



Minutes

Meeting of the INTOSAI Professional Standards Committee (PSC) Mexico City, 4 November 2007

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1. Welcome

1. Mr. Henrik Otbo, Auditor General of Denmark and Chair of the Professional Standards Committee (PSC), thanked the host of the meeting, the SAI of Mexico, and welcomed delegates and observers to the inaugural meeting of the PSC. He emphasized that this meeting is the first time the whole PSC – with its 67 members SAIs – meet.

2. Mr. Otbo then thanked the subcommittees of the PSC for their important and hard work. The work of each subcommittee is vital to the progress of the PSC and the future success of the PSC depends on the contribution of each individual subcommittee.

3. The delegates were informed that the PSC Steering Committee had held four meetings. Mr. Otbo thanked the SAIs of Norway, USA, Cameroun and Bahrain for their willingness to host the meetings. He furthermore thanked the SAI of Portugal for their cooperation and support as Goal Liaison of Goal 1. He referred to the paper from the SAI of Portugal which was distributed to all delegates prior to the meeting. The paper is attached to these minutes.

4. Finally the agenda for the meeting was presented and unanimously approved.

5. The agenda and the power point presentations used during the meeting are attached to these minutes

2. The Steering Committee's proposal "International Standards of Supreme Audit Institutions – INTOSAI's Framework of Professional Standards"

6. The PSC Chair made two presentations:

1. the proposal "International Standards of Supreme Audit Institutions – INTOSAI's Framework of Professional Standards"

2. the results of the survey that was conducted in 2006/2007.

7. The framework proposal has been presented to the INTOSAI Governing Board in 2006. After the Governing Board meeting, it has been distributed to all SAIs for comments. Following this consulting procedure, the PSC Steering Committee proposes that:

- "ISSAI" (International Standards of Supreme Audit Institutions) will be the name of all official INTOSAI documents on the role and functioning of SAIs.
- Documents offering guidance on the conduct of administrative authorities will be called "INTOSAI GOV" (INTOSAI Guidance for Good Governance).
- The ISSAI and INTOSAI GOV documents will be systematically numbered according to a set of classification principles. Each document has thus got an ISSAI or INTOSAI GOV number.

- The framework is web based. A new Web site www.issai.org has been launched to make INTOSAI's standards and guidelines easily available to auditors around the world.

8. The proposed framework proposal operates with four levels:

Level 1: Founding Principles –which is the Lima Declaration.

Level 2: Prerequisites for the Functioning of Supreme Audit Institutions. These documents state and explain the basic prerequisites for the proper functioning and professional conduct of SAIs.

Level 3: Fundamental Auditing Principles. These documents contain the fundamental principles in carrying out auditing of public entities.

Level 4: Auditing Guidelines – translate the fundamental auditing principles into more specific, detailed and operational guidelines that can be used on a daily basis for auditing tasks.

9. Level 4 will contain the implementation guidelines on financial auditing, performance auditing and compliance auditing which are developed by the PSC. Level 4 will also contain the guidelines and collections of good practices developed by the working groups of Goal 3 on auditing of international institutions, environment, privatisations, IT and public debt.

10. Mr. Otbo emphasized that the standards and guidelines of the framework are living documents. He asked the delegates for comments to the framework and as there were no comments, Mr. Otbo concluded that the framework could be presented to the Governing Board and the INCOSAI as it stands.

11. The Chair then went on to present the results of the survey on the needs and priorities in developing professional standards for SAIs: A total of 100 SAIs of all kinds from around the world have given answers on 3 main themes. ¾ use INTOSAI's auditing standards, often in combination with standards from IFAC and other sources to enhance quality and credibility in many different ways. The results of the survey shows that the SAIs agree to PSC's approach and find a need for specific guidance for SAIs. Public and private sector differs in the general purposes of the audit, the nature of accounts and activities, the reporting procedure and the auditor-auditee relationship. Compliance Auditing may also differ while financial auditing is more often alike and there are often no differences in the documentation requirements. There are many suggestions for new standards and guidelines. The guidelines are needed and should be further elaborated in all areas – especially on audit methods. A common format for existing guidelines and perhaps also quicker translations would be good.

3. The Mexico Declaration on Independence - results of the work of the Subcommittee on SAI Independence

12. The Chair of the Subcommittee, Ms Sheila Fraser, Auditor General of Canada, presented the results of the work of the Subcommittee on SAI independence.

