

Interpreting the ISSAIs

A discussion paper
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INTOSAI
PSC

Professional
Standards
Committee

INTERPRETING THE INTERNATIONAL STANDARDS OF SUPREME AUDIT INSTITUTIONS (ISSAIs) – A DISCUSSION PAPER FROM THE PSC SECRETARIAT

Background

The Professional Standards Committee – Steering Committee (PSC-SC) agreed at its meeting in May 2018 to change the FIPP’s Terms of Reference to remove its responsibility and obligations for interpreting ISSAIs¹. This means that there is currently no authoritative body responsible for interpreting standards within the INTOSAI organisational structure².

This paper seeks to explore the issue and make recommendations on the way forward. It will then serve as a basis for discussion by the PSC at its 2019 Steering Committee meeting. The analysis covers interpretation of the standards within the Framework of INTOSAI Professional Pronouncements (IFPP): the “red box” in the standard diagram.

Why the need for interpretation

The need for interpretation can arise in respect of:

- uncertainty about whether the requirement of a standard applies to a given scenario, particularly developments which were not foreseen when the standard was produced;
- how a particular requirement of a standard should be applied, notably when there may be an apparent choice of different courses of action; and
- actual or potential misunderstandings due to a lack of clarity in the way the standard is drafted.

The ISSAIs are - or are in the process of becoming - principles-based. This means they set out what should be achieved (or taken account of), rather than detailed instructions about how to do so. This simpler and more abstract approach should reduce the risk of misunderstanding, and thereby requests for interpretation.

The need for interpretation inevitably reflects a lack of clarity. The issues they raise should therefore feed into updating or improving the content and/or wording of the standards, and be taken into account when defining projects for inclusion in the IFPP Strategic Development Plan.

In parallel, there may be the need to provide ad hoc clarity on a particular issue. This should be done at a sufficient level of authority, and made available alongside the standard concerned, until it is updated. Other communication initiatives may be needed to bring interpretations to the attention of the INTOSAI community, for example by inclusion on the PSC website, particularly if they concern a material issue.

¹ Thereby amending the FIPP terms of reference in paragraph 4.1, where FIPP was allocated the responsibility for “providing answers to questions on the status and interpretation of the ISSAIs ...”

² The meeting resolved that, “... for the next PSC-SC meeting, the PSC chair will prepare a proposal for best addressing questions on the interpretation of the ISSAIs”.

Scope of recent requests for interpretation

Data on the exact number of requests for interpretation or clarification made to INTOSAI bodies over recent years is not easily available. Not all INTOSAI bodies systematically register such queries, and users of standards seeking an immediate answer are more likely to consult their immediate surroundings rather than contacting the responsible INTOSAI working body.

The PSC secretariat asked its subcommittees (and IDI) for data on the nature and number of requests for interpretation they had received over the previous three years. Apart from some requests for clarification and general advice³ made to the PAS on the ISSAI 3000 series, there were no instances of requests for interpretation of standards. The IDI frequently receives requests about standards. However, these mostly relate to issues about becoming ISSAI-compliant, rather than on interpretation of their meaning or application.

A real need to interpret standards?

The IFPP contains the authoritative pronouncements of the INTOSAI Community, and as such comprises INTOSAI's official material on audit-related matters.

The key question that needs addressing is whether INTOSAI should be seeking to provide interpretations of the ISSAIs at all.

Although the IFPP does not specify how to audit in detail, it does establish broad principles to serve as a basis for INTOSAI members to develop and apply audit practices and policies consistent with the underlying requirements of the framework. To this end, the IFPP contains two practical means to aid interpretation:

- 1) **ISSAI 100** "Fundamental Principles of Public Sector Auditing" is the heart of the framework and defines different ways for SAIs to choose to implement the ISSAIs, by either: applying national or other auditing standards that are fully consistent with ISSAI 100; by developing individual auditing standards based on the ISSAIs; or by applying the ISSAIs directly in their audits.
- 2) **GUIDS** are designed to support the implementation of the ISSAIs through specific, detailed and operational guidelines. GUIDS have the additional benefit of only being able to enter the framework through Due Process, thereby ensuring their quality.

Implementation of a principles-based framework, such as the "red box" section of the IFPP, requires auditors to use informed professional judgment - based around their skills, experience and knowledge of what the standards are aiming to achieve - to apply them to the particular circumstances of the audit. The nature of the audit process means that this judgement is unlikely to be challenged by auditees or other stakeholders.

In addition, all draft pronouncements in the IFPP have to undergo a rigorous due process, with all pronouncements in the framework being subject to a comprehensive consultative process, and level of scrutiny, prior to their approval. This may have involved interacting with outside sources that practitioners may wish to consult, such as:

³ For instance on the relationship between performance and compliance audit. This is clearly clarification, i.e. making something easier to understand, as opposed to interpretation, which is an explanation or opinion on what something means.

- statutes, regulations, legal decisions in relation to audit matters;
- Interpretations (of various levels of authority) issued by professional or regulatory bodies;
- widely-recognised general practice;
- literature on audit.

How other standard setting bodies deal with interpretation

The Institute of Internal Auditors (IIA)

In response to a fairly regular level of queries on the interpretation of their principles-based standards⁴, the IIA introduced the concept of "Implementation Guides" several years ago. They now attach them to each of their standards.

