

**INTOSAI**



Compliance Audit  
Subcommittee

## *Newsletter June 2021*

*Dear colleagues,*

*Hope you and your loved ones are all safe and healthy during the current unprecedented pandemic situation we are faced with.*

*The past about eighteen months have been extremely difficult for the world at large with all the nations trying to cope with the fallout of the COVID-19 pandemic. The audit community has not been immune to the situation both in terms of personal as well as professional challenges. The SAIs had to ensure the safety and security of their staff, while simultaneously discharge their mandated responsibilities by reprioritising their audit plans, reorienting their audit efforts, reskilling and upgrading the competencies of the personnel to adapt to the new norm of working off-site.*

*We are happy to bring out this 2021 edition of Newsletter from Compliance Audit Subcommittee, with updates on the activities of the Subcommittee and its members during 2020-2021. As you will see in the following pages, several important activities are taking place across the CAS community involving standard setting, preparation of guidelines, implementation support, knowledge sharing and capacity building.*

*The 17<sup>th</sup> annual CAS meeting was held virtually on 23 November 2020, instead of in Azerbaijan as originally scheduled, owing to the current pandemic situation. The virtual meeting had 'Audit of COVID-19 efforts from Compliance Audit Perspective' as its theme, and facilitated sharing of experiences by CAS members as to how they were coping with the challenging situation and fulfilling their mandate.*

*We, at CAS Secretariat, would like to thank all the members of the Subcommittee, IDI and other INTOSAI partners for their cooperation, collaboration and support during these stressful times and look forward to continued synergies in furthering compliance auditing standards.*

*Wishing all of you good health and happiness.*

*Best regards,*

**Vani Sriram**  
**Addl. Dy. Comptroller & Auditor General &**  
**Acting CAS Chair,**  
**SAI, India**

## 17<sup>th</sup> annual CAS Virtual Meeting 2020

The 17th meeting of the INTOSAI Compliance Audit Subcommittee was held virtually on 23rd November 2020. Representatives from 17 SAIs participated in the meeting, apart from AFROSAI – E and IDI. Owing to the current pandemic situation, which has disturbed the planned audit programmes and thrown up challenges to compliance with audit mandate of the SAIs, it was decided to hold the annual CAS meeting virtually, to facilitate sharing of experiences by CAS members about how they were coping with the challenging situation and the approach being followed in auditing COVID-19 initiatives of their governments. To that effect, the theme of the virtual meeting was ‘Audit of COVID-19 efforts – a compliance audit perspective’.

Mr. Girish Chandra Murmu, Comptroller & Auditor General of India and Chair of Compliance Audit Subcommittee welcomed the participants and delivered his opening remarks. Ms. Vani Sriram, Additional Deputy Comptroller & Auditor General and Acting Chair of CAS briefed CAS representatives about the activities of the subcommittee since last meeting of CAS which was held at Lisbon in 2019. Detailed presentations were made in this meeting on the theme of the meeting by SAIs of Azerbaijan, Brazil, European Court of Auditors, India, Norway and Romania. INTOSAI Development Initiative (IDI) also made a detailed presentation on audit of Transparency, Accountability and Inclusiveness of Use of Emergency Funding for COVID-19 (TAI Audits) and briefed the CAS representatives about this compliance audit initiative.

## Status of Strategic Development Plan projects of CAS

SDP project 2.2 on **GUID 4900** relating to ‘**Guidance on Authorities and Criteria to be considered while examining the regularity and propriety aspects in Compliance Audit**’ was approved by the Governing Board in October 2020. Congratulations to all the members who have contributed to this project, especially Ingvild Gulbrandsen from SAI Norway, who was the Project Lead on behalf of CAS.

SDP project 2.3 relating to ‘**Using ISSAIs in accordance with the SAI’s mandate and carrying out combined audits**’ was put on hold by the PSC pending further deliberations, owing to concerns raised by other Subcommittees about the need for the project. A series of meetings were held during May-June 2021 by the PSC with all the Subcommittees on the way forward with regard to this GUID and it was decided that PSC would prepare a ‘**Practice Note**’ initially on combining different audits within the same engagements to help SAIs operate efficiently and effectively in compliance with the relevant ISSAIs, when using a combined audit approach. PSC would also include this aspect as part of its survey relating to Component 1. CAS appreciates the work done on this project by the members, especially Cristina Breden from SAI, Romania, who was the Project Lead.

