

Project 2.6 Consolidated and Improved Guidance on Reliance on the Work of Internal Auditors

Status

Meeting of Subcommittee on Internal Control Standards
(27 - 28 September 2018)

Purpose of presentation: Information to proceed with 2.6

- 1) Overview Developments since ICS meeting 2017 (Brasilia)
- 2) Explanation of Current Draft PP 2.6
- 3) Concept Development: remaining main points of discussion:
 - 1) What will be our products (one or more GUID's)?
 - 2) What will be our intermediate deliveries after phase I?
 - 3) For the work on each delivery/Draft GUID: how to stay well in line with the applicable subcommittee (FAAS, PAS, CAS)?
 - 4) Team composition
 - 5) Content and planning for each delivery

Status update on project 2.6

- History project 2.6
- Project Proposal (present version)
- Who will contribute actively to project 2.6 ?
- Points of Discussion
- Recap of discussed items

History project 2.6

Strategic Development Plan (SDP) 2017-2019 (approved in December 2016, revised in November 2017)

2017

- ICS meeting Brasilia 6-7/06/2017
- FIPP minutes and Scoping Paper for project 2.6 (PSC Chair 28/09/2017)
 - Not ISSAI but GUID 'Subject Matter Specific Guidance' 5000-
 - Current pronouncements: no practical guidance, CA & PA, overlaps
 - 1) GUID 5000 or GUID 3000-4000?
 - 2) Consolidate valid provisions into "revised 9150" = GUID 5xxx
 - 3) Extend provisions to CA, PA, combA
 - 4) Detailing: assessment of adequateness of IA, use of work of IA, use IA in direct assistance
 - 5) Removing other pronouncements: GOV 9140 (communication with IIA)
 - 6) References to IA in iCAT mapping tool, OECD assessment methodology
- ICS Chair 31/10/2017 : Questions to FIPP LO
- FIPP LO 9/11/2017 : reply to our questions
- ICS Team meeting 9-10/11/2017
- Draft PP was made

History project 2.6

2017 (continued)

- PSC Chair 21/11/2017 (timeline project : possible to work in a yearly cycle, rather than in a 3 year cycle)
- ICS Chair 01/12/2017 : Invitation to ICS members to comment on draft PP
=> comments received from SAIs France, Romania, Russia

2018

- PP was amended based on comments
- ICS Chair 28/02/2018 : Amended PP & Annex to ICS members, FIPP Chair and LO
- FIPP 28/03 (7th FIPP meeting 23/03) : review of PP : comments/recommendations from FIPP
 - 1) Coordination with on-going SDP projects
 - 2) Focus on needs of SAIs and public sector auditors
 - 3) CA & PA
 - 4) Maintain GOVs 9140 & 9150 as INTOSAI public goods

Steps to be taken

 - 1) Seek support of Goal Chair
 - 2) Update 2016 Annex
 - 3) Re-shift scope of project
 - 4) Contact FAAS (update ISSAI 1610?), CAS, PAS

History project 2.6

2018 (continued)

- ICS Chair 17/04 : Invitation to ICS members to contribute to projects
- PP was amended based on comments/recommendations from FIPP 28/03
- ICS Chair 26/07 : revised PP to FIPP LO (based on comments/recommendations received from FIPP 28/03)
- FIPP LO 2/08 : comments on revised PP
- ICS Chair to FIPP LO 16/08 (questions we have)
- FIPP 4/09 (8th FIPP meeting 20-24/08)
- FIPP LO 04/09 : revised PP (v26/07) was informally reviewed and discussed during 8th FIPP's meeting

History project 2.6

2018 (continued)

- FIPP 4/09 (8th FIPP meeting 20-24/08) : review of PP : comments/recommendations from FIPP
 - Project phase 1: analysis of existing standards & guidance > scoping = Outline (issues to be addressed) of potential GUID
 - Project phase 2: further elaboration of issues related to CA & PA
 - Major concerns of FIPP
 - 1) Deliverables (GUID) serving all 3 audit types
 - 2) Quality processes: sharing Outline and draft Exposure Draft with FAAS, PAS, CAS
 - GUID: no overlapping with FA, CA, PA standards, but adding guidance, cf. Supplementary guidance for drafting GUIDs
How to audit in accordance with ISSAIs
Outline of draft GUID to be attached to PP
 - Appraisal of PP
 - B.2 Focus on CA & PA + FA direct assistance
 - B.5 Sharing Outline and draft Exposure Draft with FAAS, PAS, CAS
 - B.7 representatives of FAAS, PAS, CAS in project team
- PP was amended based on comments/recommendations from FIPP and FIPP LO 04/09
- Warsaw 27-28/09/2018 = present meeting ICS

Project Proposal (present version)