Implementation Guides focus on the IIA's approach and methodologies set out in the respective standards, but do not go into detail on processes or procedures. They include practices relating to international, country, or industry-specific issues; specific types of engagements; and legal or regulatory issues⁵. Practitioners asking questions on interpretation are referred to the Implementation Guides.

Comparison with INTOSAI

To some extent, the current arrangements of INTOSAI mirror those of the IIA.

INTOSAI's Guidance pronouncements (GUIDs) support auditors in applying the ISSAIs in practice to the three audit types, to other engagements and in understanding specific subject matter situations. This would seem to encompass largely the areas covered by the IIA's Implementation and *Practice Guides* (although, unlike the IIA standards, currently not all INTOSAI standards are accompanied by a GUID).

IFAC

The International Auditing and Assurance Standards Board (IAASB) sets international auditing and assurance standards. In 2009, it finalised a programme to enhance the clarity of its International Standards on Auditing (ISAs). Known as the Clarity Project, this programme involved the application of a drafting convention to all ISAs⁶, either as part of a substantive revision or through a limited redrafting to update the text for the new convention or clarity more generally.

Among the improvements arising from this project was a new structure for the ISAs, in which information is now presented in separate sections:

- **Introduction** (purpose, scope, and subject matter of the ISA and responsibilities of the auditors);
- **Objective** (objective of the auditor in the audit area);
- **Definitions** (definitions of applicable terms);
- **Requirements** (Each objective is supported by clearly stated requirements); and
- **Application and Other Explanatory Material** (to explain what a requirement means or to give examples of procedures).

⁴ International Standards for the Professional Practice of Internal Auditing

⁵ The IIA also produces *Supplemental Guidance* (Practice Guides) which do provide detailed processes and procedures for internal audit practitioners.

⁶ As well as to International Standard on Quality Control 1 (ISQC 1).

Finally, an interesting practice by the IAASB is to issue a *Basis for Conclusions* for each ISA. These documents provide background information, main comments received on the exposure drafts, and the IAASB's conclusions regarding these comments when finalising the standard. This information may help practitioners understand more about the significance of, and reasoning behind, the content.

Comparison with INTOSAI

INTOSAI also has drafting conventions for use when preparing its auditing guidelines⁷. However, they date from 2013 and need updating to take into account the new IFPP.

Principles involved in interpreting standards

A number of principles need to be followed when interpreting INTOSAI standards:

- consistency with ISSAI 100, and across the IFPP;
- provided by experienced practitioners in the subject matter concerned, and based on best practice;
- likely to be widely acceptable to the INTOSAI community; and
- easily and transparently available to the INTOSAI community.

Standards or GUIDs are normally prepared by, and remain under the responsibility of, the INTOSAI working group dealing with the subject matter. As working groups comprise experienced practitioners with knowledge of best practice, they are able to play a key role in interpretation. It is also likely that they would be aware of what would - and crucially what would not - be widely acceptable to the INTOSAI community. Furthermore, they can help feed the issues raised back into the standard setting process

The PSC or other Goal Chair, as the governance body of the subcommittees, would aim to ensure overall consistency. However, this may entail more meetings of the subcommittees to allow time for dealing with interpretation issues.

The best place to make interpretations readily available is to publish them on the ISSAI web site, managed by the PSC Chair.

Conclusions

The number of requests for interpretation of ISSAIs in recent years made to the PSC has been negligible. The IDI has received a higher volume of requests, but aimed more towards assessing an SAI's compliance with the standards in the framework.

The new IFPP is still under development, and thus it is not possible to estimate likely future needs for interpretation. The new framework nevertheless can rely on a number of procedures in due process, which ensure that all draft pronouncements undergo public and specialised stakeholder scrutiny for clarity.

The clarity of new pronouncements is underpinned by the Strategic Development Plan which sets out a common path for working groups to contribute towards a high quality set of

⁷ Drafting conventions for Auditing Guidelines and key terms for public sector auditing, PSC Steering Committee, August 2013 adopted by adopted at INCOSAI in November 2013.

standards for public sector auditing accompanied by clear and consistent INTOSAI guidance (GUIDs) to support their implementation. The SDP is also a mechanism to enable requests by users for clarification on specific issues, to be included as specific projects, if so merited.

By way of comparison, the IIA and the ISSAB do not provide direct interpretation of standards. Instead, they have built into their standard-setting processes devices to allow practitioners to understand the reasoning behind, and practical implementation of their standards.

Recommendations

In the light of these considerations, it is our proposal that INTOSAI does not presently (re)create a specific structure for interpreting its auditing standards.

Nevertheless, the PSC will continue to monitor the situation (notably the nature and volume of requests) and assess whether specific arrangements, following the principles set out in page 4, are required. In that case, the PSC Chair will submit a concrete proposal in that regard to the PSC-SC.

In addition, the PSC will continue to explore flexible and dynamic alternative ways to make available to auditors information on the implementation of INTOSAI standards, and encourage SAIs to identify issues that would need further clarification through a feedback mechanism into the standard setting process. Continued engagement with the IDI on the development of handbooks on the different types of audit may go some way to meeting this need.

The PSC Chair thus asks the Steering Committee to support the recommendation NOT to create a specific structure for interpreting INTOSAI auditing standards at this time.