

INTOSAI



Compliance Audit Standard

EXPOSURE DRAFT

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INTRODUCTION

1. Professional standards and guidelines are essential for the credibility, transparency, quality and professionalism of public-sector auditing. The International Standard of Supreme Audit Institutions for Compliance Auditing (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aims to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their mandates and with national laws and regulations.
2. The Fundamental Principles of Public-Sector Auditing (ISSAI 100) defines the purpose and authority of ISSAIs and the framework for public-sector auditing. The Fundamental Principles of Compliance Auditing (ISSAI 400) builds on and further develops the fundamental principles of ISSAI 100 to suit the specific context of compliance auditing. ISSAI 4000 is the International Standard for Compliance Auditing and should be read and understood in conjunction with ISSAI 100 and ISSAI 400.
3. ISSAI 4000 provides requirements for the professional practice of compliance auditing followed by explanations in order to enhance the clarity and readability of the standard.
4. Requirements contain the minimum content necessary for high quality audit work. They point out what is expected of the auditors in performing their work and to stakeholders¹ what they can expect from the auditors work. ISSAI 4000 uses the term 'the auditor' with the same meaning as in ISSAI 100. Where it is relevant – e.g. where institutional issues are involved - reference is also made to the Supreme Audit Institution ('the SAI'). Requirements are "shall" statements presented in bold.
5. Explanations contain clarification on the meaning of the requirements, including underlying concepts, and the rationale behind the requirements and the reasons for the application. Explanations describe in more detail what a requirement means or is intended to cover.
6. ISSAI 4000 is structured largely in the same order as ISSAI 400 and consists of four sections:
 - a) The first section establishes the authority of the International Standard for Compliance Auditing and how Supreme Audit Institutions (SAIs) can refer to it in the audit reports.
 - b) The second section defines compliance auditing and its objectives, as well as the principles underlying the concept of compliance.
 - c) The third section consists of general requirements for compliance audit. These requirements shall be considered prior to commencement and throughout the audit process.
 - d) The fourth section contains requirements related to the main stages of the audit process itself.
7. Public sector audits involve at least three separate parties: the responsible party, the auditor and the intended user(s).
 - a) The responsible party is the executive branch of central or local government and/or its underlying hierarchy of public officials and entities responsible for the management of public funds and/or the exercise of authority under the control of the legislature. The responsible party in compliance auditing is responsible for the subject matter or the subject matter information of the audit (ISSAI 400/37).
 - b) The auditor aims to obtain sufficient appropriate audit evidence in order to arrive at a conclusion to enhance the degree of confidence of the intended user, other than the responsible party, about the measurement or evaluation of a subject matter against criteria (ISSAI 400/35).
 - c) The intended user(s) are the individuals, organizations or classes thereof for whom the auditor prepares the audit report. In compliance auditing the users generally

¹ The term stakeholder is defined in this document as in ISSAI 12/3; a person, group, organization, member or system that can affect or can be affected by the actions, objectives and policies of government and public sector entities.

include the legislature as representatives of the people, who are ultimate users of compliance audit reports. The intended user(s) can also be superior and governing entities or bodies of the responsible party. The primary user in compliance auditing is often the entity that issued the authorities identified as audit criteria (ISSAI 400/38). In nations with SAIs with jurisdictional powers the public prosecutor is also an intended user.

8. The auditor considers the risk of fraud and thereby promotes good governance. Fraud is an intentional act of misrepresentation and is by nature, an element which counteracts transparency, accountability and good stewardship.

For compliance audits when conducted by SAIs with jurisdictional powers

9. The ISSAI also includes requirements and explanations for compliance audits when conducted by SAIs with jurisdictional powers.

10. Because of the jurisdictional status conferred on SAIs with jurisdictional powers, such SAIs has the power to exercise judgement and decisions over the accounts and over responsible persons. For these SAIs there are additional requirements and explanations related to the different parts of the audit process.

