence the decisions of intended users. Determining materiality is a matter of professional judgement and is based on the auditor's interpretation of the needs of the users. The judgment may relate to an individual item or to a group of items in aggregate. Materiality is often considered in terms of value but has both quantitative and qualitative aspects. The inherent characteristics of an item or a group of items may also render a matter material by its nature. A matter may also be material because of the context in which it	*ISSAI 100/41* *It was decided to avoid the term 'significance'*

	occurs. Materiality considerations affect the determination of the nature, timing and extent of audit procedures to be applied as well as the evaluation of the results of the audit. Materiality considerations may include stakeholders concerns, public interest, regulatory requirements, or consequences for society etc.	
Audit planning, scope and approach	Auditors should plan an audit to ensure that the audit is conducted in an effective and efficient manner. Planning the individual audit includes strategic and operational aspects: Strategically, audit planning should define the scope, objectives and the approach to be applied in the audit. The objectives are what the audit is intended to accomplish. The scope defines the subject matter and criteria that the auditors will assess and report on and is directly related to the objectives. The approach describes the nature and extent of the audit procedures for gathering the audit evidence. The audit should be planned to reduce audit risk to an acceptably low level. Operationally, planning the audit includes setting the, timing and direction of the audit and defines the nature, timing and extent of the audit procedures to be performed. During planning auditors should assign the appropriate staff to perform the audit and identify other resources such as subject experts that may be required. Audit planning should be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the audit.	*ISSAI 100/48*
Evidence	Auditors should perform audit procedures that provide sufficient and appropriate audit evidence to support the audit report. The auditor's decisions on the nature, timing and extent of audit procedures will impact on the evidence to be obtained. The types of procedures to be performed are in response to the assessed risks or problem analysis. Audit evidence is any information used by the auditor to determine whether the subject matter is in accordance with suitable criteria. Evidence may take many forms such as electronic and documentary data about transactions, written and electronic communication with outsiders, observations by the auditor, oral or written testimony of the audited entity. Methods to obtain audit evidence can include	*ISSAI 100/49*

	inspection, observation, inquiry, confirmation, recalculation, re-performance, analytical procedures or other research techniques. Evidence should be sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) i.e. it is relevant, valid and reliable. The auditor's assessment of the evidence should be objective, fair and balanced. Preliminary findings should be communicated and discussed with the audited entity to confirm the validity of the findings.	
Conclusions, audit findings	Auditors should evaluate the audit evidence and draw conclusions. After completing the audit procedures the auditor reviews the audit documentation to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, in light of the evidence collected, the auditor reconsiders initial judgements on the assessment of risk and materiality and determines whether additional audit procedures need to be performed. The auditor evaluates the audit evidence to identify the audit findings. When evaluating the audit evidence and assessing materiality the auditor takes both quantitative and qualitative factors into consideration. Evidence is all the information used by the auditor to determine whether information being audited is in accordance with the established criteria. Based on the findings the auditor exercises professional judgement to draw a conclusion on the subject matter or subject matter information.	*ISSAI 100/50*
Audit report, short form, long form, the Auditor's Report	The form and content of the report will depend on the nature of the audit, the intended users, the applicable standards and legal requirements. The mandate, laws or regulations of the relevant jurisdiction may prescribe the layout or wording of the report. The audit report may take the form of a short form report or a long form report. *Long form reports* generally describe in detail the audit scope, audit findings and conclusions, including potential consequences and constructive recommendations which enable future remedial actions. *Short form reports* are more condensed and generally in a more standardised format. In attestation engagements the audit report may express an opinion on whether the subject matter information is, in all material respects, free from	*ISSAI 100/51*

	misstatement and/or whether the subject matter is, in all material respects, in accordance with the established criteria. In an attestation engagement the report is generally referred to as the Auditor's Report. In direct engagements the audit report needs to convey the audit objectives and the manner in which they have been addressed in the audit. It includes findings and conclusions on the subject matter and may also include recommendations. Additional information about criteria, methodology and sources of data may also be given and limitations of the scope of the audit should be described. The audit report needs to explain how the evidence obtained was used, why the conclusions were reached and thus be able to provide the level of confidence in the result of the audit expected by the intended users.	
The audit opinion	The audit opinion, which should be in a standardised format, may be modified (qualified) or unqualified when either limited or reasonable assurance is provided by the auditor. The modified opinion may either be: • *Except for (qualified)* – where the auditor disagrees with or is unable to obtain sufficient and appropriate audit evidence about certain items in the subject matter which are, or could be, material but not pervasive. • *Adverse* – where the auditor having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, individually or in the aggregate, are both material and pervasive. • *Disclaimed* – where the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive. Where the opinion is modified the reasons therefore should be put in perspective by clearly explaining, with reference to the applicable criteria, the nature and extent of the modification. Depending on the type of audit, recommendations for corrective action and the contributing deficiencies in internal control may also be included in the report.	*ISSAI 100/51*
Follow up	SAIs have a role in monitoring actions taken by the responsible party on the matters raised in the SAI's reports. Follow up focuses on whether the audited entity has adequately addressed the matters raised including any wider implications. Insufficient or unsatisfactory action by the audited entity may lead to a further report by the SAI.	*ISSAI 100/51*