Ms. Fraser emphasized on the basis of the Lima Declaration that SAIs can only be objective and effective if they are independent from the audited entity and are protected from outside influence. Since the Lima Declaration was approved in 1977, the subject of independence came up at a variety of INTOSAI events.

She informed the delegates that at the 44th meeting of the INTOSAI Governing Board, in Montevideo, Uruguay, a task force was established and was originally headed by Ms. Fraser's predecessor. The mandate of the task force was to examine the independence of SAIs and recommend ways to bring about realistic improvements in this area.

The task force on SAI independence completed its work and issued its final report on 31 March 2001. In its report, the task force presented eight core principles for dealing with SAI independence. In the report's preamble, the Chair reminded SAIs that they play an

important role in holding governments to account for the use of public funds and that they can provide independent views on the quality of public sector management. As the current Chair, Ms. Fraser reiterated that this is still the case, even more so today given the increasing public demand for oversight and accountability.

Ms. Sheila Fraser further informed the delegates that one of the task force's recommendations was that a subcommittee be established to promote SAI independence and to develop guidance for SAIs. In 2001, Ms. Fraser became Chair of this subcommittee, which was made up of the SAIs that were members of the task force: Austria, Antigua and Barbuda, Cameroon, Egypt, Portugal, Saudi Arabia, Sweden, Tonga, and Uruguay. The first thing the subcommittee was asked to do was take stock of the parameters around independence, while considering the different regimes and legal frameworks.

From 2001 to 2004, the subcommittee worked on application provisions (examples) that would illustrate what was meant by SAI independence. A survey was conducted to assess the degree of compliance by SAIs with the eight core principles. At the UN/INTOSAI seminar in Vienna, Austria, in 2004, the many heads of SAIs who were present discussed the independence of SAIs in detail.

Since the last INCOSAI, the subcommittee worked on four products:

1. The Charter on SAI independence (The Mexico Declaration on Independence)
2. Charter guidelines
3. A report on case studies
4. A report on a new awareness and communications program.

Ms. Fraser went on to inform the delegates that the report on the awareness and communications program was referred to India because of its responsibility for communications. The Report on case studies was used to prepare a more formal exposure of the Mexico Charter.

Over this period, the subcommittee spent much of its time consulting with SAIs representing the many types of SAIs. This consultation was very useful in drafting the Mexico Charter and its guidelines.

Ms. Fraser reported to the Chairman and the delegates that the subcommittee had completed its work and would present the following motion – included in the Subcommittee report) for Congress to approve the :

- Mexico Declaration on Independence (ISSAI 10)
- INTOSAI Guidelines and Good Practices Related to SAI Independence (ISSAI 11), and
- Results of Case Studies (Appendix to ISSAI 11A)

In light of the completion of the work, Ms. Fraser added that the report also included a motion for Congress to approve the dissolution of the PSC Subcommittee on SAI Independence.

In closing, Ms. Sheila Fraser thanked the members of the subcommittee, for their effort and dedication, as well as all SAIs that have contributed to the work.

13. Following her presentation, Sheila Fraser asked the delegates for comments.

14. Mr. David Walker, Comptroller General of the USA asked if principle 3 could be specified in terms of the exception that SAIs do not audit government policy. He argued that SAIs do in fact play an increasing role in the audit of government policy. Sheila Fraser argued that this development is not in conflict with what has been written in the Declaration. What is meant is that SAIs should not be commenting on or questioning policy.

15. Mr. Ahmed Al Baluchi from the SAI of Bahrain, referred to principle 6 and emphasized that SAIs and /or members of investigating committees are free to decide on the content of the audit reports. Sheila Fraser added that SAIs should be able to decide if they will take on an audit in the first place.

4. Project on transparency and accountability – main results and future work presented by the Project Chair – the SAI of France

16. Ms. Daniele Lamarque from the SAI of France presented the PSC project on Transparency and Accountability. The project members will in the coming years elaborate a framework of general principles. The basic chapters of the framework have been designed based on input from different SAIs and research of transparency and accountability in SAIs. The basic chapters were presented to the delegates at the PSC meeting.