11. SAIs with jurisdictional powers follow the audit process as it is described in these standards. However, following the planning, performance and evidence gathering phases, there may be additional and specific issues that may lead to opening the process of instructions and to a final formal judgement.

12. SAIs with jurisdictional powers that have the authority to enforce sanctions should comply with the basic principles of the rule of law, justice, equality, proportionality, due process of law and public audience and full guaranties of a fair trial and subject to specific rules and regulations and in accordance with applicable jurisprudence of international courts of human rights.

13. Compliance auditing may also lead SAIs with jurisdictional powers, to pronounce judgments and sanctions on those responsible for managing public funds and assets. Such SAIs may assess whether responsible persons may be held liable for the loss, misuse or waste of public funds or assets and subject to sanctions or penalties.

14. Some SAIs is mandated to refer facts liable to criminal prosecution to the judicial authorities. In this context, the objective of the compliance audit may be extended, and the auditor should take due account of the relevant specific requirements when devising the audit strategy or planning and throughout the audit process.

AUTHORITY OF THIS ISSAI

15. This document provides the International Standard for Compliance Auditing for those SAIs choosing to make direct reference to international standards for their work. According to ISSAI 400/8-9, SAIs wishing to make reference to the ISSAI framework relating to compliance audits can do so in two ways:

- a) option 1: by developing a national authoritative standard that is consistent with the Fundamental Principles of Public Sector Auditing (ISSAI 100) and with the Fundamental Principles of Compliance Auditing (ISSAI 400), or
- b) option 2: by making direct reference to the International Standard for Compliance Auditing, (i.e. this document).

16. Under option 1, INTOSAI recognises that SAIs have contrasting mandates and work under different conditions. Due to the varied situations and structural arrangements of SAIs, not all auditing standards or guidelines may apply to all aspects of their work. National standards can achieve the principles of ISSAI 400 in different ways, given the national mandate, constitutional and other legal environment or the strategy of the SAI.

17. SAIs have the option of developing authoritative standards that are consistent with the Fundamental Principles of Public Sector Auditing (ISSAI 100) and of Fundamental Principles of

Compliance Auditing (ISSAI 400). If an SAI chooses to develop its own national standards, those standards should include the level of detail necessary to accomplish the SAI's relevant audit functions and should correspond to the Principles in all applicable and relevant respects.

18. SAIs should declare which standard they apply when conducting audits and this declaration should be accessible to users of the SAI's reports. SAIs should make reference to the standard they follow in their audit reports; however, a more general form of communication may be used covering a defined range of engagements.

19. This standard in no way overrides national laws, regulations or mandates or prevents SAIs from carrying out investigations or other engagements that are not specifically covered by ISSAI 4000.

20. Under option 2, the auditor and the SAI shall comply with each requirement of this standard unless, in the circumstances of the audit the requirement is not relevant. When all relevant requirements have not been fulfilled, reference to this standard shall not be made without disclosure of that fact and further explanations about the consequences thereof.

21. When an SAI chooses to make direct reference to the International Standard for Compliance Auditing, these should be referred to by stating:

We conducted our [compliance] audit[s] in accordance with the International Standards of Supreme Audit Institutions [on compliance auditing] (ISSAI 4000).

22. Audits may be conducted in accordance with both ISSAI 4000 and standards from other sources provided that no contradictions arise. In those cases, reference should be made both to such standards and to ISSAI 4000.

23. The requirements and explanations of ISSAI 4000 apply to compliance audits conducted both as a separate audit and in a combination with other audit types.

OBJECTIVE OF COMPLIANCE AUDIT

24. Legislation and other authorities are the primary means by which legislatures hold the entity accountable for income and expenditure, operations and management and to ensure the citizen's trust in the public sector. The main objective of compliance auditing is to provide the legislature and other intended users with information on whether the audited entity follows parliamentary decisions, law, legislative acts, policy, established codes and agreed upon terms, named authorities. The authorities are the sources of audit criteria, and can both be legal and normative.