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Approval of EV ISSAIs 100, 200, 300 and 400

Approval of EV ISSAIs 100, 200, 300 and 400 (stage 3)

At stage 2 of the INTOSAI Due Process, the exposure drafts ISSAI 100 and ISSAI 300 were approved by the PSC Steering Committee in connection with the meeting in Johannesburg 30-31 May 2012 and were subsequently exposed on issai.org for 169 days, from 30 August 2012 to 15 February 2013.

Exposure drafts ISSAI 200 and ISSAI 400 were approved by the PSC Steering Committee on 12 November 2012 through a written procedure and were subsequently exposed for 93 days, from 14 November 2012 to 15 February 2013.

This paper describes:
A. The requirements of the Due Process at stage 3 (Endorsement Version)
B. How the requirements were fulfilled

The PSC Steering Committee is required to approve that the comments provided in the exposure process are appropriately reflected in the endorsement version of the document. The Steering Committee members are therefore encouraged to consult the paper on:

Considerations regarding the comments to the exposure drafts ISSAIs 100, 200, 300 and 400 (Draft for the purpose of the Steering Committee).

A. The requirements of the Due Process at stage 3 (Endorsement Version)

The decisions on approval of the endorsement versions are to be taken on the basis of the following provisions of the Due Process for INTOSAI's Professional Standards:

Comments are collected by the [project group] and posted on www.issai.org 14 days after the exposure period has expired, at the latest. The comments remain posted until the Governing Board has referred the endorsement version to the INCOSAI for final endorsement. Comments on exposure drafts are analysed by the project group to determine the effect on the draft before finalizing the endorsement version of the ISSAI or INTOSAI GOV. The considerations of the [project group] regarding comments received are also displayed on www.issai.org. The [project group] considers whether there have been substantial changes to the exposure draft that may warrant re-exposure.
[..]

Approval of endorsement version
The endorsement version of the proposed ISSAI or INTOSAI GOV is submitted to the steering com-mittee for approval:
- *The steering committee approves: that the comments provided in the exposure process are appropriately reflected in the endorsement version of the document;*
- *that the document can be forwarded to the INTOSAI Governing Board with the assurance;*
- *that the due process has been followed.*

The endorsement versions are presented in a yearly report to the Governing Board. The chair of the [project group] may supplement the report with an oral presentation to the Governing Board.
The committee chair assures the Governing Board that due process has been followed in all aspects.
Upon this assurance the Governing Board refers the endorsement version to the INCOSAI for final endorsement.

B. How the requirements have been fulfilled

1. Collection of comments: The deadline for submission of comments was 15 February 2013. A full record of all comments was posted on issai.org 13 days later, on 28 February 2013, including 47 comment letters and a total of 1,216 recorded comments of substance.

2. Analysis of comments: Comments were analysed by the project group to determine the effect on the draft before finalizing the endorsement. This was done in accordance with a plan decided on by the project group at its meeting in Mexico City in October 2012. The process was:

- A first assessment was made by a preparation group that included key drafters of all four ISSAIs. The project chair sorted comments into two categories; comments that could be considered by individual drafters and comments that warranted discussion. The preparation group met for five full working days in Copenhagen in March 2013.

- Between 13 March 2013 and 5 April 2013 the resulting draft ISSAIs were circulated within the project group and the FAS, CAS and PAS. In addition to the record of comments published on www.issai.org, the full wording of all comment letters was made available to the members of the project group.

- At the final project group meeting in Chandigarh, India, on 8-11 April 2013 the project group worked on the basis of a list of final issues raised by the individual project group members or resulting from the circulation within the subcommittees. The project group approved the four endorsement versions pending on a few last edits and have signed-off the final drafts after the meeting.

3. Considerations displayed on www.issai.org: The endorsement versions in English (working language) will be published on the ISSAI website upon the PSC Steering Committee's approval. The Project Group's considerations regarding the comments will be displayed next to the endorsements versions (cf. the draft paper).

4. Considerations regarding re-exposure: The project group has worked on the basis of the plan for finalization approved by the PSC Steering Committee in Johannesburg in June 2012 in order to meet the deadlines for INCOSAI 2013. In line with this ambition, the project group has managed to incorporate the comments received in a way that does not warrant re-exposure. The considerations are:

- That the comment letters generally express a high level of support to the exposure drafts and the overall ambition of the project. The many comments received provide a range of suggestions for further improvements or represent a diversity of different views on rather particular issues. This reflects that a very high level engagement of INTOSAI's members has been achieved.

