

SDP 2020-2022: COMPONENT 1

Compliance audit is ‘generally conducted’ in cooperation with one of the two other ‘audit types’: should this have an impact on how the material (standards and guidance) in the framework is sorted and presented?

(a summary of views raised during the discussion session held on 19 January 2021)

Discussion sessions represent the second phase of the analysis carried out under the auspices of the PSC secretariat as part of Component 1 review. They build on the initial analysis and feedback provided by the INTOSAI standard setting community (phase one), aim to explore selected issues deeper, and provide input for the preparation of a survey to be addressed to all INTOSAI members (phase three).

The meeting – hosted and moderated by the PSC secretariat – was attended by interested members of the ISLO network, INTOSAI committees, their working bodies, and FIPP who had responded to the open invitation.

Executive summary of the points raised

While some SAIs carry out compliance audits as standalone tasks, more of the reported cases showed that compliance audit work is done as a part of the SAIs’ performance or financial audit work.

In such cases, SAIs either have one team trained to perform the two approaches (PA/CA or FA/CA), or have two teams working together. Only one report is typically published – instances of incompliance are reported in the performance or financial audit report.

There was no unity of views on which standards should be used when combining two audit types in one task. Participants highlighted that a decision which standard to follow and how to perform the work depends on the competence of staff, and that skilled staff should be able to deal with dilemmas. However, the situations when staff has little experience was not addressed.

Some participants considered that (for instance) performance audit pronouncements were sufficiently flexible to cover any dilemmas linked to assessing compliance issues. Some reminded of the difficulties for audit teams to deciding which set of standards to apply, notably mentioning the similarities and overlaps between PA and CA standards. Some SAIs developed own guidance to instruct auditors how to deal with such situations. Technical support in the form of methodologists is typically available as necessary.

There is great variance how SAI legislation covers the possibility to carry out compliance audit. Some acts refer explicitly to “audit types” defined by the INTOSAI, but the mandate of many is expressed differently; it may list the SAI’s mission, or sectors or bodies to be audited, or describe audit types more loosely adapted to national needs.

There can also be great variance in how SAIs are organized in this respect. Some have sector-oriented departments, other have departments organised around “audit type”. The latter typically for performance or financial audits – no SAI reported having an equivalent dedicated compliance audit department.

Training often includes specific compliance audit modules in parallel to ones on financial or performance audit, or subject matter issues. Despite the available training, only few SAIs indicated having dedicated compliance audit generalists, a specific subcategory of these were experts on auditing public procurement.

Is the reality in practice that compliance audit is ‘generally conducted’ with one of the two other audit types (as indicated by paragraph 20 of ISSAI 40)? Or are they more likely to be standalone tasks, reported separately?

Around 60 % of our audits only address compliance with regulations, and are reported on separately.

Until recently, we conducted compliance audit separately from the other audit types, using ISSAI 4000 as guidance. Since 2020, we address compliance and performance issues in one audit task and issue one report. Work is done by two audit teams working closely together, which appears to be a good step forward (e.g. no more silos). On average, more prominence is given to the performance aspect. Internal guidance describes the approach for combining the two audit approaches in one task. It is useful to have specific pronouncements for compliance audit.

The audit approach (PA, FA, CA) is generally combined.

ISSAIs 400 and 4000 were developed to narrow the gap between pronouncements for the audit of performance issues and financial statements.

There is a strict separation between compliance and performance audits in our organization to avoid struggles internally. We believe that one provides a better value audits if the audit streams are separated. Compliance audits are typically completed faster and are more straightforward than audits addressing performance. Reports are separate for CA and PA. While we conduct FA and CA separately, we report on the results in one document.

We assess compliance as part of our performance and compliance audits, and issue one report. Compliance audit carried out as a standalone is only applied for assessing public procurement.

In practice, all audits have a compliance element, only the criteria differ. Compliance auditing has historically been an integral part of state audit. Ever since we were mandated to do performance and financial audit, we have combined compliance with these approaches, and we report in compliance issues in our performance and financial audit reports.

There is no distinct compliance audit approach. We carry out management audits, which combine the performance and compliance approach and objectives, and jurisdictional audits, which focus on the audits of accounts.

References to the audit approaches (PA, CA, FA) are a matter of linguistics and culture. So, they do not always have to be referred to by terminology defined by INTOSAI.

We combine the compliance and financial audit approaches in one audit task to ensure that transactions comply both with accounting rules and rules set out by the legislator. The reason for this integrated approach is efficiency. We only issue one report for such tasks.

We only carry out performance and financial audits. There is no mandate (or mention of) addressing compliance issues in the law. Compliance aspects can be integrated into such audit work, and for performance auditing this depends on the audit questions (or subquestions) asked. The question of combined audits is rather unclear and not carried out per se. Performance audit is well prepared to address compliance issues anyway. Separate reports are issued for PA and FA, and compliance-based findings can be reported in our reports if necessary. As an example, this could concern inefficiencies caused by limitations enforced by existing regulation.