## CAS participation in other professional activities of INTOSAI

-PSC related initiatives

PSC has sought the views and experience of CAS and other Subcommittees Chairs in May-June 2021 on the standard setting process to identify challenges and areas that need improvement. The discussions covered all parts of the process from the presentation of the themes to the INTOSAI Strategic Development Plan (SDP) and every phase of the Due Process.

PSC has also been working towards improving cooperation and collaboration among the Subcommittees on various issues relating to standard setting process.

### **Review of Component 1 of SDP**

PSC has requested for the views of CAS members on its analysis of the form and content of the existing framework of IFPP involving the structure to identify projects under Component 1 of SDP 2020-22 for approval of INTOSAI Governing Board. Based on the feedback from members, CAS had provided inputs to PSC in this regard. PSC held extensive deliberations on this issue with CAS and other Subcommittees during the last few months.

### **CAS Survey for Project 2.6 on GUID 5160 ‘Guidance on Using the Work of Internal Auditors’ (led by Internal Control Subcommittee)**

As you are aware, CAS contributes towards projects for development of INTOSAI guidelines led by other Subcommittees. CAS member representatives from SAI Russia are participating in development of GUID 5160 relating to *‘Guidance on Using the Work of Internal Auditors’* under SDP 2.6 which is being led by the Subcommittee on Internal Control Standards (ICS).

### **Capacity building activities by CAS members**

SAI Norway, in collaboration with the SAIs of Finland, Germany, the Netherlands and the UK, published a whitepaper on “auditing machine learning algorithms”. The whitepaper was published at [www.auditingalgorithms.net](http://www.auditingalgorithms.net)

This paper should be useful for compliance auditors, in understanding how to regulate the use of machine learning and artificial intelligence in public sector audits.

### **CAS collaboration with IDI for capacity building of SAI Auditors**

Members would recall that IDI initiated development of an e-learning courseware and certification programme for providing professional education to SAI auditors on compliance audit in collaboration with CAS, as discussed during the 16<sup>th</sup> annual CAS meeting at Lisbon. CAS is an ongoing contributor to the development of IDI’s Professional Education for SAI Auditors (PESA).

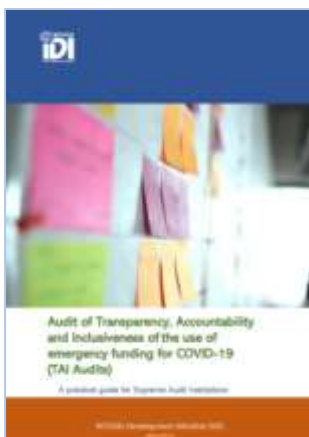
PESA Pilot was launched by Per-Kristian Foss, Chair of the IDI Board on 25<sup>th</sup> March 2021. Members can read all about it at <https://www.idi.no/work-streams/professional-sais/pesa-p>. PESA-P will contribute to the creation of a professionally trained community of SAI compliance auditors across the INTOSAI community, who can carry out ISSAI compliant audits, support ISSAI implementation in the SAI and act as champions for ISSAI implementation. It will also help in developing SAI Auditors who are part of an international network of SAI professionals leading to peer-to-peer exchange and support.

## Cooperative compliance audit of Transparency, Accountability and Inclusiveness of the use of emergency funding for COVID 19 (TAI audits) by IDI in partnership with CAS

IDI, in partnership with CAS, launched 'Transparency, Accountability and Inclusiveness of Use of Emergency Funding for COVID-19 (TAI Audits)', which offers flexible support to SAIs in all regions to audit funding and spending for COVID-19 using an agile approach to an ISSAI compliant compliance audit methodology.

The main objective of this audit is to contribute to transparency, accountability and inclusiveness in the use of emergency funding for COVID-19 in the near future. In terms of long-term outcomes, SAI recommendations from this audit could contribute to setting up of more transparent, accountable and inclusive frameworks for public spending during emergencies. Within these overall objectives, one of the key outcomes is the consideration of inclusiveness in the use of public spending. The audit would check the allocation and utilisation of emergency funding to reach the furthest behind first, and prioritisation of vulnerable sections disproportionately affected by the pandemic, e.g. women, people with disabilities, the poor, workers in the informal sector, refugees etc.