- That the changes made are not so substantial that they warrant re-exposure. The proposed endorsement versions maintain the same overall balance between flexibility and clarity in the requirements as the exposure drafts and have not introduced new text on matters that were not considered in the Exposure Drafts. (In a few cases text items have been moved between the four ISSAIs, in order to address comments that called for better alignment of the documents).

- That the project group has had a wide range of different sources at its disposal throughout the process, which has served to improve quality and ensure proper reflection of the various views of INTOSAI's members. In addition to the survey and mapping of mandates provided by the Steering Committee, sources also included the 71 members of the PSC, who have provided comments in writing, and oral discussions within the project group, subcommittees and the PSC Steering Committee at various stages of the process.

- That it is unlikely that a re-exposure would lead to significantly improved documents that would better serve the full membership of INTOSAI. The result achieved accommodates a wide diversity of different needs and views and reflects the inherent balances and limits in the current organization of INTOSAI's standard setting processes.

- That the ISSAI Harmonization Project Group is based on the personal commitment of the individual project members and contributions in kind from participating SAIs. It has been the assessment of the chairs of the PSC and the project group that the contributions made by the project group members reached the limits of what other INTOSAI members can reasonable expect from the group.

5. Translation into the five official languages and summaries

The documents are presented to the PSC Steering Committee in the PSC's working language (English). The translation into INTOSAI's official languages is to be carried through after the PSC Steering Committee's approval and will depend on the assistance of the PSC's membership. The documents will be subjected to an English language review and subsequently translated into French, Spanish, German and Arabic.

The project chair will - with the assistance of the subcommittee chairs – provide the summaries required for the purpose of the INTOSAI General Secretariat.

ISSAI framework
- overview of maintenance frequency

ISSAI framework - overview of maintenance frequency

Document	To be reviewed	Responsible
Level 1 - Founding principles		
ISSAI 1 The Lima Declaration	(none)	
Level 2 - Prerequisites for the Functioning of Supreme Audit Institutions		
ISSAI 10 Mexico Declaration on SAI Independence	15 years (first review in 2022)	PSC Chair
ISSAI 11 INTOSAI Guidelines and Good Practices Related to SAI Independence	9 years (first review in 2016)	PSC Chair
ISSAI 20 Principles of Transparency and Accountability	15 years (first review in 2025)	PSC Chair
ISSAI 21 Principles of Transparency - Good Practices	9 years (first review in 2019)	PSC Chair
ISSAI 30 Code of Ethics	15 years (first review in 2013)	PSC Chair
ISSAI 40 Quality Control for SAIs	9 years (first review in 2019)	PSC Chair//Project group
Level 3 - Fundamental Auditing Principles – from INCOSAI in 2013		
ISSAI 100 Fundamental Principles of Public Sector Auditing	*To be decided*	PSC Chair
ISSAI 200 Fundamental Principles of Financial Auditing	*To be decided*	PSC Chair
ISSAI 300 Fundamental Principles of Performance Auditing	*To be decided*	PSC Chair
ISSAI 400 Fundamental Principles of Compliance Auditing	*To be decided*	PSC Chair

Level 4 Auditing guidelines		
General Auditing Guidelines		
ISSAI 1000-2999 General auditing guidelines - financial audit	Subject to revision when the underlying ISA is revised.	Financial Audit Subcommittee
ISSAI 3000-3999 General auditing guidelines – performance audit	5 years (first review in 2014)	Performance Audit Subcommittee
ISSAI 4000-4999 General auditing guidelines – compliance audit	5 years (first review in 2016)	Compliance Audit Subcommittee
Guidelines on Specific Subjects		
ISSAI 5000-5099 Specific auditing guidelines - international institutions	5 years (first review in 2013)	Knowledge Sharing Committee Chair
ISSAI 5100-5199 Specific auditing guidelines - environmental audit	5 years (first review in 2013)	Working Group on Environmental Auditing
ISSAI 5200-5299 Specific auditing guidelines - privatisation	5 years (first review in 2013)	Knowledge Sharing Committee Chair
ISSAI 5300-5399 Specific auditing guidelines – IT audit	5 years (first review in 2013)	Knowledge Sharing Committee Chair
ISSAI 5400-5499 Specific auditing guidelines - public debt	5 years (first review in 2016)	Knowledge Sharing Committee Chair
ISSAI 5500-5599 Specific auditing guidelines - disaster-related aid	New from 2013	
ISSAI 5600-5699 Specific auditing guidelines – peer reviews	3 years (first review in 2013)	Capacity Building Committee - Subcommittee on Peer Reviews
INTOSAI Guidance for Good Governance		
INTOSAI GOV 9100-9199 - Internal Control	6 years (first review in 2016)	PSC Subcommittee on Internal Control Standards
INTOSAI GOV 9200-9299 - Accounting Standards	Proposal to withdraw this guidance is awaiting final approval by the PSC Steering Committee and the INTOSAI Governing Board.	PSC Accounting and Reporting Subcommittee

