Strengthening INTOSAI's Standards and Standard Setting Process

Concept Note
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Setting standards for public sector auditing is an important strategic purpose of INTOSAI. Accordingly an important element of its mission is to provide high quality public auditing standards. Having established itself as a standard setter, INTOSAI has over the past years worked to improve the related processes and structures, based on the practical experience of its members.

In 2017, the PSC promoted a broad discussion on INTOSAI's standard setting as part of a commitment to continuous improvement. A review of documents, surveys and other materials confirmed that INTOSAI standards are important to its member SAIs, but raised concerns about the quality of the standards produced so far. There is also a perception that further increasing the level of implementation of INTOSAI standards remains a challenge.

Among the conclusions arising from the discussions, INTOSAI members were supportive of the organisation continuing to build on its status as the leading standard setting body for public sector auditing. However, they recognized the need for clarity regarding its level of ambition for standard setting[1]. In other words, it is not clear what INTOSAI wants to achieve with its standards.

While INTOSAI's current strategic plan and the strategic development plan (SDP) for the IFPP contain many important elements, they do not constitute a fully comprehensive and articulated strategy or long-term vision of what INTOSAI wants with its standard setting activities. To meet future needs, INTOSAI has an interest in developing an appropriate and sufficiently detailed strategic approach setting out the direction for the future and benchmarks for measuring success.

The range and depth of issues raised in the course of the discussions show the interest in undertaking a broader reflection on the level of ambition for INTOSAI standards in order to guide their future development.

This is the ideal moment to further that thinking as the organization is currently in the process of consolidating recent changes in the standard setting process and its new framework of pronouncements (approved in INCOSAI 2016). It is also considering further changes to its structures, such as the introduction of a technical support function. Furthermore, the process for the development of the second strategic development plan is now starting and INTOSAI Goal Chairs have identified the need for this process to be guided by an overall vision to drive the process forward effectively, and to help identify and prioritise projects.

The Strategic Development Plan (SDP) 2017-2019

The SDP was established by the XXII INCOSAI in 2016, with the aim of providing the general strategy and work plan for INTOSAI standard setting, to be updated every three years. In reality, and partly due to the short time available to prepare it, the 2017-2019 SDP focuses more on the work plan aspect (identifying individual projects), rather than providing a fully-fledged strategic plan for INTOSAI standard setting.

The SDP sets out the overarching objective as being to complete the implementation of the revised IFPP through a broad collaboration with the INTOSAI working groups that provide

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[1] See discussion paper and input from breakaway session: http://psc-intosai.org/en_us/site-psc/news-events/

expertise and content for the framework. This transition implied a reflection on how current content should be developed into a complete, relevant and consistent set of pronouncements.

For that, the plan outlined all the initiatives to be taken in order to prepare and initiate individual projects to develop, revise or withdraw pronouncements, allocated into one of three priority categories. However, a lack of overall strategy makes it difficult to gain a full understanding of the justification – and therefore necessity – for the individual projects selected. Furthermore, there was no indication of all potential projects (as far as this is possible), thereby making it difficult to appreciate the prioritisation approach followed or provide a basis to challenge it.

An important success of the SDP has been to introduce the notion of strategic planning in the standard setting process, and to establish a process for preparing the plan, and monitoring its implementation. It represents a significant improvement on the previous ad hoc approach, including introducing the SDP as a practical tool. This provides a good basis to build on and further improve the process in the future, as we embark on the development of the second SDP.

The guidance in the current SDP of a strategic nature is limited, nevertheless the following key issues and principles can be identified:

- to ensure a good understanding of the basic requirements to be met by SAIs to claim ISSAI compliance. This includes clarifying what compliance with ISSAIs entails in practice, including making a clear distinction between the requirements to be met, and guidance on how this can be achieved;
- that ISSAIs should be responsive to changes in the environment (including changes to other auditing standards), while reducing the need for frequent updates by making them principles-based (future-proof);
- INTOSAI principles to be backed by international political declarations, (eg, UN resolutions), to give SAIs greater support on matters such as independence;
- the importance of quality guidance to support successful ISSAI implementation, including drawing more specifically on the fundamental principles set out in ISSAI 100.