25. When public-sector entities manage public funds, they are to comply with both legal criteria (laws and regulations and agreements, named regularity) and normative criteria (general principles governing financial management and the professional and ethical conduct of public officials, named propriety).

26. The SAI promotes good governance by identifying and reporting deviations from criteria, so that corrective action may be taken and those responsible are held accountable for their actions. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities who govern the audited entity.

27. Compliance audit can be performed either as direct reporting engagement or as an attestation engagement.

28. In direct reporting engagements it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of measuring the subject matter against the criteria is presented in the audit report in the form of findings, conclusions, recommendations or an opinion (ISSAI100/29).

29. In attestation engagements the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient

and appropriate audit evidence to provide a reasonable basis for expressing a conclusion (ISSAI100/29).

30. The users of audit reports will wish to be confident about the reliability of the information that they use for making decisions. By reporting his/her results, the auditor provides the user with this confidence, named assurance. Based on the needs of the intended user, the SAI designs the audit to provide either a reasonable or a limited level of assurance.

31. In a reasonable assurance engagement the audit conclusion in direct reporting expresses the auditor's view that the subject matter is or is not compliant in all material respects with the applicable criteria. In an attestation engagement the auditor's conclusion expresses the auditor's view that the subject matter information provides a true and fair view, in accordance with the applicable criteria.

32. When providing limited assurance, the audit conclusion both in direct reporting and attestation engagement states that, based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria. The procedures performed are limited compared with what is necessary to obtain reasonable assurance.

33. Reasonable or limited assurance is possible in both direct reporting and attestation engagements.

34. Compliance audit may be a standalone engagement or a component of a financial or performance audit engagement.

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GENERAL REQUIREMENTS OF COMPLIANCE AUDITING

Independence and ethics

Requirement

35. The auditor shall comply with the relevant procedures relating to independence and ethics, which in turn shall comply with the related ISSAIs on independence and ethics.

Explanation

36. The auditor can find additional guidance in ISSAI 10 Mexico Declaration on SAI Independence as well as ISSAI 11 INTOSAI Guidelines and Good Practices related to SAI Independence and ISSAI 30 Code of Ethics.

Requirement

37. The auditor shall take care to remain independent so that his/her findings and conclusions will be impartial and shall be seen as such by third parties.

Explanation

38. The auditor demonstrates independence in selecting their audit objectives and defining the criteria. The auditor needs to make sure that communication with stakeholders does not compromise the independence and impartiality of the SAI.

39. The auditor needs to avoid undue influence from any stakeholders in formulating a balanced report, and maintain their independence so that their work and resulting report will be impartial and viewed as impartial by reasonable and informed third parties.

Audit risk

Requirement

40. The auditor shall perform procedures to reduce the risk of producing incorrect or incomplete findings and conclusions.

Explanation

41. Reducing audit risk includes the following aspects: anticipating the possible or known risks of the work envisaged, developing approaches to addressing those risks during audit planning and methodology selection and documenting which and how those risks will be handled. In addition, when concluding, the auditor needs to evaluate whether he/she has sufficient and appropriate audit evidence when assessing subject matter against criteria to form conclusion(s).

42. Actively managing audit risk also includes considering whether the audit team has sufficient and appropriate competence to conduct the audit, has adequate access to accurate information of good quality, and has considered any new available information.

Risk of fraud

Requirement

43. The auditor shall consider the risk of fraud throughout the audit process, and document the results of the consideration.

Explanation

44. Detecting fraud is not the main objective of compliance audit. However the auditor need to consider fraud risk factors in their risk assessments and remain alert to indications of fraud when carrying out their work.

45. As part of the planning stage, the auditor consider the risk of fraud and document the considerations in the audit file.