The transition period in 2013-2016 for references to the 'old' INTOSAI Auditing Standards

The transition period in 2013-2016 for references to the 'old' INTOSAI Auditing Standards

In connection with the completion of the ISSAI Harmonisation Project the PSC Steering Committee is to consider the need for a transition period from 2013-2016 for those SAIs that may wish to continue to refer to the old INTOSAI Auditing Standards in their audit reports. The purpose of this paper is to explain how such a transition period can be provided in accordance with the due process for INTOSAI Professional Standards.

The issue concerns the consequences for level 4 of the ISSAI Framework of the expected endorsement of the new ISSAIs 100, 200, 300 and 400. Within the ISSAI framework, it is the Auditing Guidelines on level 4 that provide operational guidance for auditors. As a result of the previous discussions and directions of the PSC Steering Committee it will from 2013 be level 4 that provides the standards that can be referred to in audit reports.

It is therefore proposed that the old INTOSAI Auditing Standards from 1992 are annexed to the General Auditing Guidelines on level 4. This means that SAOs can continue to refer to the old standards also after 2013. The annex will fall away in connection with a future revision of the General Auditing Guidelines.

This solution addresses the various concerns raised by Steering Committee members during the discussion of the matter in 2012:
‣ The provisions of the Due Process regarding stage 3 (endorsement versions) will be followed for the four revised ISSAIs on level 3.
‣ Separate withdrawal of the text from 1992 will not be required, as provided for by the process for withdrawal.
‣ The SAIs that wish to continue using the old 'INTOSAI Auditing Standards' can do so until 2016.

The following is further explained below:
1. The need for a transition period
2. The guidance provided on level 3 of the ISSAI framework (ISSAIs 100-999)
3. The main issue of transition – the Financial Auditing Guidelines
4. The further issue of the Performance and Compliance auditing guidelines

1. The need for a transition period

The PSC Steering Committee discussed the issue at its meeting in 2012. It was concluded that more accurate information would be needed to determine whether such a period would be required. In the letter of 30 August 2012 by which ED ISSAIs 100 and 300 were sent in exposure, the PSC Chair therefore wrote as follows:

The new ISSAIs 100, 200, 300 and 400 will take effect when they have been endorsed by INCOSAI in November 2013. According to the Due Process for INTOSAI Professional Standards this means that the new ISSAIs will replace the text of the existing ISSAI's 100, 200, 300 and 400.

The text of the existing ISSAIs 100, 200, 300 and 400 origins from the old 'INTOSAI Auditing Standards' and has not been updated since 1992. When INCOSAI decided to

establish the ISSAI Framework in 2007 the name of these texts changed to 'Fundamental Auditing Principles'. It was foreseen in INCOSAI's decision that the text from 1992 would need to be revised and that the fundamental principles would be supported by a new set of operational auditing guidelines. These guidelines were endorsed in 2010 as the ISSAIs 1000-4999.

The PSC Steering Committee has no accurate information on whether there are still some members of INTOSAI that use the text from 1992 as their (only) authoritative auditing standards and refer specifically to the ISSAIs 100-400 in their audit reports. We would however be very pleased to hear from you if you find that it would cause difficulties for your SAI if the text from 1992 is replaced by the proposed new ISSAIs by the end of 2013.

If you have any such concerns, please let us know as soon as possible and at the latest 1 November 2013 in order to make it possible for us to attempt to accommodate a solution in due time.

The follow up letter from 14 November 2012 on the exposure of ED ISSAI 200 and 400 informed the INTOSAI members that:

So far no SAIs have contacted the Chair regarding this issue. Thus it appears that there is no pressing need for maintaining the old ISSAIs 100-400 in a possible transition period or make other exemptions from the Due Process. We will however consider this matter very carefully based on the reactions from INTOSAI's members. So if you have any such concerns, please let us know as soon as possible.

Among the 47 comment letters received by 15 February 2013, two SAIs – Sweden and Austria – have commented on the issue. Both SAIs recommend the introduction of a transition period to allow SAIs to continue using the 'old' INTOSAI Auditing Standards in 2013-2016.

In addition, one SAI – Lebanon – is of the opinion that it should not be possible to revise the text on level 3 and argues that is *'necessary to maintain the historical sources of INTOSAI standards and keep our fundamental structure of standards as it was build'*. The SAI refers to its present auditing manual and explains that a new 'assurance quality guide' has been prepared in cooperation with the IDI on the basis of the existing ISSAIs 100-400 and will be adopted within few months.