While these focus on the framework and support a more general long-term strategy, they are insufficient to represent the level of ambition for INTOSAI's standards, and to guide efforts and strategies over the long-term.

INTOSAI Strategic Plan 2017-2022

The current INTOSAI strategic plan includes as Goal 1 (Professional Pronouncements):

Promote strong, independent, and multidisciplinary SAIs and encourage good governance by 1) Advocating for, providing and maintaining international Standards of Supreme Audit Institutions (ISSAI); and 2) Contributing to the development and adoption of appropriate and effective professional standards.

In practice these are two different ways of saying the same thing.

The INTOSAI strategic plan establishes strategic objectives and key strategies, which are a mix of operational and aspirational goals and includes aspects pertaining both to the framework itself and to standard setting activities. They comprise the following:

- INTOSAI wishes to be internationally recognized as a standard setter for public-sector auditing;

- the ultimate goal of INTOSAI standards is to ensure independent public-sector auditing of the highest quality and promote transparency, accountability and effectiveness in government;
- Standards should be recognized by stakeholders as the authoritative framework for public sector auditing;
- INTOSAI standards should be relevant, professional and clear;
- INTOSAI standards should adapt to problems and issues as they arise;
- INTOSAI standards should add credibility to the work of public auditors and the output they produce;
- Standard setting needs to be supported by permanent structures;
- Standard setting should count on an external advisor group;
- the implementation and adoption of standards should be monitored;

These can contribute to a more structured and long-term vision and strategy for INTOSA's standard setting activities and for INTOSAI standards themselves, which should also take specific account of the deep and interrelated connections between INTOSAI's three goal objectives: professional standards, capacity development and the sharing of knowledge.

The strategic plan recognises this through crosscutting priority 3: Ensuring effective development and coordination among standard setting, capacity development and knowledge sharing to support SAIs and improve their performance and effectiveness. The document further states that "*the implementation and maintenance of the ISSAIs and INTOSAI products is an INTOSAI-wide task that requires attention on the global, regional and country levels*".

A long-term vision supported by relevant objective can help drive INTOSAI's overall efforts to be more responsive, coherent, consistent, flexible, goal-driven (rather than structure-driven) and agile, and to support its ambition to be more integrated and strategically focused.

Elements for an INTOSAI Standard Setting Strategy

Informed by current INTOSAI documents and other documents from the broader audit standard setting community, a two-part discussion is proposed. **First, the focus is on the IFPP**, the INTOSAI Framework for Professional Pronouncements. This exercise should provide us with a long-term vision for the IFPP and set the level of ambition for INTOSAI with its standards. Following this, the **focus turns to the standard setting process** and its current structures and functioning. The aim is to reflect if INTOSAI standard setting is able to support the established vision.

1) Building a Vision for the IFPP

Our product, **WHAT** we want to promote to SAIs, both to encourage better implementation and to gather more support for INTOSAI standard setting activities, is the **INTOSAI Framework of Professional Pronouncements, the IFPP**. With this strategy, we should be able to build a vision that shows the value-added of our product, in order to inspire and motivate better implementation and more engagement in the making of standards.

The starting point then is reflecting first on the basic question: **WHY DO WE DO IT?** – Why do we believe in the INTOSAI standards for public sector auditing? What drives our organisation to take on the responsibility of providing standards? Why should SAIs strive to implement it? What is the reason behind having an INTOSAI framework of professional pronouncements?