We appreciate the current split, which emphasises the three separate sets of standards. One has to accept that a wide range of combinations between the three main streams (and other areas of work

depending on the mandate) is possible. It may be great to have best practice guidance (examples of combinations at methodology level) on the INTOSAI community portal.

As an example, we have traditionally combined financial and compliance auditing, but – over time – had to add the auditing of performance information (a reflection on the relevance and accuracy of performance reporting), value-for money auditing (purely because in our current system there is no funding for stand-alone performance audits) and dimensions around newly amended legislation, which adds a number of jurisdictional responsibilities to our methodology.

ISSAI 400 suggests that when compliance and performance audit are done in combination, the standards that apply can be one, or the other, or both. What happens in practice? What challenges arise from following two sets of standards at the same time?

It is essential that auditors are skilled and have the necessary competence. This depends e.g. on the subject matter. In practice, a skilled auditor should be able to deal with the dilemma.

Performance and compliance audit can be combined. The audit questions asked can combine compliance and performance-oriented questions. Good preparation is critical for success. The internal guide integrates compliance and performance approaches. There were some difficulties in finding an optimal approach for certain elements, such as are subject matter issues. It is important to have experienced auditors.

We have our own methodology for combining the FA/CA approach, to facilitate the job for the auditors. Compliance issues are identified as part of the strategic risk process, and integrated into the planning and execution of individual tasks.

Compliance audit can also be carried out as part of a performance or financial audit task. We can combine CA/FA and PA/CA approaches. Staff is trained and understands the differences, and in such cases would follow the PA or FA standard as relevant. Such reports would also comment on noncompliance issues as necessary.

The auditor must have sufficient skills and be able to distinguish from the very start between two approaches (typically applies to combinations of PA and CA).

The approach to combining the approaches is basically a competency issue and an ability to deal with risks. In practice, once the auditors have identified noncompliance, they should look if the basis of this problem is linked to performance or is a result of rules in place. The risk is that if there are separate instructions/manuals for CA and PA, it is difficult to decide which approach applies (the CA and PA teams involved will each prefer “their” standards to apply). This is a problem because of the similarities between PA and CA pronouncements (estimated to address the same in 60 %).

There is no good answer to if a separate or combined approach is better. We still have to learn about the values of both approaches before we can answer this.

When deciding about an audit task that combines the approaches (PA/CA), planning is integrated, and one team of auditors addresses the planned issues, following the relevant set of pronouncements as necessary. The result is presented in one report with separate sections for PA and CA findings. Training is provided, and a technical team is there to assist auditors as needed. Only skilled auditors are involved when auditing complex issues.

One participant observed that the discussion reflects many practices that touch upon combining standards, reporting and different issues in one audit. The participant considered that compliance elements can be inherently built into a performance audit approach because of the flexibility PA allows for, and saw no need to observe ISSAI 4000 in that respect.

We do not combine audit approaches. To be more effective, when doing the financial audit you can come across risks that needs more time and resources to audit in a proper way. The SAI can decide if it is compliance or performance oriented risks. Depending on the development in the different areas in a country, it can sometimes be difficult to do either a compliance audit (where you have a poor legal system) or performance audit because the structures in society are not well developed. Sometimes it is better to first do a compliance audit because you use fewer resources, and after some years, you can follow up with a performance audit.

There has been no real answer to the issue of challenges experienced in doing combined audits and having to follow both sets of standards.

Are SAI mandates defined around the audit types? Or audit types around SAI mandates?

Participants mentioned the following approaches:

- legislation is rather new and refers specifically to audit types (performance and financial audit). Our experience is that older legislation does not refer explicitly to INTOSAI-defined audit types;
- the law mentions four types of mission for the SAI, none of which is specifically linked to compliance auditing;
- legislation is “problem-oriented”, addressing specific mandate issues (sound financial management, the just organization of administration etc.). It does not refer to audit types;
- legislation makes a general reference to public sector audit, not individual audit types;
- legislation makes a general reference to requirements of law, instructions and good auditing practice. The latter is related to AG standards and guidelines for audit work, which are based on international standards for public auditing;
- legislation specifically refers to audits of accounts and performance. Compliance is not addressed explicitly, but as an element of the audit of accounts;
- Compliance audit is not mentioned in legislation, but is recognized and referred to in SAI methodology.

Is SAI training organised around the three audit types? Do you have a specific compliance audit department or designated compliance auditors?

SAI departments are sector-oriented. All staff address compliance issues in their work as part of performance or financial audit work, and must know the applicable rules. Training of staff starts by focusing on compliance activities. Separate training modules are available to train staff on financial audit, IT audit etc..

There are no generalists for compliance auditing except for specialists on public procurement, the audit of which is based on compliance with rules. Separate training is organised for FA and PA, in which CA elements are embedded.

The SAI carries out all types of audit and does not combine the approaches. If non-compliance is identified in a performance audit, it could theoretically be reported upon, but is more likely to be noted as a basis for launching a separate compliance audit. Training is organised separately. There are

not specialised compliance auditors nor is there a compliance department, but compliance issues are addressed in public procurement audits.

Training is organised around the three audit types, but the structure of the office is specific. Each of the financial audit departments has a compliance audit section with compliance auditors.