Based on the PSC Secretariat's knowledge on ongoing implementation efforts it is not unlikely that a few other SAIs will make use of the transition period if it is provided. At the same time, it must be recognized that the endorsement of the four new ISSAIs on level 3 will require the implementation of conforming changes in the documents on level 4. A transition period can therefore be provided as part of this process of maintaining and updating the documents on level 4 in the period following INCOSAI 2013.

2. The guidance provided on level 3 of the ISSAI Framework (ISSAI 100-999)

The decision on the ISSAI framework from 2007 defined thon level 3 (ISSAIs 100-999) contain the fundamental principles in carrying out auditing of public entities. Level 4 includes the General Auditing Guidelines (ISSAI 1000s-4999) and translates the

principles into more specific, detailed and operational guidelines that can be used on a daily basis for auditing tasks. The text of the 'old' INTOSAI Auditing Standards which was included on level 3 in 2007 contained no explicit provisions on whether or how these standards/principles could be referred to. They do, however, provide a more general principle that audit '*opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures'* (ISSAI 400/8).

The revised ISSAIs 100, 200, 300 and 400 - that are up for endorsement in 2013 - will provide more elaborate guidance. EV ISSAI 100/7-12 provides that auditors may *either* refer to national standards that are based on or consistent with the Fundamental Auditing Principles (level 3) *or* use the relevant general auditing guidelines (level 4) as their auditing standard and state in their audit report that the audit was conducted in accordance with the ISSAIs. This solution draws and elaborates on the principles of the ISSAIs on level 2 that require SAIs to apply appropriate auditing standards and inform their users on the standards used (Cf. ISSAI 10/Principle 3, ISSAI 20/Principle 3 and ISSAI 30 and 40). The endorsement of ISSAI 100, 200, 300 and 400 by INCOSAI in 2013 will imply thon level 3 will not contain 'auditing standards' that can be referred to directly in audit reports.

However, the endorsement of the new ISSAIs 100,200, 300 and 400 does not mean that SAIs will have to abolish any national standards they may have developed on the basis of the INTOSAI Auditing Standards since 1992. As the case of Lebanon illustrates there may still be a historical legacy of the 1992-document at the national level. The information obtained through the PSC's Survey in 2006-7 suggests that SAIs have generally used the INTOSAI Auditing Standards in combination with standards from other sources including various national standards. For SAIs that do not work in one of the five official INTOSAI languages, the translation into national language will often have involved further adaptions in order to reflect the national circumstances. After 2013 it will be for each SAI to consider whether it can and wishes to assert that its standards are consistent with the new Fundamental Auditing Principles as well as whether the standards used are communicated in accordance with the principles of independence, transparency and accountability endorsed by INCOSAI in ISSAI 10 The Mexico Declaration and in ISSAI 20, in 2010.

3. The main issue of transition – The Financial Auditing Guidelines

ISSAI 1000 General Introduction to the INTOSAI Financial Auditing Guidelines is the only existing ISSAI that already includes explicit guidance on references to ISSAIs. ISSAI 1000/28 provides that:

> *Reference to the use of standards can be made in one of four ways depending on the standards applied and the SAI's mandate:*
> *(a) In accordance with the ISSAIs (1000-2999); which means full compliance with all relevant ISAs and the additional guidance set out in the INTOSAI Practice Notes to the ISAs.*
> *(b) In accordance with the ISAs; which means full compliance with all relevant ISAs.*

(c) In accordance with the INTOSAI Fundamental Auditing Principles, but not full compliance with the ISAs which are presently included as part of the INTOSAI Financial Audit Guidelines (ISSAIs 1000-2999).
(d) In accordance with other national and relevant Auditing Standards.

The issue of transition mainly arises because option (c) in the paragraph will not be supported by the Fundamental Auditing Principles after 2013. The mechanism available in order to provide a transition period is therefore to ensure that the sentence in ISSAI 1000/28(c) is preserved until 2016. It should also be ensured that option (c) will be read and understood as a reference to the text of 'old' INTOSAI Auditing Standards from 1992 rather than the new principles endorsed in 2013.

This can best be achieved in the following way:

- **The INTOSAI Auditing Standards from 1992 is annexed to the ISSAI 1000**
- **A footnote is inserted in ISSAI 1000/28 that explains the issue and/or the text in point (c) is modified to refer to the annex.**

With the consent and cooperation of the PSC Steering Committee and the FAS it would be possible to carry this solution through on the issai-website already in connection with INCOSAI in 2013. The change in ISSAI 1000/28 can be done through the 'fast track' procedure for editorial revisions in the Due Process for INTOSAI Professional Standards. This procedure applies to minor editorial changes including conforming changes in ISSAIs or INTOSAI GOVs at lower levels of the ISSAI framework when an ISSAI or INTOSAI GOV at a higher level has been changed or revised. When the PSC Steering Committee has decided on the issue the INTOSAI Governing Board should be informed.