17. Ms. Daniele Lamarque emphasized that the project members will work together with existing and future Subcommittees and working groups. One of the topics that will require coordination is how auditing institutions will account for their impact. In this connection, reference was made to the UN/INTOSAI Symposium on Values and Benefits of SAIs. Ms. Lamarque went on to focus briefly on the differences in methodology between the SAIs regarding transparency and accountability

18. She then summarized the objectives of the project:

- To propose a code of principles of transparency and accountability
- To present examples of good practice regarding transparency and accountability

19. Based on these tasks, the Chair of the Project informed the delegates that the intention is to extend the work of the small group and enlarge the project with more participants.

20. Ms. Daniele Lamarque concluded the presentation by appealing to everyone's good will in order to continue the work of the project group.

5. Financial Audit Guidelines Subcommittee (FAS) – main results and future work presented by the Subcommittee Chair - Sweden

21. Mr. Gert Jönsson from the SAI of Sweden presented the work of FAS. The presentation is attached to these minutes as annex 1. He emphasized that the task of FAS is to develop high quality guidelines. He informed the delegates that in order to develop these guidelines, FAS has initially focused on three issues:

- To develop a due process for the work, including the cooperation with the International Auditing and Assurance Standards Board (IAASB)
- To engage expert resources
- To communicate with all members of INTOSAI on a regular basis.

Mr. Jönsson then presented the due process including the Memorandum of Understanding with IFAC and reminded the delegates that the first practice note was approved by the INTOSAI Governing Board at their meeting in 2006. He went on to inform the delegates further about the use of experts and the communication activities.

22. More than 140 experts and back-office experts from over 70 SAIs are nominated. 40 experts have so far been involved in the different task-forces. All activities and documents of the FAS are displayed on the FAS website and a short up-date of the work is included in each issue of the INTOSAI Journal.

23. Mr. Jonas Hällström from the SAI of Sweden continued the presentation and informed the delegates that a total of 39 ISSAIs are planned up to the INCOSAI in 2010. Currently 9 ISSAIs are due to be approved by INCOSAI, 14 ISSAIs are in progress and 16 remain to be developed from 2008 to 2010. Each ISSAI will contain an ISA issued by the IAASB, a

Practice Note developed by two or more experts. Furthermore some general and INTOSAI specific ISSAIs will be developed without a related ISA.

24. Mr. Gert Jönsson presented the FAS' motion to the Congress. The Chair of FAS has suggested to the PSC Chair:

- That the Congress endorse the nine proposed ISSAIs to be included in the Financial Audit Guidelines.
- That FAS and the Governing Board are given the mandate to approve any conforming changes to and INTOSAI Financial Audit Guideline when the original guideline has already been endorsed by INCOSAI.

25. In addition he informed the delegates that FAS has raised the need to create a permanent organisation for the maintenance and continuous updating of the guidelines after 2010. This has been included in the proposal to the PSC mandate 2007-2010.

26. Mr. Gert Jönsson concluded the FAS presentation with some advice to the other Subcommittees. He recommended that a lot of effort is put into building a structure, contacts, communication and administrative procedures that work. For FAS it has been a good experience to use experts from different SAIs and an absolute necessity to have member SAIs that are prepared to do the hard work.

27. Finally, Mr. Jönsson very briefly presented a new brochure for FAS to the delegates.

6. Performance Audit Subcommittee (PAS) - main results and future work presented by the Subcommittee Chair - Brazil

28. Mr. Omir Lavinias from the SAI of Brazil presented the work of PAS. He started by emphasizing the hard efforts that have gone into establishing this Subcommittee. The Subcommittee was created at the initial meeting of the PSC Steering Committee, September 2005. The first meeting of PAS was held in Brasilia, August 8 and 9, 2006. At this meeting, the PAS prepared the Terms of Reference and Work Plan 2006-2008 through the contribution of all PAS members, Mr. Lavinias then presented the 14 member SAIs.

29. He informed the delegates that the objective of the Performance Audit Subcommittee is to promote the INTOSAI Implementation Guidelines for Performance Audit and develop and disseminate other guidance that may be needed by the INTOSAI community.

30. The PAS has in the past two years made contact with the IDI about their approach on performance audit training and how INTOSAI guidelines fit into that training. IDI and PAS will thus exchange information about needs and developments in the field of performance audit.