More than 55 SAIs from across all INTOSAI regions will be participating in this audit. IDI is collaborating with CAS in this regard and also with the other INTOSAI regions, International Budget Partnership, IMF, World Bank, ACCA and GAVI in designing and delivering education and audit support.



The practical guide on TAI audits is available on the IDI website [TAI Guide \(idi.no\)](https://www.idi.no). The guide aims to create a shared understanding of concepts and principles of TAI Audits and provides 'how to' guidance, insights and tips for SAI auditors.

To provide SAIs with flexible, integrated, and holistic support throughout the audit, IDI has created integrated

education and audit support (IEAS) framework on its virtual platform [TAI Audit IEAS \(idi.no\)](https://www.idi.no). This platform will be available in English, Spanish, Arabic and French to all participating SAI teams.



## Combined Performance and Compliance Audits - Chamber of Accounts, Republic of Azerbaijan

Public audit in the Republic of Azerbaijan is conducted as financial, performance, compliance audits. In this article, we would like to publicize our views (hypothesis) on the reasonableness

of compliance audits being an integral part of all audits, particularly when combined with performance audit.

Activity, functions, rights and responsibilities of public authorities, non-budgetary public funds, municipalities, public legal entities, legal entities with shares of the state and municipalities (hereinafter the Entity) are governed by regulations or remedial documents. It necessitates conduct of compliance audit combined with performance and financial audits, which serves to study whether the entity's activities comply with requirements of applicable legal acts.

Performance audit focuses on whether projects, programmes and institutions are performing in accordance with principles of economy, efficiency and effectiveness and whether there is room for improvement (The International Standards of Supreme Audit Institutions (ISSAI) 100, paragraph 22). The efficiency of activity is compared against relevant criteria, deviations from criteria and their reasons are identified, other problems are also analyzed, audit questions are answered and recommendations for improvement are developed. Compliance audit focuses on compliance assessment of particular subject matter with authorities identified as criteria. Compliance audit is performed by assessing whether activities, financial transactions and information comply in all material respects with authorities governing the audited entity (ISSAI 100, paragraph 22).

The foregoing evidences that in both audits, audit subject matter or questions identified in the corporate activity are compared against audit criteria. In addition to the use of public funds in accordance with regulations, entities are also responsible for effective management of public funds. When performance audit of public entity, or appropriate project or programme is conducted by supreme audit institution, management of activity on the issues covered by it should also be reviewed for compliance with the laws. If there is any law or other regulation related to activities of the audited entity, it will have a significant impact on the identification of audit questions and an audit will be conducted to obtain audit findings that serve to forming an opinion providing answers to each audit question.<sup>1</sup> It should be noted that activities of any entity are governed by the Charter, regulations or any legal document. Providing that functions and activities of the entity are therein, during performance audit of public entity activities, compliance with regulations governing its activities should be considered first. At this point, audit subject matter and criteria intersect, resulting in the need for compliance audits in certain areas of performance audit.

For providing more support to this opinion we would like to draw your attention to some points of "Compliance audit versus performance audit, seen from the perspective of the European Court of Auditors" presentation by Vitor Caldeira. According to Vitor Caldeira the Court's performance audits almost always include criteria reflecting compliance with provisions of legislation. He thinks that, both from theoretical and practical perspectives,

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<sup>1</sup> "Performance Audit Guidelines", Directorate on Audit Quality Control of the European Court of Auditors, 2017, p. 43.

differences between audit types should not be focused on too strongly. Because there are common tools for managing combined audit. Moreover, performance and compliance issues are associated with implementing budget and are closely interrelated. Regularity errors are very often cases where spending did not hit the target or was used sub-optimally. Thus, should any activity fail to comply with laws and regulations, it also fails to be carried out based on principle of efficiency.

Here is another case: when performance audit of an investment project is conducted, audit is designed to cover the project from planning to final stage. One of these stages is procurement, which will directly affect performance of the project. During the audit planning, an audit question is asked on this issue and compliance of procedures with the requirements of the law governing public procurement is assessed. It should be noted that while the project is arranged economically, efficiently and effectively (result-oriented), non-compliance of procurement to the law results in unfair competition, customer's compromised reputation with the public, and reduced trust and confidence.