It will be for FAS to ensure that the appendix with the 'old' INTOSAI Auditing Standards falls away in a future version of ISSAI 1000 by or after 2016.

4. The further issue of the performance and compliance auditing guidelines

The performance and compliance auditing guidelines maintain the general principle that audit reports should inform of the auditing standards applied but does not provide explicit provisions on how the ISSAIs can be referred to in audit reports. The need for conforming changes as a direct result of the new guidance on references to the ISSAIs in EV ISSAI 100/7-12 is therefore not the same as in the case of ISSAI 1000/28(c).

The performance and compliance auditing guidelines were developed as a result of the mandate from INCOSAI to provide implementation guidelines to the 'old' INTOSAI Auditing Standards/Fundamental Auditing Principles from 1992. They are therefore written from the perspective of providing an updated interpretation of the text from 1992. They are comprehensive documents that can be read as 'stand alone' guidelines but contain a number of quotations and references to the text from 1992. The ISSAIs 3000-3100 have served to provide guidance that better express the characteristics of performance auditing and the new ISSAIs 4000-4100 from 2010 have established compliance auditing as a distinctive and equally important area of public sector auditing within the ISSAIs.

With the new ISSAIs 300 and 400 these achievements are integrated into the principles of level 3. In practice the period from 2010-2013 has therefore served as an interim period where the 'old' texts on level 3 and the new guidelines on level 4 could be applied in conjunction.

It could, however, be considered whether it is in practice achievable and preferable for PAS and CAS to update all references to the 1992 text swiftly after INCOSAI in October 2013. The PSC Steering Committee may therefore consider:

> ‣ **Whether the old INTOSAI Auditing Standards should also be annexed to ISSAI 3000 and ISSAI 4000 from October/November 2013**

This would allow the two subcommittees more time to implement the necessary corrections of references in their guidelines in accordance with their respective planning and time tables.

The purpose and authority of INTOSAI's Professional Standards

The purpose and authority of INTOSAI's Professional Standards
[Text published on www.issai.org]

The International Organization of Supreme Audit Institutions (INTOSAI) provides an institutionalised framework for Supreme Audit Institutions to promote development and transfer of knowledge, improve public sector auditing worldwide and enhance the professional capacities, standing and influence of its members in their respective countries. Supreme Audit Institutions are national authorities with responsibility within the constitutional system for the auditing of publicly funded activities. The exchange of knowledge among INTOSAI members and the resulting findings and insights is a guarantee that public sector auditing continuously improves.

INTOSAI issues two sets of professional standards: The International Standards of Supreme Audit Institutions (ISSAIs) and the INTOSAI Guidance for Good Governance (INTOSAI GOV).

The ISSAIs and INTOSAI GOVs convey the generally recognized principles and shared professional experiences of the international community of Supreme Audit Institutions. All ISSAIs and INTOSAI GOVs are developed and maintained in accordance with the Due Process for INTOSAI's Professional Standards [Link!] and issued after a decision of final endorsement by all Supreme Audit Institutions at INTOSAI's congress (INCOSAI).

The International Standards of Supreme Audit Institutions (ISSAIs)
The ISSAIs aim to safeguard independent and effective auditing and support the members of INTOSAI in the development of their own professional approach on the basis of their specific mandate. The first complete set of ISSAIs was launched at the XXth Congress in Johannesburg, South Africa in 2010. In the South Africa Declaration, INTOSAI has called upon its members to:

Use the ISSAI framework as a common frame of reference for public sector auditing; Measure their own performance and auditing guidance against the ISSAIs; Implement the ISSAIs in accordance with their mandate and national legislation and regulations;

The ISSAIs form a hierarchy of official pronouncements with four levels:

Level 1 - Founding Principles (ISSAI 1)
Level 1 of the ISSAI framework contains the founding principles of INTOSAI. ISSAI 1 The Lima Declaration from 1977 calls for the establishment of effective Supreme Audit Institutions and provide guidelines on auditing precepts. The full set of ISSAIs draw and elaborate on this historical document.

Level 2 - Prerequisites for the Functioning of Supreme Audit Institutions (ISSAIs 10-99)
The Prerequisites for the Functioning of Supreme Audit Institutions contain INTOSAI's pronouncements on the necessary preconditions for the proper functioning and professional conduct of Supreme Audit Institutions. These include principles and guidance on independence, transparency and accountability, ethics and quality control. The prerequisites may concern the institution's mandate and further legislation as well as the established procedures and daily practices of the organization and its staff. By issuing pronouncements on these generally accepted prerequisites, INTOSAI aims to

advance sound principles for the effective functioning of public sector auditing on an international level.