31. The PAS has also analysed the results of the PSC survey on the use of INTOSAI and other standards to identify key needs for additional guidance on performance audit. The main conclusion was that 64 SAIs identify needs for additional guidance on performance audit, but further information on scope and content is necessary. At present, the PAS is thus working on follow-up questions in order to conduct a "mini-survey" addressed to the 64 survey respondents in order to obtain more detailed information on the scope and content of the guidelines in question.

32. Mr. Lavinias informed the delegates that in 2007 – 2010, the PAS will:

- Carry out consultations in the INTOSAI community to follow up on the results of the survey report and further identify the needs for additional guidelines and training in the area of Performance Audit.
- Based on the results of these consultations, develop draft guidelines on applied qualitative and quantitative methods used on performance audits (ISSAI 3100). The guidelines will supplement the performance audit guidelines endorsed by INCOSAI in

2004. Areas that might be considered include topic selection, design, resourcing, audit scope, reporting and adequacy of audit evidence.

- Also use the results of the needs assessment related to performance audit for future capacity building interventions carried out by the IDI in 2007, in order to identify demands for training in the area in the different regions of INTOSAI.
- Based on results from tasks 1 and 3, contact will be made to the IDI and other agencies in order to propose the organisation of training actions in the field and request support for them.
- With PSC guidance, promote interaction with international co-operation agencies in order to make them aware of PAS availability to provide advice on the importance of performance audit, and to help SAIs develop the necessary skills.
- Meet again next year to prepare a more detailed work plan aiming at fulfilling the identified needs.

33. Following Mr. Lavinias presentation, Ms. Daniele Lamarque pointed out a confusion regarding performance audit and programme evaluation. She argued that evaluation is a specific step based on – among other methodological approaches – performance audit. She then invited PAS to engage in a consultation with the INTOSAI working group on programme evaluation in order to coordinate the drafting of guidelines.

34. The PSC Chair agreed that the issue should be considered further. Mr. Lavinias argued that confusion with programme evaluation is understandable and agreed with Ms Lamarque that there should be a consultation session between the PAS and the working group on programme evaluation in order to define what will be treated by the respective groups.

7.Compliance Audit Subcommittee (CAS) – main results and future work presented by the Subcommittee Chair - Norway

35. Mr. Kosmo, Auditor General of Norway and Chair of the Subcommittee on Compliance Audit presented the work of the Subcommittee. The CAS was established at the INCOSAI in Budapest in 2004 with an overall objective to develop guidelines for Compliance Audit. Mr. Kosmo emphasized that the Subcommittee is working out guidelines that must be adjusted to local circumstances.

36. Mr. Kosmo informed the delegates that draft guidelines on compliance audit related to audit of financial statements were presented to the PSC Steering Committee, April 2007. An adjusted version will be presented to the INTOSAI Governing Board in 2008. At the same time it has been decided that the guidelines should be part of a complete set of guidelines for compliance audit:

- ISSAI 4000: general introduction – overall view on compliance audit
- ISSAI 4100: compliance audit guidelines related to audit of financial statements
- ISSAI 4200: further guidance on compliance audit, e.g. as part of performance audit or as a separate audit type.

The complete set of guidelines will be presented to the INCOSAI 2010 for endorsement.

37. Mr. Kosmo told the delegates that the exposure draft on ISSAI 4100 would be presented to the Congress as a draft, translated into the five official languages. It had been submitted to all INTOSAI members for comments in the summer of 2007 and comments were received from 40 SAIs and other parties. Mr. Kosmo reported that many SAIs supported the draft and that some adjustment proposals should be addressed. Furthermore, reactions to the translations presented in Mexico could be used as input to the final version translations.

8. Subcommittee on Internal Control Standards – main results and future work presented by the Subcommittee Chair - Belgium

38. The Chair of the Subcommittee, Mr. Ignace Desomer presented the work of the Subcommittee on Internal Control Standards:

39. Mr. Desomer firstly outlined the achievements of the subcommittee during the reference period 2004 – 2007. Secondly, he briefly presented the document “Further information on Entity Risk Management”. Finally he elaborated on the subcommittee’s work plan for the coming period 2007 – 2010.