46. As part of the audit, the auditor identify and assess fraud risk and gather sufficient and appropriate audit evidence related to identified fraud risks through the performance of suitable audit procedures. When suspected fraud has been identified, the auditor takes action to ensure that they respond appropriately according to their mandate and the particular circumstances. If the auditor comes across instances of non-compliance which may be indicative of fraud, he or she will exercise due professional care and caution so as not to interfere with potential future legal proceedings or investigations.

Selection of significance of subject matter(s)

Requirement

47. Based on the mandate the SAI shall select the subject matter(s) that are of significance for the intended users.

Explanation

48. Where the SAI has discretion over the coverage of compliance audits, it performs necessary procedures to identify significant areas and/or areas with potential risk of non-compliance. This can form the basis for selecting topics/subject matters by the SAI and reduce the risk of producing low-impact audit findings and/or reports.

49. Factors to be considered when assessing potential significance:

- a) Mandated requirements,
- b) Public or legislative interest or expectations,
- c) Impact on citizens,
- d) Requests from Parliament,
- e) Areas with high risk of non-compliance based on risk analysis,
- f) Significant funding.

50. The consideration of the specific areas of legislative focus involves:

- a) The significance in relation to fundamental principles of law,
- b) The significance in relation to the rule of law, transparency and accountability in public administration or regarding public funds managers or beneficiaries and other principles of good governance,
- c) The significance in relation to legislative oversight of executive bodies, or other principles concerning the roles of different public sector bodies, or of public funds managers or beneficiaries,

- d) The significance in relation to guaranteed rights of citizens and communities in relation to public sector bodies.

51. Other factors to be further considered when identifying the subject matter:

- a) Potential breaches of constitutional budget laws approved by the Parliaments or of international or supranational legal obligations related to the public deficit, to the public debt and to the budget accounting consolidation,
- b) Potential breaches of the ceilings of public deficit or public debt or in cases of non-compliance with external obligations of budget consolidation established or endorsed by supranational entities or international organizations.

Professional judgment and skepticism

Requirement

52. The auditor shall exercise professional judgment throughout the audit process.

Explanation

53. Professional judgment refers to the application of relevant training, knowledge and experience, within the context provided by auditing and ethical standards, so that informed decisions can be made about the planning and execution of the audit.

54. Professional judgment involves the exercise of reasonable care in the conduct of the audit and the diligent application of all relevant professional standards and ethical principles.

Requirement

55. The auditor shall use his/her professional skepticism, and maintain an open and objective mind.

Explanation

56. Professional skepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement and non-compliance due to error or fraud, and a critical assessment of audit evidence. The auditor neither assumes that management of the audited entity is dishonest nor of unquestionable honesty.

57. Exercising professional skepticism is necessary to ensure that the auditor avoids personal biases and to make sure that the auditor draws rational conclusions based on a critical assessment of all of the evidence collected. When assessing the sufficiency and appropriateness of evidence obtained throughout the audit process, an attitude of professional skepticism is required.

Quality control

Requirement

58. The auditor shall take responsibility for the overall quality of the audit by performing quality control procedures at all stages of the audit process. The quality control shall be documented in the audit file.

Explanation

59. The aim of such quality control procedures is to ensure that the audit complies with the applicable standards and that the audit report, conclusion or opinion is appropriate, given the circumstances of the audit.

60. The quality control procedures should cover the planning, execution and reporting stage and should be performed prior to reporting.

Audit team management and skills

Requirement

61. The SAI shall ensure that collectively, the audit team has the necessary professional competence to perform the audit.

Explanation

62. The audit team must be composed of team members that collectively have the necessary knowledge, skills and expertise to perform the audit in accordance with standards.

This includes:

- a) An understanding and practical experience of the type of audit being undertaken,
- b) Familiarity with the applicable standards and authorities,
- c) An understanding of the audited entity's operations and appropriate domain expertise,
- d) The ability and experience to exercise professional judgement.