Level 3 - Fundamental Auditing Principles (ISSAIs 100-999)

The Fundamental Auditing Principles express the essence of public sector auditing. They contain the common pronouncements by INTOSAI's members of the generally recognized professional principles that underpin effective, independent auditing of public sector entities. The principles draw and elaborate on the founding principles of ISSAI 1 The Lima Declaration and provide the authoritative international frame of reference that defines public sector auditing in its contemporary forms. The purpose is to advance and safeguard good auditing practices, support the continued development of effective Supreme Audit Institutions and provide a common professional foundation for international cooperation within INTOSAI and its regional organizations. The principles should be pursued on the basis of the individual Supreme Audit Institution's mandate and strategies and applied as relevant and appropriate for the specific audit assignment taking cognizance of the prerequisites of independence, transparency and accountability, ethics and quality control.

Level 4 - Auditing Guidelines (ISSAIs 1000-5999)

The Auditing Guidelines translate the fundamental auditing principles into more specific, detailed and operational guidelines that can be used on a daily basis in the conduct of auditing tasks. The purpose of the guidelines is to provide a basis for the standards and manuals on public sector auditing which may be applied by the individual members of INTOSAI. Each guideline has a defined scope of application and may be adopted in full or adapted as necessary to reflect the individual circumstances of the jurisdiction. Such circumstances may include the legal mandate and further strategies and capacity of the Supreme Audit Institution as well as the specific purpose and character of the audit assignments. Some of the level 4 guidelines include specific requirements related to authority. The General auditing guidelines (ISSAIs 1000-4999) contain the recommended requirements of financial, performance and compliance auditing and provide further guidance to the auditor. They are developed and continuously updated by specialized subcommittees and define the internationally recognized best current practice within their general scope of application. The Guidelines on specific subjects (ISSAIs 5000-5999) provide supplementary guidance on the auditing of specific subject matters or other important issues which may require the special attention of Supreme Audit Institutions. These guidelines express the key lessons resulting from the sharing of knowledge and good practices among INTOSAI's experts.

The INTOSAI Guidance for Good Governance (INTOSAI GOV)

The INTOSAI GOVs form a separate group of pronouncements. They express INTOSAI's recommendations to governments and others with responsibility for the management of public funds and publicly funded activities. Their purpose is to advance good governance, including the establishment of effective systems of internal control, reliable internal auditing and adequate standards of accounting and reporting in the public sector. They may also serve to guide the Supreme Audit Institutions in their assessment of such measures. The INTOSAI GOVs are developed by specialized subcommittees and reflect the generally shared experiences of the experts within INTOSAI.

INTOSAI Professional Standards Committee, 31 October 2011

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Comments on other PSC matters
- received through the exposure of ISSAIs 100, 200, 300 and 400

Comments on other PSC matters - received through the exposure of ISSAIs 100, 200, 300 and 400

A few of the 47 comment letters and 1216 touched upon issues that fall beyond the ISSAI Harmonisation Project Group's mandate. These are showed below and passed on to the PSC Steering Committee for information.

SAI	Issue Aspects that was not considered by the project group	The SAI's comment	Other aspects - was considered by project group
Hungary	Content and status of ISSAI 40 and other ISSAIs on prerequesites at level 2 (endosed by INCOSAI)	One should consider to reformulate the Sections 58 and 59. The ISSAIs of the second tier (ISSAIs 10-40) address issues of the proper functioning of SAIs (independence, transparency, accountability, ethics, quality control). What if an SAI has a fine quality control system other than the one modelled in ISSAI 40? (Quality control is a must for SAIs, but they can use another approach and system than the one outlined by ISSAI 40.) Besides, many SAIs are not able to fulfil all the independence and transparency related best practices (!) of ISSAIs 11 and 21. If an SAI's ability to meet all the ISSAI 10-40 requirements is to some extent compromised, it doesn't preclude it from meeting the new ISSAI 100-400 requirements.	The wording in ISSAI 100 of references to level 2
Netherlands Court of Audit	Future projects at level 4	3000 and 3100 should be brougt in line with 300, removing overlap where possible. 3000 and 3100 may be combined in one guildeline.	(None)
Government Accountability Office, USA	The process for standard setting and/or the preparation before the PSC's approval of the project proposal- The PSC to define the parameters to identify core principles	Observation Some of the proposed language in the level 3 Principles would be better suited to level 4 "General Auditing Guidelines." The draft ISSAI 100 makes clear that level 4 comprises specific, detailed operational guidelines that can be used on a daily basis. ISSAI 100 also notes that the level 3 Principles represent "the core of the detailed auditing standards contained in level 4 of the ISSAI framework" (paragraph 56). The matter of how to identify the core of a standard and isolate it from the related detail is not discussed in the drafts. However, according to our interpretation of the proposal, the draft level 3 ISSAIs contain considerable amounts of information that better fit the objectives of level 4. This is especially true of ISSAI 200, which provides considerably more detail on some aspects of its subject matter than do the other level 3 ISSAIs. We believe that defining the parameters of the level 3 core Principles and then restricting the content of the level 3 ISSAIs to those core Principles would provide opportunities for SAIs to develop or adopt audit standards that do not constrain audit organizations' abilities to audit effectively within their countries' unique audit environments in accordance with those Principles. We provide two examples below. Example 1: For GAO, and likely other SAIs as well, restricting level 3 to defined core Principles allows for consistency with the Principles even though the audit standards the SAI follows differ in some respects from the level 4 guidelines. An example of an important difference in standards is in requirements for reporting on an auditor's use of the work of other auditors. Under audit standards applicable to audits of governments performed in the United States, including those performed by GAO, the auditor makes a decision on whether to refer to the use of other auditors upon whose work the auditor is relying based on specific criteria noted in the standards. Under the ISAs, which are the bases for specific financial audit standards incorporated	The GAO's proposals on elimination of text in the 4 ISSAIs