In both compliance and performance audits, selection of criteria and mutual analysis of the audit subject matter or questions are key matters and are considered to be an important step in reaching audit conclusions. Although it is appropriate to select as criteria only those legal acts that have direct and significant effect on financial statements in the audit of financial statements, legal acts relevant to audit subject matter in compliance audits and legal acts relevant to audit questions in performance audits should be identified as audit criteria.

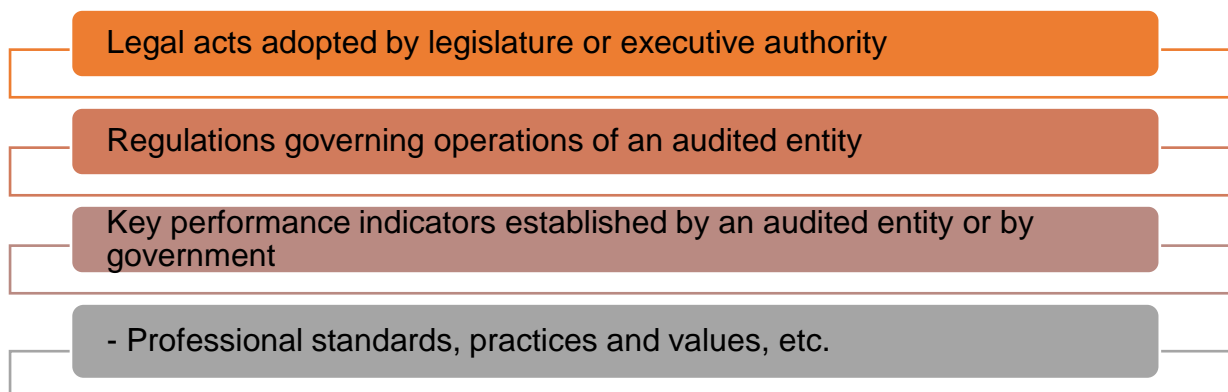
Audit criteria in management of performance audit should be selected based on (activity of an audited entity (project, activity, etc.) to be audited and basis for such audit) the following: regularity, economy, efficiency, timeliness, adequacy, fairness. Combined performance and compliance audits will ensure evaluation of regularity of public entity activity.



Figure 1. Basis for selection of audit criteria in performance audit

Whereas in other audit types audit criteria are clearly, often recurrently, i.e. already commonly identified, this is not typically the case in performance audit. In performance audit, each audit is approached individually when selecting audit criteria. Audit criteria are established based on objective, question, and approach of audit. Audit report user confidence in the findings and conclusions of performance audit depends largely on the criteria (ISSAI 300, paragraph 27). When establishing audit criteria, care must be taken to ensure that they are reliable, objective, useful, complete and acceptable (ISSAI 3000, p. 52).

In performance audit the audit criteria can be obtained, for example, from the following sources (ISSAI 3000, p. 53):



In both performance and compliance audit to be suitable, compliance audit criteria must be relevant, reliable, complete, objective, understandable, comparable, acceptable and available. Without the above characteristics any conclusions reached on analyses and assessments against suitable criteria, is open to individual interpretation (opinions) and misunderstanding (ISSAI 400, paragraph 31).

Compliance audit may be concerned with regularity (adherence to formal criteria such as relevant laws, regulations and agreements) or with propriety (observance of the general principles governing sound financial management and conduct of public officials). While regularity is the main focus of compliance audit, propriety may also be pertinent given the public-sector context, in which there are certain expectations concerning financial management and conduct of officials (ISSAI 400, paragraph 13).

When compliance audit is concerned with regularity legal criteria can derive from: (ISSAI 4000, paragraph 114).

- Rules and regulations;
- International treaties and other agreements;
- Codes of conduct.

Suitable audit criteria for compliance audit of propriety will be either generally-accepted principles or national or international best practice, public financial management



expectations such as compliance with effective and efficient internal control system, beneficiaries expectations regarding utility of goods, or quality of services and works, requirements for transparent and unbiased allocation of public funds and human resources. (ISSAI 400, paragraph 32, 116).

According to analysis during performance audit, it is important and expedient to organize combined audit, taking into account both principles of compliance audit. Thus, both audits have many common audit subject matters, issues, questions, and findings related to them are assessed against criteria established on principles of regularity, propriety, economy, efficiency, effectiveness and conclusions are made and recommendations are obtained.