PART A: PROJECT IDENTITY

Description	Information						
Project number and title as per SDP	2.6 Consolidated and Improved Guidance on Reliance on the Work of Internal Auditors						
Working title(s) for the new pronouncement(s)	Guidance on reliance on the work of internal audit Based on FIPP 28/03 (focus on SAI)						
Project aim	To develop guidance to help Supreme Audit Institutions to rely on the work of internal audit						
Project objectives	To develop guidance to help Supreme Audit institutions to rely on the work of internal audit. The objective is to have a clear linkage between the treatment of internal auditors in the ISSAIs and the supporting GUID						
Project duration	4 years and 5 months (from August 2017 till January 2022; see Part B)						
Name of the lead WG	Subcommittee on Internal Control Standards (ICS)						
Key contacts	Name	Surname	Address	Email	Office Phone	Business Mobile Phone	Organization / Sponsoring SAI
Project Group lead	Pawel	Banaś	Poland	Plz add	Plz add	Plz add	SAI of Poland
Contact person for the goal chair	Plz add	Plz add	Plz add	Plz add	Plz add	Plz add	Plz add
FIPP liaison officer	Marita	Salgrāve	Latvia	Marita.Salgrave@lrvk.gov.lv	+371 67017596	+371 29408537	SAI of Latvia
Other anticipated project team members	Experts from SAI Belgium, SAI Netherlands, the GAO, SAI Austria and representatives of PAS (SAI Romania :) and CAS (SAI Russian Federation :) and also a representative of FAAS (.....) have been asked to join the team. Based on FIPP 28/03 and 24/08						

Project Proposal (present version)

PART B: PROJECT MILESTONES

Stage		Due process milestones			
1.	Project proposal	Start Date	End Date	Expected Time in Total	Comments
		16 August 2017	15 October 2018	14 months	
		N.B. Allow three months between end date of stage 1 and start date of stage 2 for FIPP approval of the project proposal			
2.	Exposure draft	Start Date	End Date	Expected Time in Total	Comments
		1 December 2018	31 August 2020	20 months	
		N.B. Allow three months between end date above and start date below for FIPP approval of the exposure draft			
3.	Exposure period	Start Date	End Date	Time in Total (not negotiable)	Comments
		1 December 2020	28 February 2021	3 months	
		N.B. Allow three months between end date of stage 3 and start date of stage 4 for FIPP approval			
4.	Endorsement version	Start Date	End Date	Expected Time in Total	Comments
		1 March 2021	30 June 2021	4 months	
		N.B. Allow three months between end date of stage 3 and start date of stage 4 for FIPP approval			
4.	Final pronouncement, including translation into all official INTOSAI languages*	Start Date	End Date	Expected Time in Total	Comments
		1 October 2021	31 January 2022	4 months	
		**"Unless other mechanisms have been established, the working group is responsible for translation of the approved endorsement version into the five official languages." (Due Process, page 9). Time must be allowed to obtain the required translations of the endorsement version(s).			

Project Proposal (present version)

PART C: INITIAL ASSESSMENT AND PROJECT PROPOSAL

N°	Initial assessment - Matters to be covered (Due Process, pages 6 and 7)	
C.1.	<p>Explanation of the need for the project</p> <p>Explanation of the purpose of the project</p> <p>Based on FIPP 24/08</p> <p>Based on FIPP 24/08</p> <p>Developed insights ICS 2015 - 2016</p>	<p>The need for the project was identified in the revised 2017-2019 Strategic Development Plan (SDP) approved by the INTOSAI Governing Board in November 2017. This project has been classified among priority 2 projects. The aim is to clarify the role of public sector internal auditors in the context of an audit by a SAI and to provide clear guidance on how SAIs can assess the internal audit function in terms of relying on the IA work - or involving IA in external auditing and monitoring the IA work in case of direct assistance - hence to provide clear guidance on how SAIs may use internal audit resources to raise overall audit efficiency and quality. Guidance on understanding the internal audit function is one of the requisites to understand how the SAI can – in the most effective and efficient way- make use of the work of the internal audit.</p> <p>This project should serve all three audit types: Financial Audit, Performance Audit and Compliance audit. Due to differences in context, different approaches are needed:</p> <p>For financial audit the most important guidance is already given in ISSAI 1610/ISA610 , which forms the baseline/standard that must be obeyed by each registered/chartered financial auditor. ISA 610 and ISSAI 1610 refer to the required independence, objectivity, expertise and quality assurance. The financial auditors of the SAI's will have to judge whether or not sufficient independence, objectivity, expertise and quality assurance is in place for the level and degree to which they want to make use of the work of the internal auditors. On this point relevant parts of INTOSAI GOVs 9140 and 9150, might be helpful. Certainly if the new guidance for assessing the usability of internal audit work is integrating the latest insights on assessment of internal audit maturity; the usability of the concept of the three lines defence; and the communication with those charged with governance for both internal and external audit. The product could be a guidance document in the IFPP range of GUID 5000 – 5999 (Subject specific guidance) or in the range of GUID 2900-2999 (Supplementary financial audit guidance).</p>