63. The SAI needs to assign adequately skilled resources for compliance audit and ensure that the resources are available when needed in the different phases of the audit process. Where specialised techniques, methods or skills from disciplines are not available within the SAI, external experts may be used in different ways, e.g. to provide knowledge or conduct specific work. The SAI evaluates whether experts have the necessary independence, competence, capabilities and objectivity and determine whether their work is adequate for the purposes of the audit. Even if some part of work is outsourced, the SAI is still responsible for the conclusion, even though it is based on evidence from an external expert.

Documentation

Requirement

64. The auditor shall prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached. The auditor needs to prepare the audit documentation in a timely manner, keep it up to date throughout the audit, and complete the documentation before the audit report is issued.

Explanation

65. The purpose of documenting the audit work performed, is both to enhance transparency about the work performed, and to enable an experienced auditor having no prior knowledge of the

audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations. The documentation includes as appropriate:

- a) Risk assessment, audit strategy and plan, and related documents,
- b) The methods applied and the time period covered by the audit,
- c) The nature, the time and extent of the audit procedures performed,
- d) The results of the audit procedures performed, and the audit evidence obtained,
- e) The evaluation of the audit evidence and the auditor's conclusion(s),
- f) Key decisions in the audit process, professional consultations and the reasoning behind them,
- g) Communications and feedback with the audited entity,
- h) Supervisory reviews and other quality control safeguards.

66. In the context of SAIs with jurisdictional powers, documentation should be sufficiently detailed to enable the auditor to provide proposals of personal liability. For this purpose, audit documentation should comply with relevant rules of evidence.

67. Documentation should be sufficient to demonstrate how the auditor defined the audit object, the criteria and the scope, as well as the reasons why a specific method of analysis was chosen. For this purpose, documentation must be organized in order to provide a clear and direct link between the findings and the working papers that support them.

68. Specifically related to the audit planning stage, the documentation kept by the auditor must contain:

- a) The information needed to understand the entity being audited and its environment which enable the assessment of the audit risk,
- b) The assessment of the materiality of the subject matter,
- c) The identification of possible sources of evidence.

69. The auditor needs to adopt appropriate procedures to maintain the confidentiality and safe custody of the working papers, and retain the working papers for a period sufficient to meet the needs of the legal, regulatory, administrative and professional requirements of record retention and to conduct audit follow-up activities.

Communication

Requirement

70. The auditor shall communicate in a formal and effective manner throughout the audit process.

Explanation

71. The key matters that are communicated to the audited entity include: the audit subject matter, audit criteria, the time period for the audit, and the government undertakings, organizations and/or programmes to be included in the audit. Communicating these key matters can help in achieving mutual understanding of the audit process and the auditees operations.

72. Communication with the audited entity throughout the audit process helps to make the process more effective and constructive. Communication will improve the auditor's insights into the audited entity and perspectives.

