

Level 1 – Founding Principles

ISSAI 1 – The Lima Declaration

Section 1. Purpose of audit

The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent--or at least render more difficult--such breaches.

Section 2. Pre-audit and post-audit

1. Pre-audit represents a before the fact type of review of administrative or financial activities; post-audit is audit after the fact.
2. Effective pre-audit is indispensable for the sound management of public funds entrusted to the state. It may be carried out by a Supreme Audit Institution or by other audit institutions.
3. Pre-audit by a Supreme Audit Institution has the advantage of being able to prevent damage before it occurs, but has the disadvantage of creating an excessive amount of work and of blurring responsibilities under public law. Post-audit by a Supreme Audit Institution highlights the responsibility of those accountable; it may lead to compensation for the damage caused and may prevent breaches from recurring.
4. The legal situation and the conditions and requirements of each country determine whether a Supreme Audit Institution carries out pre-audit. Post-audit is an indispensable task of every Supreme Audit Institution regardless of whether or not it also carries out pre-audits.

Section 3. Internal audit and external audit

[...]

Section 4. Legality audit, regularity audit and performance audit

1. The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and of accounting.
2. In addition to this type of audit, which retains its significance, there is another equally important type of audit--performance audit--which is oriented towards examining the performance, economy, efficiency and effectiveness of public administration. Performance audit covers not only specific financial operations, but the full range of government activity including both organisational and administrative systems.
3. The Supreme Audit Institution's audit objectives--legality, regularity, economy, efficiency and effectiveness of financial management--basically are of equal importance. However, it is for each Supreme Audit Institution to determine its priorities on a case-by-case basis.

Level 3 – Fundamental Auditing Principles

ISSAI 100 - INTOSAI Auditing Standards - Basic Principles

ISSAI 100/6

The basic principles are:

- a). The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those

organised as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality (see paragraph 8).

b). The SAI should apply its own judgement to the diverse situations that arise in the course of government auditing (see paragraph 15).

c). With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively (see paragraph 20).

d). Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information (see paragraph 23).

e). Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets (see paragraph 25).

f). Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations (see paragraph 28).

g). The existence of an adequate system of internal control minimises the risk of errors and irregularities (see paragraph 30).

h). Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (see paragraph 32).

i). All audit activities should be within the SAI's audit mandate (see paragraph 34).

j). SAIs should work towards improving techniques for auditing the validity of performance measures (see paragraph 45).

ISSAI 200 - INTOSAI Auditing Standards – General Standards

ISSAI 200/1.1.-1.35 General Standards in government auditing

ISSAI 200/1.2:

The general auditing standards are that the SAI should adopt policies and procedures to

(a) Recruit personnel with suitable qualifications (see paragraph 1.3).

(b) Develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff (see paragraph 1.5).

(c) Prepare manuals and other written guidance and instructions concerning the conduct of audits (see paragraph 1.13).

(d) Support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and

have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 1.15).

(e) Review the efficiency and effectiveness of the SAI's internal standards and procedures (see paragraph 1.25).

ISSAI 200/2.1- 2.46 Standards with ethical significance

ISSAI 200/2.1:

The general auditing standards include:

- (a) The auditor and the SAI must be independent (see paragraph 2.2).
- (b) SAIs should avoid conflict of interest between the auditor and the entity under audit (see paragraph 2.31).
- (c) The auditor and the SAI must possess the required competence (see paragraph 2.33).
- (d) The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 2.39).

ISSAI 300 - INTOSAI Auditing Standards - Field standards

ISSAI 300/0.3:

The field standards applicable to all types of audit are:

- (a) The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner (see paragraph 1.1).
- (b) The work of the audit staff at each level and audit phase should be properly supervised during the audit; and documented work should be reviewed by a senior member of the audit staff (see paragraph 2.1).
- (c) The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control (see paragraph 3.1).
- (d) In conducting **regularity** (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting **performance** audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions.

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the SAI is to make sure, by all the means put at its disposal, that the State budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the financial obligations of the State. To achieve this objective the SAI will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge" (see paragraph 4.1).

(e) Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit (see paragraph 5.1).

(f) In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements (see paragraph 6.1).

ISSAI 400 - INTOSAI Auditing Standards - Reporting standards

ISSAI 400/7:

The reporting standards are:

(a) At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.

(b) It is for the SAI to which they belong to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

With regard to regularity audits, the auditor should prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations. The report should contain a statement of positive assurance on those items tested for compliance and negative assurance on those items not tested.

With regard to performance audits, the report should include all significant instances of non-compliance that are pertinent to the audit objectives.

With regard to regularity audits, the auditor should prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations. The report should contain a statement of positive assurance on those items tested for compliance and negative assurance on those items not tested.

With regard to performance audits, the report should include all significant instances of non-compliance that are pertinent to the audit objectives.

The following paragraphs explain reporting as an auditing standard. Paragraph 8 relates both to opinions and reports, paragraphs 9 - 20 relate to opinions and paragraphs 21 - 26 to reports.