40. On the achievements of the Subcommittee on Internal Control Standards 2004-2007, Mr. Ignace Desomer informed the delegates that the reference period was used to examine how the Guidelines for Internal Control Standards for the Public Sector as approved at the 18th INCOSAI in 2004 could be elaborated and amplified. To get a better insight into this matter two surveys on the development of internal control tools and on aspects of good governance were organized among all INTOSAI members.

From the answers it became clear that there is a strong need for internal control tools and guidance on governance as well as a correct definition of some key notions such as corporate governance and audit committee.

41. Rather than creating new IC-tools and guidance on governance, the subcommittee decided to focus on making existing IC-tools and practices on good governance available to all SAIs through a page on INTOSAI PSC’s website.

42. In order to inform the INTOSAI members of new developments in the field of internal control, the subcommittee brought out an explanatory document providing further information on Entity Risk Management.

43. Mr. Ignace Desomer further informed the delegates that the subcommittee also used the reference period to prepare a Memorandum of Understanding with the Institute of Internal Auditors. The intended collaboration with the IIA is totally in line with the dual approach, adopted by the PSC, and with INTOSAI’s strategic plan which states that collaboration with other standard setting bodies should be amplified. The MoU between IIA and PSC was adopted by the PSC Steering Committee during his Bahrain meeting in April 2007 and was signed in the summer of 2007 by the PSC’s Chairman Mr. Otbo on behalf of INTOSAI and, for IIA, by its President, Mr. Richards.

44. He then reported that the collaboration with the IIA will start after the 19th INCOSAI. An action plan which will list actions, expected outcome and timetable is being elaborated. Preparatory discussions have already been held and all subcommittee members have been able to provide their input. Mr. Desomer expressed his appreciation for the excellent collaboration with the IIA representatives.

45. During the reference period the subcommittee also paid a lot of attention to the marketing of the Guidelines for Internal Control Standards for the Public Sector.

- all INTOSAI Regional Working Groups are striving to get the guidelines applied at the national level by translating into national languages, by propagating their use towards and with various government entities, especially ministries of Finance and by training government internal audit entities;
- representatives of the subcommittee presented and explained the guidelines at the IIA International Conference held in the Netherlands last July
- the guidelines were also introduced at several workshops set up by the European Commission which incidentally is considering the Intosai guidelines for internal control standards as being a leading reference.

46. At this point of the presentation, each delegate received a USB key from the Belgian Court of Audit. The USB key contains the Guidelines for Internal Control Standards for the Public Sector and the new document Further Information on Entity Risk Management in all

INTOSAI languages, as well as the papers of the European Union Contact Committee internal Control Seminar of June 2007.

47. Mr. Ignace Desomer the pointed to the main activity of the subcommittee which was its three-yearly meeting under the kind hospitality of the SAI of the Sultanate of Oman (January 2007). During this meeting the surveys on the development of internal control tools and on guidance on good governance as well as the ERM document and the draft MoU with IIA were presented and discussed. The meeting was prepared during a task force meeting in, February 2006 in Brussels. During the reporting period the Committee was joined by the SAI's of Brazil and South Africa. The Committee is now made up of 28 members.

Proposed new complement to the guidelines

48. As a next point in the presentation, Mr. Ignace Desomer briefly explained the new document "Further Information on Entity Risk Management"

49. The last few years there has been a significant shift towards a risk management implementation on the basis of the COSO Enterprise Risk Management (ERM) framework. The subcommittee has always considered the guidelines as a living document which means that it needs permanent developing and refining in order to embrace the impact of new developments in the field of internal control.

The subcommittee decided to work out a document explaining the relationship between the updated guidelines and the ERM model.

This document, elaborated by the British NAO – for which once again our sincere thanks – was submitted and discussed at the subcommittee meeting in OMAN and later on presented and accepted by the PSC Steering Committee in Bahrain in April 2007.

50. It provides a high level overview of the key features of the ERM model as well as links to the relevant detailed guidance.

There was a general agreement on the status of this document. It should especially aim at informing the INTOSAI members of new developments in the field of internal control. It does not change the guidelines for internal control standards for the public sector but can be considered as complementary additional information.

On the third point in his presentation, Mr. Ignace Desomer emphasized that with the work plan for the coming period 2007/2010 the subcommittee's objective is to promote and further develop the INTOSAI Guidance on internal control and on good governance.