Requirement

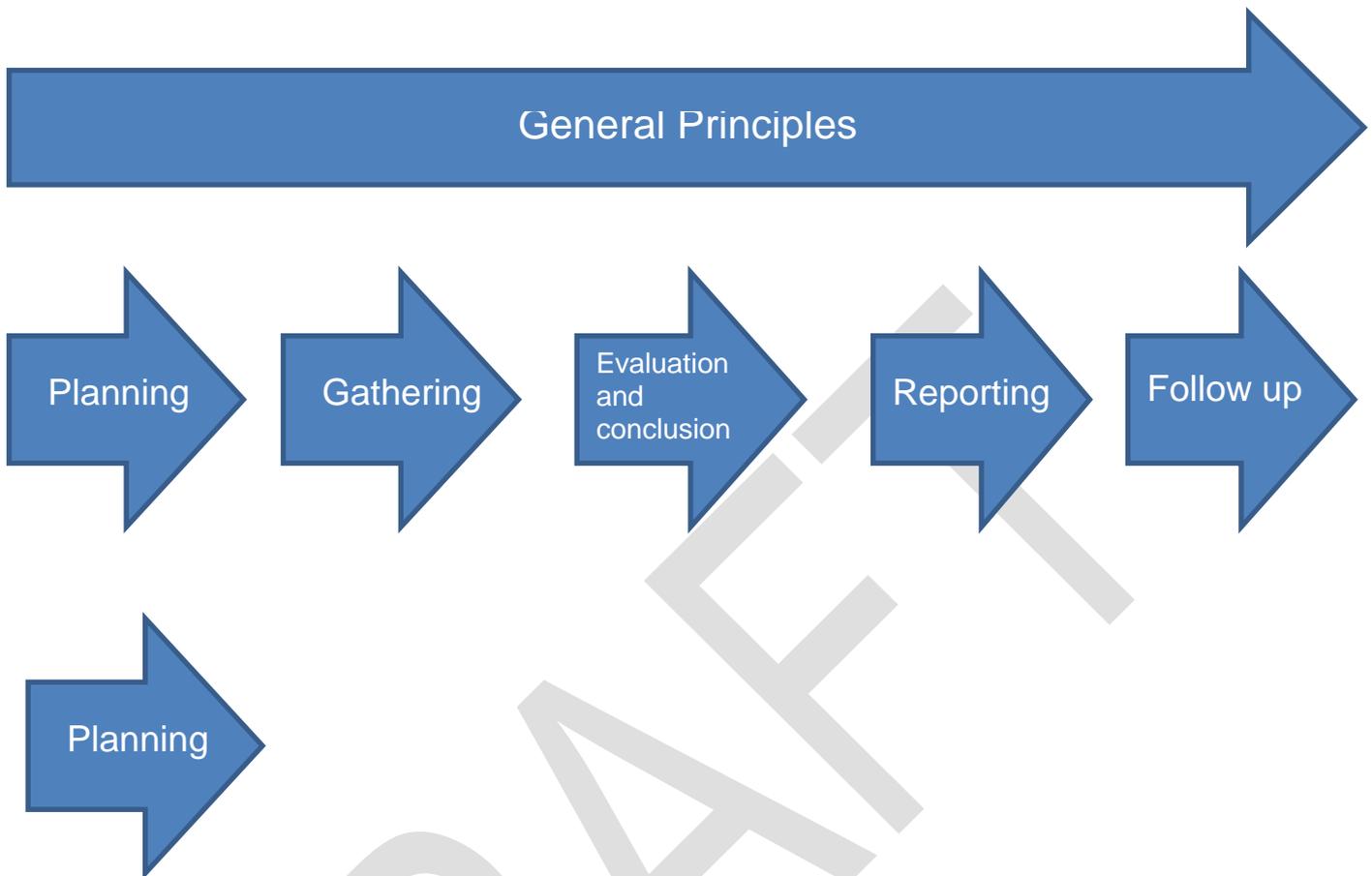
73. Instances of material non-compliance shall be communicated to the appropriate level of management or those charged with governance.

Explanation

74. Findings that are not deemed material, or do not warrant inclusions in the auditor's report, may also be communicated to management during the audit. Communicating such findings may help the audited entity to remedy instances of non-compliance and avoid similar instances in the future.

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REQUIREMENTS RELATED TO THE COMPLIANCE AUDITING PROCESS



Planning an audit

Identifying intended users and responsible party

Requirement

75. The auditor shall explicitly identify the intended users and the responsible party and consider the implication of these roles in order to conduct the audit and communicate accordingly.

Explanation

76. Identifying the intended user and the responsible party is crucial for auditing, and important for communication and reporting.

77. In determining the level of assurance to be provided and how this assurance should be communicated, the auditor must identify the intended user and their needs.

78. The intended users are the persons for whom the auditor prepares the compliance audit report. The intended users may be legislative or oversight bodies, those charged with governance the public prosecutor or the general public.