We also need to highlight a few examples demonstrating need for combined, related performance and compliance audits. For example, When conducting performance audit of “Kindergarten Construction” project, review and examination of all project stages from development to construction and handover should be considered. Along with the designing process, the study of its compliance (regularity) with regulations will be identified as an audit question. Then there is a need for combined analysis of the issues to be covered by performance and compliance audits. In this case, guidelines approved by government shall be used for regularity assessment and assessment of whether audit criteria selection and design work complied with such guidelines is the direct scope of compliance audit.

During performance audit of any public entity, examination of internal control system, which is one of its functions, will be identified as the subject matter of audit. In this case, organization of internal control will be assessed for propriety, proactiveness (prevention of shortcomings), economy, efficiency and effectiveness (in a way that will ensure the elimination of inconsistencies). Given that similar analysis are made when compliance audit on audit question is conducted based on principle of propriety, this type of activity will be subject matter shared by both compliance and performance audits.

Thus, if the area of activities and functions of entity are governed by state regulations, conducting combined performance and compliance audits in this entity will ensure correct (regulatory), efficient and cost-effective management of its activities, measurement of goal achievement.

Research, analysis, opinions and examples provided show that in terms of philosophy for both audits, mutual analysis related to principles of performance and compliance are appropriate for establishing audit criteria, and managing entity’s activities when it covers how duties are discharged.

### **Monitoring-based audits: strong response to the new challenges - State Audit Office of Hungary**

By December 2019, a need for audit technological change emerged at the State Audit Office of Hungary, which was inspired by the challenges and experience of the past years. There are nearly 20,000 institutions, organisations and enterprises in Hungary, which use public funds or manage national assets. The audit of such entities has required substantial capacities so



far as well, at the same time, if we consider it realistically, we have to admit that the strongest effect can be reached if groups of institutions are evaluated jointly and if we call the attention of the leaders of organisations managing public funds or national assets to current, present risks. This means that covering the scope of audited entities on the widest spectrum possible became an objective.

Numerous new challenges arose during the epidemic, which have to be managed. The epidemic caused numerous changes, on both the social and the economic level. The population has to show stronger discipline than ever before and has to adapt to the changed day-to-day life. By carrying out its activity, the State Audit Office of Hungary supported and still supports this uncertain and difficult situation in a manner that allows it to continue contributing to the sustainability of a well-governed state as well, however, with a slightly different approach. The experiences of past years demanded new methods, other activities became more prominent, such as strengthening the consulting function and the monitoring-type audits, the application of which could not have taken place without means of change and crisis management, as well as means of digitization.

The State Audit Office of Hungary fulfilled its duties in compliance with the rule of law frameworks even after the declaration of the state of danger; therefore, it performed the audit of the 2019 final accounts and helped the development of the 2021 budget through its opinion. However, the SAO examined not only those organisations which the SAO is obliged to audit but it also tried to realise its audit, analysis and consulting activity in the widest scope possible. Through this the SAO efficiently supported the accountable and transparent use of public funds and national assets, in order to ensure that the principles of quality spending, responsible leadership and transparent operation can prevail, and thereby the society's trust in public institutions and other state-owned organisations is strengthened.

Naturally, in the current challenge-heavy situation the SAO recognised that emphasis should be put on the statutory authorisation-based advisory, analyst role for organisations, and by improving the efficiency of the execution of audits and increasing the number of audited organisations we should highlight the risks arising from financial management, all the while burdening the audited organisations as little as possible. These changes brought substantial technological changes for the SAO as well, the role of digitization became even more pronounced, and the consultant role became more significant than ever before.

In this article, we show the new methods developed by the SAO in response to the state of danger, in order to efficiently ensure the integrity and internal control of those organisations which receive public funds or manage national assets. The new audit method of the SAO will be presented, i.e. the monitoring-based audit, which emphasises the efficiency of audits and prevention as a method. The SAO had completed numerous projects in the field of integrity in the last 10 years. Since 2013 the SAO has carried out the public sector integrity survey and analysis every year, developed a self-test and showed the current level of risks and controls to the entirety of the public sector in infographics. Based on the experience of recent years it can be established that the SAO was able to determine the fundamental cornerstones of the

existence of integrity, specify the equipment and documents the organisations/institutions must have in order to create or improve their respective integrity cultures.

