



**Note 2 on the ISSAIs 100, 200, 300 and 400 presented to the XXI INCOSAI**

## Key concepts of public-sector auditing

The purpose of the ISSAI harmonisation project has been to establish the key concepts for public-sector auditing that the full set of ISSAIs should draw upon. This table provides an overview of the terminology defined by *ISSAI 100 – Fundamental Principles of Public-Sector Auditing*.

Term	Key description	References and notes
<b>Framework of public-sector auditing</b>		
<b>Public-sector auditing</b>	<p>The public-sector audit environment is that in which governments and other public-sector entities exercise responsibility for the use of resources derived from taxation and other sources in the delivery of services to citizens and other recipients. These entities are accountable for their management and performance, and for the use of resources, both to those that provide the resources and to those, including citizens, who depend on the services delivered using those resources. Public-sector auditing helps to create suitable conditions and reinforce the expectation that public-sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with the applicable laws and regulations.</p> <p>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 conform to established criteria. Public-sector auditing is essential in that it provides legislative and oversight bodies, those charged with governance and the general public with information and independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations.</p>	<i>ISSAI 100/17-18</i>
<b>Objectives</b>	<p>All public-sector audits start from objectives, which may differ depending on the type of audit being conducted. However, all public-sector auditing contributes to good governance by:</p> <ul style="list-style-type: none"><li>- providing the intended users with independent, objective and reliable information, conclusions or opinions based on sufficient and appropriate evidence relating to public entities;</li><li>- enhancing accountability and transparency, encouraging continuous improvement and sustained confidence in the appropriate use of public funds and assets and the performance of public administration;</li><li>- reinforcing the effectiveness of those bodies within the constitutional arrangement that exercise general monitoring and corrective functions over government, and those responsi-</li></ul>	<i>ISSAI 100/20</i>

	<p>ble for the management of publicly-funded activities;</p> <ul style="list-style-type: none"> <li>- creating incentives for change by providing knowledge, comprehensive analysis and well- founded recommendations for improvement.</li> </ul>	
<p><b>Types of public-sector audit:</b></p> <p><b>Financial Audit</b></p> <p><b>Performance Audit</b></p> <p><b>Compliance audit</b></p>	<p>The three main types of public-sector audit are defined as follows:</p> <p><u>Financial audit</u> 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 as to whether the financial information is free from material misstatement due to fraud or error.</p> <p><u>Performance audit</u> 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. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement.</p> <p><u>Compliance audit</u> focuses on whether a particular subject matter is in compliance with 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. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials.</p>	<p><i>ISSAI 100/22</i></p>
<p><b>Combined audits, other engagements</b></p>	<p>SAls may carry out audits or other engagements on 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 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. SAls may also conduct combined audits incorporating financial, performance and/or compliance aspects.</p>	<p><i>ISSAI 100/22</i></p> <p><i>It was decided to avoid 'auditing engagements' and refer to 'audits' instead.</i></p> <p><i>'Engagements' is used in connection with 'other engagements' and 'types of en-</i></p>

		<i>gagements'</i>
<b>Elements of public-sector auditing</b>		
<b>The 3 parties, the auditor, the responsible party, Intended users</b>	<p>Public-sector audits involve at least three separate parties: the auditor, a responsible party and intended users. The relationship between the parties should be viewed within the context of the specific constitutional arrangements for each type of audit.</p> <p><u>The auditor:</u> In public-sector auditing the role of auditor is fulfilled by the Head of the SAI and by persons to whom the task of conducting the audits is delegated. The overall responsibility for public-sector auditing remains as defined by the SAI's mandate.</p> <p><u>The responsible party:</u> In public-sector auditing the relevant responsibilities are determined by constitutional or legislative arrangement. The responsible parties may be responsible for the subject matter information, for managing the subject matter or for addressing recommendations, and may be individuals or organisations.</p> <p><u>Intended users:</u> The individuals, organisations or classes thereof for whom the auditor prepares the audit report. The intended users may be legislative or oversight bodies, those charged with governance or the general public.</p>	<p>ISSAI 100/25</p> <p><i>'Auditors' is generally used in plural.</i></p> <p><i>'The auditor' is used to emphasize a personal responsibility (e.g. in financial auditing, cf IS-SAI 200).</i></p> <p><i>'Audit team' and 'members of audit team' is used where relevant (e.g. in connection with audit team management and skills, cf IS-SAI 100/39)</i></p>
<b>Subject matter</b>	<p>Subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. It 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 the criteria, such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion.</p>	ISSAI 100/26
<b>Criteria</b>	<p>The criteria are the benchmarks used to evaluate the subject matter. Each audit should have criteria suitable to the circumstances of that audit. In determining the suitability of criteria the auditor considers their relevance and understandability for the intended users, as well as their completeness, reliability and objectivity (neutrality, general acceptance and comparability with the criteria used in similar audits). The criteria used may depend on a range of factors, including the objectives 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 and best practices. They should be made available to the intended users to enable them to understand how the subject matter has been evaluated or measured.</p>	ISSAI 100/27
<b>Subject matter information</b>	<p>Subject matter information refers to the outcome of evaluating or measuring the subject matter against the criteria. It can take</p>	ISSAI 100/28