Based on current INTOSAI documents (SDP, Strategic Plan, and others) the **main purposes/objectives** of INTOSAI standard setting are to:

- guide and inspire SAIs to function effectively and professionally;
- provide a basis to undertake high quality audits, and thereby strengthen the credibility of SAI audit work in the eyes of users and other stakeholders;
- promote transparency of the audit process; and
- stimulate excellence in public audit methodology, including promoting the spread of best practices and professionalism.

The **ultimate goal**, as provided in the current strategic plan is to "*ensure independent public-sector auditing of the highest quality and* [through this to] *promote transparency, accountability and effectiveness in government*".

> ⇨ **Do these completely and appropriately reflect the purposes and goals of INTOSAI standard setting? What could or should be added or expressed differently? What indicators would show that INTOSAI was achieving these purposes/goals?**
> ⇨ **What would be a simple and easy-to-communicate answer to the "why do we do it" question? (*Remember this should be inspiring and motivational!*)**

After establishing the vision, the second step is to reflect on which should be the overarching characteristics our pronouncements need to have to be able to meet our ambitions? Which principles should be guiding our framework and the individual documents that are part of it? **HOW are INTOSAI standards going to deliver our vision?**

Based on the discussion provided in the think piece "Standard Setting in the 21st Century" by Accountancy Europe (June 2017), the essential characteristics that need to be present in a standard in order for it to meet its objectives are:

1) Effective & Principles-based:
   - standards should be clear, relevant and proportionate, responsive to needs and issued on a timely basis;
   - the purpose of, and reason for, a standard should be clear;
   - in the same spirit, standards should be expressed in a principles-based manner, setting out <u>what</u> should be done, but allowing judgement in <u>how</u> it should be achieved.

2) Practical & Implementable:
   - standards must be capable of being applied in practice, and scalable for size and complexity as appropriate.
   - standards should be drafted clearly and unambiguously, to allow them to be implemented in a consistent manner [and for that implementation to be monitored];
   - standards should be proportionate to their objective and give a balanced framework of requirements and guidance without unnecessary detail or explanation; and
   - the perceived benefits to stakeholders of a standard should outweigh the associated costs of introducing and applying it.

3) Responsive & Stable
   - standards should be prepared as soon as possible to respond to newly emerged issues;
   - standards should be reviewed from time to time to ensure their continuing relevance and applicability, and updated or adapted to reflect changes in technology, knowledge and professional practice;.
   - at the same time, standards should be stable, particularly in terms of the principles they present.

4) Technically Sound
   - standards should reflect appropriate technical expertise and robustness;

⇨ **Are these appropriate characteristics for INTOSAI standards? What could or should be added or changed?**
⇨ **How far do current INTOSAI standards met these characteristics?**
⇨ **Will they lead to a framework that delivers on our goal?**
⇨ **What are the implication of applying these principles to the development of the next SDP?**

Finally, to guide the future development of the framework, in accordance to this strategy, some proposed **criteria** for the selection of individual projects to include in the new SDP based on these considerations:

a. "Completeness" of the framework (what are considered the "basic" requirements that need to be adequately defined, developed and updated?)
b. Cost-effectiveness of new documents (proportionate to their objective; benefits should outweigh the cost of implementation – qualitatively and quantitatively);
c. Relevance of new documents (what change do they want to bring? Do they respond to an identified need? Do they provide a solution to emerging and practical problems? Are they universally applicable or to a sufficient large number of SAIs?)
d. Relevance of "old" documents (make sure to review and revise or delete existing standards where there is evidence that the standards no longer correspond to professional needs); and
e. Consistency between documents, in terms of structure, ideas and terms.

2) Structure and Functioning of INTOSAI Standard Setting

After establishing the vision we aim for with the IFPP and the characteristics of the standards need to have in order to reach the objective, it is important to take a critical look into the structures and functioning of our standard setting process to ascertain that our process is able to deliver the kind of standards INTOSAI wants to have.