		into the ISSAIs, the auditor is not allowed to make such a reference unless required by law or regulation. This divergence means that under some circumstances, an audit planned and performed to comply only with U.S. standards would not comply with the requirements of the ISAs. Example 2: The use of comprehensive, rigorous audit standards may be relatively new for governments in which some SAIs work. Under level 3 ISSAIs that are restricted to defined core principles, such SAIs can take an incremental approach to reaching compliance with strict audit standards such as those contained in level 4. Recommendation We recommend that the PSC define the parameters of what constitutes a core Principle in accordance with the objectives of the revised level 3, and that the PSC then use those parameters to identify information contained in the drafts that better fits the objectives of level 4.	
Swedish National Audit Office	Answer to question re transition	The Swedish National Audit Office does not give any reference to ISSAI 200 as we have adopted ISSAI 1000 to 1810. We do however give international support to other SAIs and recognize the need for a transition period before the existing ISSAIs 100, 200, 300 and 400 cease to exist. It might not be many SAIs that refers to ISSAI 100-400 in their audit reports or in their audit manuals but if, they would have a very short period to adapt to the new ISSAIs.	(none)
Brazilian Court of Accounting (TCU)	Future change of the 2007 decision on the ISSAI Framework	Comment: the first sentence in item 6 states that level 4 can have two different natures: guidelines and national standards. Guidelines can be understood as non-mandatory advice based on experience and good practice. Standard conveys the idea of something set up and established by authority as a rule. We think that the use of both words as equivalents when they are not may cause confusion among PSC subcommittees members when reestructuring level 4. It would be useful if PSC decides whether level 4 is reserved for standards or guidelines in order to give orientation for the future work of subcommittees. Besides, the proposed form is more aligned with item 7 which states that "(ISSAIs in level 3) ... provide the foundation for the development of national standards or for the application of the guidelines on level 4. Proposed amendment: "Level 4 translates the Fundamental Auditing Principles into more specific, detailed and operational guidelines that can be used on a daily basis in the conduct of auditing tasks."	Proposal on drafting conventions for level 4
Austrian Court of Audit	Answer to question re transition	Referring to your encouragement to provide a position on the replacement of the old ISSAIs 100 to 400 by the new, we – in order to ensure a smooth transition from the existing to the new ones – strongly support you in seriously considering a transitional phase for the final replacement of 1 congressional period. This would in any case give all our INTOSAI members the possibility and necessary time to adapt to the new standards without opening the risk of being not in compliance with the standards – at least for a certain period of time.	(None)
Australia	The dual approach decision - relation between INTOSAI and IFAC/IAASB - INTOSAIs decision to establish the ISSAIs - the PSCs and project group's mandate	It should be clear that, in an audit in the public sector, the independent auditor always expresses a conclusion based on the assurance the auditor has obtained from considering the sufficiency and appropriateness of audit evidence (even though there may be other outputs from an audit). We believe it is critically important that INTOSAI maintain consistency with the Framework for Assurance Engagements and the Standards issued by the International Auditing and Assurance Standards Board, and complement these requirements to the extent necessary.	ISSAI 100 has been revised - provides a clearer relation to concepts provided in IFAE and an improved text on assurance

| Lebanon | INCOSAIs decisions in 2007 and 2010 on the framework, due process and the PSC's mandate | With reference to the ISSAI Harmonization Project and according to our present auditing manual and our "assurance quality guide " which is prepared in cooperation with IDI and will be adopted within few months,
Taking into account that these auditing manuals are based on the present standards ,
I prefer keeping the present classification without changing the numbering of the standards and their subjects .
Any new classification may be made on level four .
I think that it is necessary to maintain the historical sources of Intosai standards and to keep our fundamental structure of standards as it was built .
Thank you very much for your efforts to develop the professionel standards of INTOSAI | (None) |