	many forms and have different characteristics depending on the audit objective and audit scope.	
<b>Types of engagement</b>	<p>There are two types of engagement.</p> <p>In <u>attestation engagements</u> the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.</p> <p>In <u>direct reporting engagements</u> it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of measuring the subject matter against the criteria is presented in the audit report in the form of findings, conclusions, recommendations or an opinion. The audit of the subject matter may also provide new information, analyses or insights.</p> <p>Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party. Performance audits are normally direct reporting engagements. Compliance audits may be attestation or direct reporting engagements, or both at once. The following constitute the subject matter or the subject matter information in the three types of audit covered by the ISSAIs.</p>	ISSAI 100/29-30
<b>Confidence and assurance</b>	The intended users will wish to be confident about the reliability and relevance of the information which they use as the basis for taking decisions. Audits therefore provide information based on sufficient and appropriate evidence, and auditors should 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. Due to inherent limitations, however, audits can never provide absolute assurance.	<i>ISSAI 100/31</i>
<b>Forms of providing assurance</b>	<p>Depending on the audit and the users' needs, assurance can be communicated in two ways:</p> <p>Through opinions and conclusions which explicitly convey the level of assurance. This applies to all attestation engagements and certain direct reporting engagements.</p> <p>In other forms. In some direct reporting engagements the auditor does not give an explicit statement of assurance on the subject matter. In such cases the auditor provides the users with the necessary degree of confidence by explicitly explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the combinations of findings</p>	<i>ISSAI 100/32</i>

	and criteria result in a certain overall conclusion or recommendation.	
<b>Levels of assurance</b>	<p>Assurance can be either reasonable or limited.</p> <p>Reasonable assurance is high but not absolute. The audit conclusion is expressed positively, conveying that, in the auditor's opinion, the subject matter is or is not compliant in all material respects, or, where relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria.</p> <p>When providing limited assurance, the audit conclusion states that, based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe that 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 to obtain reasonable assurance, but the level of assurance is expected, in the auditor's professional judgement, to be meaningful to the intended users. A limited assurance report conveys the limited nature of the assurance provided.</p>	<i>ISSAI 100/33</i>
<b>Used in the principles of public-sector auditing</b>		
<b>Professional judgement, due care and scepticism</b>	<p>Auditors should maintain appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the audit</p> <p>The auditor's attitude should be characterised by professional scepticism and professional judgement, which are to be applied when forming decisions about the appropriate course of action. Auditors should exercise due care to ensure that their professional behaviour is appropriate.</p> <p>Professional scepticism means maintaining professional distance and an alert and questioning attitude when assessing the sufficiency and appropriateness of evidence obtained throughout the audit. It also entails remaining open-minded and receptive to all views and arguments. Professional judgement implies the application of collective knowledge, skills and experience to the audit process. Due care means that the auditor should plan and conduct audits in a diligent manner. Auditors should avoid any conduct that might discredit their work.</p>	<i>ISSAI 100/37</i>
<b>Audit risk</b>	<p>Auditors should manage the risks of providing a report that is inappropriate in the circumstances of the audit</p> <p>The audit risk is the risk that the audit report may be inappropriate. The auditor performs procedures to reduce or manage the risk of reaching inappropriate conclusions, recognising that the</p>	<i>ISSAI 100/40 It was decided to avoid the term 'engagement risk'</i>

	<p>limitations inherent to all audits mean that an audit can never provide absolute certainty of the condition of the subject matter.</p> <p>When the objective is to provide reasonable assurance, the auditor should reduce audit risk to an acceptably low level given the circumstances of the audit. The audit may also aim to provide limited assurance, in which case the acceptable risk that criteria are not complied with is greater than in a reasonable assurance audit. A limited assurance audit provides a level of assurance that, in the auditor's professional judgment, will be meaningful to the intended users.</p>	
<p><b>Risks, risk assessment and problem analysis</b></p>	<p>Auditors should conduct a risk assessment or problem analysis and revise this as necessary in response to the audit findings</p> <p>The nature of the risks identified will vary according to the audit objective. The auditor should consider and assess the risk of different types of deficiencies, deviations or misstatements that may occur in relation to the subject matter. Both general and specific risks should be considered. This can be achieved through procedures that serve to obtain an understanding of the entity or programme and its environment, including the relevant internal controls. The auditor should assess the management's response to identified risks, including its implementation and design of internal controls to address them. In a problem analysis the auditor should consider actual indications of problems 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.</p>	<p><i>ISSAI 100/46</i></p>
<p><b>Materiality</b></p>	<p>Auditors should consider materiality throughout the audit process</p> <p>Materiality is relevant in all audits. A matter can be judged material if knowledge of it would be likely to influence the decisions of the intended users. Determining materiality is a matter of professional judgement and depends on the auditor's interpretation of the users' needs. This judgement may relate to an individual item or to a group of items taken together. Materiality is often considered in terms of value, but it also has other quantitative as well as qualitative aspects. The inherent characteristics of an item or group of items may render a matter material by its very nature. A matter may also be material because of the context in which it occurs.</p> <p>Materiality considerations affect decisions concerning the nature, timing and extent of audit procedures and the evaluation of audit results. Considerations may include stakeholder concerns,</p>	<p><i>ISSAI 100/41</i> <i>It was decided to avoid the term 'significance'</i></p>