Project Proposal (present version)

N°	Initial assessment - Matters to be covered (Due Process, pages 6 and 7)	
C.1.	<p>Explanation of the need for the project</p> <p>Explanation of the purpose of the project</p> <p>Based on FIPP 24/08</p>	<p>For performance audit the situation is completely different. Within the project group there is at present no information available on this specific issue. We have no knowledge of any literature or any experience of SAIs using the work of internal auditors (as such) for their performance audit. ISSAIs 3000 and 3100 don't mention the possibility of the usage of studies or work performed by third parties. ISSAI 3200 does mention the existence of studies or audits already performed by third parties, but then as an indicator to not (also) audit that object, see para 20 "Similar studies covering similar objectives may already have been conducted by other institutions"; para 21 "It is important that the auditor weighs the costs of obtaining information against the additional value of the information to the audit.", and para 23: "Past evaluations and audits are often a useful source of information. They can help avoid unnecessary work in examining areas that have been under recent scrutiny (...)". With the request for possible guidance on usage of the work of internal auditors for performance auditing, INTOSAI hence steps into a new until now unexplored area.</p> <p>Hence we propose to first perform a literature study, to identify and contact key players and to perform a survey among a representative number of INTOSAI members to find out if there is any knowledge or experience available and/or to what extent any guidance on this area is needed in their view. The outcome of this exercise might define the next steps to be proposed.</p> <p>For compliance auditing the situation depends on the question whether or not this audit is combined with a financial audit. If it is, the same approach is needed as described above for the financial audit. If it is not combined with a financial audit, then the situation is the same as described for performance audit.</p> <p>This approach would result, by the end of phase 1, sharing an Outline of the proposed GUID with competent INTOSAI bodies.</p>

Project Proposal (present version)

N°	Initial assessment - Matters to be covered (Due Process, pages 6 and 7)	
C.2.	Description of the categories of auditing or other engagements that will be covered by the new pronouncement(s)	In the first phase of the project (until 2019) focus will be on new insights and developments in the area of Financial Auditing and on an initial assessment of the extent to which ISA 610/ISSAI 1610 might be useable as guidance in the field of Performance Auditing and Compliance Auditing, while further elaboration of the issues related to Compliance Auditing and Performance Auditing will be done in the second stage (after 2019).
C.3.	Description of different types of SAIs / audit engagements that must be accommodated in the new pronouncement	Audit engagements in which cooperation with and/or reliance on the work of the internal audit function (IAF) might be a possibility, whether this is in financial auditing, compliance auditing or performance auditing.
C.4.	Challenges, if any foreseen, that would have to be managed by SAIs in implementing the new pronouncements	<p>One of the challenges we can foresee is that SAIs may have to convince the management and the internal audit functions of the audited organisations about the benefits of the intended cooperation between SAIs and IAIs in financial auditing, compliance auditing and performance auditing</p> <p>Another challenge could be accommodating the new pronouncements to the national public sector auditing framework, in particular any national regulations concerning the relationship between SAIs and IAIs.</p>

Project Proposal (present version)

N°	Initial assessment - Matters to be covered (Due Process, pages 6 and 7)	
C.5.	<p>Explanation of how consistency with ISSAI 100, other existing ISSAIs and other professional pronouncement(s) will be ensured</p> <p style="text-align: center;">Based on FIPP 24/08</p>	<p>It is important to avoid problems of overlapping and contradictions between IFPP projects and pronouncements. In order to remain in alignment, also with ongoing SDP-projects we will coordinate, and if necessary will seek to reach clear agreements on scopes of pronouncements, with other subcommittees/working groups, in particular FAAS, CAS and PAS. This will be done by means of contacts of the project leader of 2.6 with the Goal Chair, the FIPP Liaison Officer and with the other SDP project leaders. Secondly representatives of FAAS, CAS and PAS will be invited to join or cooperate on working team level. Thirdly we will keep eyes and ears open to detect any new relevant issues relating to existing ISSAI or to the development of ISSAI by any other SDP working group.</p> <p>Next to that we should also bear in mind that developments of ISA by IFAC/IAASB are important for the IFPP. One of the important pronouncements to be aligned with is ISA 315 which is under review at the moment – this will have an impact on the contents and timing of our pronouncement. ISA 315 is the IFAC-standard on which ISSAI 1315 is based and contains the requirements for the auditor's risk assessment, based upon the auditors understanding of the business and internal control of the entity to be audited. Changes in these requirements affect the audit approach and the way the auditor can make use of the work of the internal audit. If in the new ISA 315 the requirements for the auditor's attention to certain risks are enhanced, then this will also affect the activities the auditor will have to deploy to assess the activities of internal audit in relation to these risks .</p>