The subcommittee will:

- Carry on its efforts to enhance the application of the Guidelines.
- More particularly focus on making existing internal control tools and guidance on good governance available to all SAIs through a page on PSC's website. The objective is to create an electronic platform in the short term. INTOSAI members will be asked to provide existing material in order to make it available on that platform. In doing so, an index will be developed and made accessible to everybody, including public managers.
- The subcommittee also will follow up on the newest internal control developments, e.g. the necessity for further elaboration of the paper on the COSO ERM model will be considered.
- In execution of the MoU with IIA, an action plan will be elaborated which will concretely list actions, expected outcome and timing of deliverables to support the MoU's intent.
- In the context of the PSC's dual approach and in collaboration with IIA, lines of communication with COSO will be initiated.

- The subcommittee will carry on its efforts in terms of marketing and implementation of the guidelines, both through the activities of the subcommittee itself and through monitoring and support of activities directed by other entities.

51. In the end of his presentation, Mr. Ignace Desomer thanked the members of the subcommittee for sharing their knowledge and experience in internal controls and for taking the time to make a contribution to the success of the subcommittee's activities. In particular, he thanked the SAIs of OMAN, the United States of America, of Lithuania and the United Kingdom and finally the SAIs of Germany, Bolivia and Kuwait for their excellent translation work.

52. A very special word of thanks went to the Court of Audit of the Netherlands. The Dutch Court of audit continuously brought an added value to the work of the subcommittee and offered very valuable advice. Mr. Desomer emphasized that the subcommittee on internal control standards is determined to continue the initiatives needed to give a permanent basis to the development of the concepts of internal control and good governance. The Belgian Chair would continue his efforts to help to achieve that objective.

9. Subcommittee on accounting standards and reporting – main results and future work presented by the Subcommittee Chair - USA

53. Mr. David Walker, Comptroller General of the United States and Chair of the Subcommittee presented the work of the Subcommittee on accounting and reporting.

54. Mr. Walker emphasized that the Subcommittee is the first one to go virtual in the sense that it does not have face-to-face meetings. The Subcommittee Chair has full rights to participate in the meetings of the Public Sector Accounting Standards Board (PSASB). He referred to the PSC Progress Report for details on the relevant standards but pointed out that two proposals were of broad-based strategic interest in regard to social benefits and insurances and long-term fiscal sustainability.

55. Mr. Walker emphasized that all members of INTOSAI has an opportunity to comment on the proposals from PSASB and he encouraged colleagues to a broader participation in commenting on a set of global accounting standards.

56. He concluded the presentation by presenting the plan for the coming 3 years, where the Subcommittee will:

- Continue to participate in IPSASB public sector standard-setting activities,
- Prepare periodic reports for the INTOSAI membership about current and planned activities,
- Encourage INTOSAI members to provide comments directly to the IPSASB on its Exposure Drafts and similar documents,
- Facilitate information exchange and knowledge sharing among SAIs.

57. Also, as the IPSASB considers the reporting of new types of information, such as long-term fiscal sustainability reporting and disclosure of future social benefit cash transfers, the Subcommittee will work closely with the other members of the Professional Standards Committee to proactively address any related financial auditing issues.

10. Mandate for PSC 2007-2010 - including elaboration of ISSAIs, the issue of maintenance and new project on audit quality - presented by the PSC Chair – Denmark

58. The Chair of the PSC, Mr. Otbo presented the proposed PSC mandate 2007-2010 to the delegates. He referred to the PSC Progress Report for the full mandate text and focused on two issues:

- The aim to provide a comprehensive set of ISSAIs by 2010, and
- The maintenance of the ISSAIs in the future

59. Mr. Otbo informed the delegates that the ambition for the PSC in the next 3 years is to develop a first comprehensive set of ISSAIs. In this sense, the period up to 2010 is a phase of development. One of the new ISSAIs that will also be included in the framework is the ISSAI on audit quality control that will be developed by a project group Chaired by the SAI of New Zealand.

60. Furthermore, it is a strategic goal of the PSC to present a proposal for a permanent structure and mandate for the continuous updating and improvement of the ISSAIs. He expressed the hope that the proposal can be approved by the next INCOSAI so the new process of permanent maintenance can take effect from 2010.

11. Any other business (PSC Chair - Denmark)

Finally, Mr. Otbo thanked the delegates and informed them that the next PSC Steering Committee meeting will take place in China in the autumn 2008.