	public interest, regulatory requirements and consequences for society.	
<b>Audit planning, scope and approach</b>	<p>Auditors should plan their work to ensure that the audit is conducted in an effective and efficient manner</p> <p>Planning for a specific audit includes strategic and operational aspects.</p> <p><u>Strategically</u>, planning should define the audit scope, objectives and approach. The objectives refer to what the audit is intended to accomplish. The scope relates to the subject matter and the criteria which the auditors will use to assess and report on the subject matter, and is directly related to the objectives. The approach will describe the nature and extent of the procedures to be used for gathering audit evidence. The audit should be planned to reduce audit risk to an acceptably low level.</p> <p><u>Operationally</u>, planning entails setting a timetable for the audit and defining the nature, timing and extent of the audit procedures. During planning, auditors should assign the members of their team as appropriate and identify other resources that may be required, such as subject experts.</p> <p>Audit planning should be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the audit.</p>	<i>ISSAI 100/48</i>
<b>Evidence</b>	<p>Auditors should perform audit procedures that provide sufficient appropriate audit evidence to support the audit report</p> <p>The auditor's decisions on the nature, timing and extent of audit procedures will impact on the evidence to be obtained. The choice of procedures will depend on the risk assessment or problem analysis.</p> <p>Audit evidence is any information used by the auditor to determine whether the subject matter complies with the applicable criteria. Evidence may take many forms, such as electronic and paper records of transactions, written and electronic communication with outsiders, observations by the auditor, and oral or written testimony by the audited entity. Methods of obtaining audit evidence can include inspection, observation, inquiry, confirmation, recalculation, reperformance, analytical procedures and/or other research techniques.</p> <p>Evidence should be both sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) – i.e. relevant, valid and reliable. The auditor's assessment of the evidence should be objective, fair and balanced. Preliminary findings should be communicated to and dis-</p>	<i>ISSAI 100/49</i>

	<p>cussed with the audited entity to confirm their validity.</p> <p>The auditor must respect all requirements regarding confidentiality.</p>	
<b>Conclusions, audit findings</b>	<p>Auditors should evaluate the audit evidence and draw conclusions</p> <p>After completing the audit procedures, the auditor will review the audit documentation in order to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, the auditor reconsiders the initial assessment of risk and materiality in the light of the evidence collected and determines whether additional audit procedures need to be performed.</p> <p>The auditor should evaluate the audit evidence with a view to obtaining audit findings. When evaluating the audit evidence and assessing materiality of findings the auditor should take both quantitative and qualitative factors into consideration.</p> <p>Based on the findings, the auditor should exercise professional judgement to reach a conclusion on the subject matter or subject matter information.</p>	<i>ISSAI 100/50</i>
<b>Audit report, short form, long form, the Auditor's Report</b>	<p>The form and content of a report will depend on the nature of the audit, the intended users, the applicable standards and legal requirements. The SAI's mandate and other relevant laws or regulations may specify the layout or wording of reports, which can appear in short form or long form.</p> <p><i>Long-form reports</i> generally describe in detail the audit scope, audit findings and conclusions, including potential consequences and constructive recommendations to enable remedial action.</p> <p><i>Short-form reports</i> are more condensed and generally in a more standardised format.</p> <p>In attestation engagements the audit report may express an opinion as to whether the subject matter information is, in all material respects, free from misstatement and/or whether the subject matter complies, in all material respects, with the established criteria. In an attestation engagement the report is generally referred to as the Auditor's Report.</p> <p>In direct engagements the audit report needs to state the audit objectives and describe how they were 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</p>	<i>ISSAI 100/51</i>

	<p>given, and any limitations to the audit scope should be described.</p> <p>The audit report should explain how the evidence obtained was used and why the resulting conclusions were drawn. This will enable it to provide the intended users with the necessary degree of confidence.</p>	
<b>Audit opinion</b>	<p>When an audit opinion is used to convey the level of assurance, the opinion should be in a standardised format. The opinion may be unmodified or modified. An unmodified opinion is used when either limited or reasonable assurance has been obtained. A modified opinion may be:</p> <p><i>Qualified (except for)</i> – 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;</p> <p><i>Adverse</i> – where the auditor, having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, whether individually or in the aggregate, are both material and pervasive;</p> <p><i>Disclaimed</i> – 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.</p> <p>Where the opinion is modified the reasons 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 any contributing internal control deficiencies may also be included in the report.</p>	<i>ISSAI 100/51</i>
<b>Follow up</b>	<p>SAIs have a role in monitoring action taken by the responsible party in response to the matters raised in an audit report. 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 call for a further report by the SAI.</p>	<i>ISSAI 100/51</i>