As INTOSAI implements changes in its standard setting, creating new structures and enhancing processes, and considers further improvements, it is important to analyse how we measure

against established principles. The "Standard setting in the 21st century" paper proposed a list of the most appropriate principles that could be taken into account when considering standard setting. These are based on an analysis of current standard setting processes and the changing environment in which standards are set. They take into consideration lessons from the past, ongoing developments and needs and expectations of stakeholders.

INTOSAI's standard setting was not analysed by the publication. Nevertheless, the principles put forward by the paper offer an opportunity for INTOSAI to consider their importance and application to our own process.

These principles are summarised below:

A. Legitimacy: ability to set standards that users will follow. A legitimate standard setting process means that standards can appropriately serve their purpose.
   Key factors to determine legitimacy:
- trust;
- quality;
- innovation (responsive to current technological and environmental developments);
- timeliness (respond as timely as possible to stakeholders' needs).

B. Independence: issuance of standards without them being affected by any undue influence or conflict of interest that could compromise them.
   Key factors to determine independence:
- composition of board (balances broader and relevant stakeholder representation and is insulated from undue political or external influence);
- balanced and sustainable funding model (free from conflicts of interest).

C. Transparency: in relation to the operation and governance of standard setting, publicity of documents and processes.
   Key Factor to determine transparency:
- decision-making process.

D. Public Accountability: responsibility for actions and readiness to redress issues if needed and appropriate. This is important if a standard setter is to fulfil its public interest obligations.
   Key Factor to determine public accountability is the relationship with the outside world, which includes:
- outreach to key stakeholders;
- demonstrate that standards are in the public interest;
- standards respond to real necessity;
- impact of standards is evaluated.

E. Due Process: ensure that standard setting is fully responsive to the public interest as well as stakeholders' needs. Procedure is accountable, transparent and contributes to enhance standards' legitimacy.
   Key Factors regarding the due process:
- clearly guide activities and decisions;
- coordination with other standard setting boards;
- fair and transparent;

- public interest (guaranteed by an oversight body);
- inclusiveness (widespread and public consultation on key proposals);
- integrity (to safeguard it).

F. Balanced Membership
   Key Factors to determine balanced membership:
- board nomination process (diverse, qualified, technically capable);
- role of secretariat (independent and knowledgeable).

> ⇨ **Are all these principles desirable/necessary for INTOSAI standard setting? What could or should be added or changed?**
> ⇨ **How far do current INTOSAI standards comply with these principles?**
> ⇨ **Does INTOSAI's current approach to standard setting lead to these principles being followed in practice?**

3) Obtaining data for monitoring

An additional element is the way we can follow-up and monitor the standard setting process. INTOSAI should be able to start understanding better the impact of its standards and the different elements of its standard setting process in order to have a clear picture, assess the current state of play, assess progress against the strategy, and allow for better informed decision-making.

> **This strategy should also explore options to obtain more (and better) data on:**
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> **INPUTS** to the standard setting process and the ACTIVITIES/PROCESSES of the different structures involved in the standard setting process. We should be aware of the amount of resources being employed in the process, timeliness, etc; This is important, for example, in order to ascertain INTOSAI's standard setting "work capacity" and therefore be in a position to plan and prioritize realistically to maximize delivery.
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> **OUTPUTS** of the standard setting process. We should be able to assert the quality of the products we deliver, as well as their fitness for purpose (based on the principles suggested) and their relationship with standards issued by other standard setters. It is therefore vital to obtain feedback on the use of existing standards, and the need to new or revised standards, to feed into the standard setting process to improve the relevance and quality of the framework.
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> **OUTCOME** of INTOSAI standard setting, like level of adoption/implementation of the standards by SAIs. Besides also providing feedback into the standard setting process, assessing the outcome of our products will allow INTOSAI to evaluate regularly the cost of its standard setting activities compared with the benefits they bring.
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> **IMPACT** of the products: are we fulfilling our stated purposes, e.g. in terms of better functioning of SAIs and improvements in the quality of their work and reports?