Project Proposal (present version)

N°	Initial assessment - Matters to be covered (Due Process, pages 6 and 7)	
C.6.	<p>Explanation of the extent to which it will be possible and desirable to build on pronouncements from other internationally recognized, regional or national standard-setters and, if so, the extent to which supplementary pronouncements are needed to provide clarity on new pronouncement</p>	<p>Prior to initiating its pronouncement development activities, ICS will perform research to identify existing relevant guidance that may have been developed by other organizations on this topic.</p>
C.7.	<p>Explanation of organisation of the project describing how project group members will be drawn from relevant sub committees/ working groups/ other interested parties</p>	<p>A project team composed of ICS members will be formed to carry out the project. Representatives of FAAS, CAS and PAS will be requested to join or cooperate.</p> <p style="text-align: center;">Based on FIPP 28/03 and 24/08</p>

Project Proposal (present version)

Nº	Project proposal – Matters to be covered (Due Process, page 7) ²	
C.8	Explanation of the outcome of the project specifying how existing professional pronouncements may be affected.	Apart from ISSAI 1610, other pronouncements are not foreseen to be affected. If we discover contents that might affect other professional pronouncements we will contact the respective teams.
C.9	Explain the quality processes that will be applied in the drafting process (see Due Process, page 7 and 8) along with the parties that the project group will consult and engage with.	<p>The project team plans to apply the following quality processes:</p> <ul style="list-style-type: none"> - The project team will include auditors that are highly experienced at evaluating internal audit. - The project team will include expertise on financial, performance and compliance auditing. - The project team will consider existing guidance on this topic and will identify the specific needs of Supreme Audit Institutions in their relation with the internal audit function. - The project team will adhere to the Due Process for INTOSAI Framework of Professional Pronouncements. <p>Since the outcome of project 2.6 has in principle meaning for the work of FAAS, PAS and CAS, representatives of those committees will be part of the team, and next to that the relevant milestones, like the Outline to be developed and later the Exposure Draft, will be shared with these committees.</p>

Based on
FIPP 24/08

Project Proposal (present version)

PART D: AUTHORITIES

PERSON	NAME	SURNAME	DATE	SIGNATURE
Project leader	Mr. Banaś	Pawel		
Responsible Goal Chair	Mr. Torres	Rafael Lopes		

Who will contribute actively to project 2.6 ?

- a) Which ICS members ?
- b) Any representatives of other SC (FAAS, CAS, PAS) ?
- c) Any involvement of The IIA ?

Points of Discussion

The aim is to provide guidance on how SAIs can assess the internal audit function in terms of relying on the IA work or involving IA in external auditing and monitoring the IA work in case of direct assistance.

This can be the case for Financial Auditing (cfr ISSAI 1610), but probably also for Performance Auditing and Compliance Auditing.

Based on the information we have at this moment, we have the following issues:

Points of Discussion

1. As for financial audit : (to be discussed also with FAAS representative)
 - a) Would it be enough to refer to ISSAI 1610 ?
 - i. What about the present (ongoing) revision of the PN to ISA 610?
 - ii. Which elements in PN will be kept in ISSAI 1610 and which need to be in new GUID?
 - b) Is there a need for additional GUID ?
 - i. Subject of the GUID : on direct assistance only or more?
 - ii. What are the key elements on direct assistance to be developed in GUID?
 - c) What is the Role of the ICS versus FAAS (as there already exists ISA 610 PN)?

Points of Discussion

2. As for Performance Auditing and Compliance Auditing
 - a) Any existing standards or experiences of ICS members and CAS & PAS?
 - b) Subject to discussion: approach for developing GUID?
3. What are the implications of the revision ISA 315 for project 2.6 ?

Points of Discussion

4. Content of the GUID

- a) Which parts/elements of GOVs 9140 & 9150 in new GUID?
- b) Knowledge of any other relevant documents useful in developing the GUID?
- c) Which parts/elements of ISA 610 / PN (=FA) can be useful in new GUID for CA and PA-aspects ?

Points of Discussion

5. Final Product

- a) Outline of GUID > GUID
- b) is it 1 GUID: GUID 5000 (FA-CA-PA) or 3 GUIDs: GUID 2000-3000-4000 (FA, PA, CA)?

6. Timing and division of tasks for project implementation

Points of Discussion

7. Results of the discussion on the issues = amended PP & draft Outline of GUID
8. what about GOVs 9140 & 9150 ?
 - a) Further developing of GOVs 9140 & 9150 as INTOSAI public goods, outside IFPP ?
 - b) Withdrawal of GOV 9140 and/or 9150 (cf. FIPP 2017)?

Recap of discussed items