In the current pandemic situation it is especially necessary to strengthen transparency and integrity, which can be achieved by carrying out audits as well, at the same time, in the increasingly difficult economic and social situation, two important aspects should be kept in mind as well: covering the widest scope possible with the audits, considering that at this time transparency serves the purpose of strengthening trust more than anything else, as well as detecting the operational and financial management risks of the audited entities, while burdening them as little as possible.

Within its audits, the SAO created a new type of audits, the so-called monitoring audit, which was used for the first time based on the financial data of the Hungarian State Treasury. In the framework of the audit of local governments, by monitoring the data available in the central information system of the Hungarian State Treasury the SAO can assess the local governments by creating groups. By carrying out audits based on the analysis of the monitoring reports and by exploring the risks affecting the financial balance situation of local governments the SAO contributes to ensuring the sustainability of the financial management and the fulfilment of duties of local governments.

In 2020, the State Audit Office of Hungary added a new aspect to the monitoring audit. The SAO assesses the institutions on a monitoring basis, however, in addition to the analysis of the central information system, it developed a new method as well, with the help of which - while focusing in the relevant documents of the present status - the SAO provides support to improve the public finances condition of the audited entity, through real-time evaluation and recommendations for the future. These types of audits have countless benefits. On the one hand, the audit coverage can be increased significantly, therefore segments which had not been audited previously - i.e. the entire scope of audited entities as well - will be examined, and on the other hand, it executes targeted audits with relatively few documents, and with those it concentrates on the risks and the management of irregularities, thereby promoting raising awareness to the efficient use of public funds and public property. This is beneficial not only for the SAO but for the audited organisations as well, since they are burdened less due to the low number of documents, and it also provides opportunity for eliminating the risks and irregularities discovered in course of the monitoring-type audit during a subsequent and more profound audit.

In 2020, the State Audit Office of Hungary subjected the controlling of the integrity of local governments to monitoring-type audit, thereby contributing to reducing the integrity exposure of local governments. The results of the SAO's integrity surveys conducted in 2016 to 2018 showed that local governments belong to the riskier group among the operators of the public sector. The local governments of settlement with lower population numbers are especially at risk, since - according to the results of the survey - their controlling environment and integrity infrastructure are less established. The topicality of the topic is increased also by that the protection against the virus and the negative social and economic effects thereof

challenged the local governments with additional tasks, and they too are required to pay more attention to sustain organisational integrity under the current circumstances. It is essential to develop and sustain an accountable procedure for fulfilling the new duties and an internal policy which ensures the transparency of the extra resources and reduces abuses and the opportunity for fraud to a minimum. In this situation the State Audit Office of Hungary considers it its fundamental obligation to be the guardian of public finances and to conduct its audits among local governments as well since the misuse of each and every tax Forint deprives support from those who are in need the most and makes it more difficult to fulfil duties which are absolutely necessary. In order to conduct the audit, between 20th March 2020 and 21st April 2020 we contacted nearly 3200 local governments and requested data from them.

Throughout the coronavirus epidemic the State Audit Office of Hungary tried to reduce the social and economic negative effects through the fulfilment of its duties, which however requires economic and social cooperation as well. In this case, this cooperation became emphasised through the prominence of the consulting role and the launch of the monitoring audits.

The SAO considered sustainability a priority, which appears in the life of the organisation not only on the environmental but on the social level as well, since one of the priority duties of the SAO is to contribute to a well-governed state and to aim at sustainability. The SAO tries to achieve this through numerous means presented by the article, such as the analyses which examine current topics, such as population vulnerability, demographic characteristics, digitization, education, finances and - of course - the sustainable development goals related to climate protection. Another mean to achieve the goal of well-governed state on a national level is the supportive audit work, which - considering the epidemic - is realised mostly through monitoring audits with wide coverage, but with lesser burden to the audited entities.

In summation it can be established that although the epidemic causes a lot of uncertainty, at the same time it created an environment where draws attention to the importance of change/crisis management even more and which expedites the digitization development and creates a new working environment. It is important that we are able to meet the challenges and to provide supportive audit, analytical and consulting work for the sustainability of the well-governed state.