79. For some subject matters the responsible party may include more than one entity.

Identifying the specific aspect of the subject matter

Requirement

80. The auditor shall identify the specific aspects of the subject matter to be measured or evaluated against criteria.

Explanation

81. The subject matter should be identifiable, and it should be possible to assess it against suitable criteria. It should be of such nature that it enables sufficient and appropriate audit evidence to be gathered in support of the audit report, conclusion or opinion.

82. A key consideration is whether the subject matter can be measured or evaluated against criteria.

83. Based on the significance of an audit topic and the assessed risk of non-compliance, the auditor identifies the subject matter.

84. The main subject matter can be split into several underlying subject matters. In doing so the auditor identifies the materiality as well as the risk of non-compliance and the needs of the intended users.

85. During the stage of identifying the subject matter, the auditor consider past trends and past audit findings.

Identifying audit criteria

Requirement

86. The auditor shall identify suitable audit criteria to provide a basis for evaluating the audit evidence.

Explanation

87. The auditor identifies the audit criteria to be used to measure or evaluate the subject matter.

88. Audit criteria may include applicable law, legislative acts, parliamentary decisions, and other authoritative decisions including the ones taken by courts, directions and guidelines, and agreed upon terms and conditions, international treaties and decisions taken by supranational or international organizations and courts.

89. If situations arise where there are conflicting provisions or there may be doubt as to what is the correct interpretation of the relevant law, regulation or other authorities, the auditor may find it useful to consider the intentions and premises set out in developing the law, or to consult with the particular body responsible for the legislation. The auditor may also consider relevant earlier decisions made by judicial authorities.

90. Formal criteria include:

- a) Laws and regulations,
- b) Binding ministerial directives,
- c) International treaties and agreements.

91. Audits may also examine compliance with general principles governing the conduct of public officials (propriety). Suitable criteria include:

- a) Codes of conduct,
- b) Expectations regarding behaviour,

c) Behaviour putting at risk impartiality in the allocation of public resources and employment.

92. The need to identify suitable criteria does not preclude the auditor from reporting identified breaches of what may be considered acceptable behaviour by public officials, if circumstances so warrant.

93. The suitable criteria exhibit the following characteristics:

- i) **Relevance:** Relevant criteria result in subject matter information that assists decision-making by the intended users,
- ii) **Completeness:** Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information,
- iii) **Reliability:** Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different auditors,
- iv) **Neutrality:** Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances,
- v) **Understandability:** Understandable criteria result in subject matter information that can be understood by the intended users.

Determining materiality

Requirement

94. The auditor shall assess materiality and reconsider it throughout the audit process.

Explanation

95. When planning the audit the auditor has to identify the needs of the intended users. Materiality is determined by identifying both the audit questions and the level of non-compliance that is likely to influence the decisions of the intended users.

96. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified errors on the audit and in forming the opinion in the auditor's report. In the planning phase, assessing materiality helps the auditor to identify the audit questions which are of importance to the intended users. In performing the audit, the auditor uses materiality to decide the extent of audit procedures and audit evidence.

97. In some cases, the qualitative factors are more important than the quantitative factors. Public expectations and public interest are also qualitative factors that may impact the auditor's determination of materiality. The seriousness of non-compliance is also considered. While not necessarily unlawful, instances of excess spending over appropriations authorized by the legislature or introduction of a new service not provided for in the approved appropriations, may be serious instances of non-compliance by their nature.

98. Quantitative materiality is determined by setting a numerical value for materiality level. This level serves as a determining factor both in the calculation of sample sizes for substantive testing and in the interpretation of the results of the audit. Special consideration in SAIs with jurisdictional powers should take into consideration the specific needs deriving from their jurisdictional function.

99. When considering materiality throughout the audit process the following factors are relevant:

- a) The significance of the non-compliance/unlawful act on the individual public accounts and in relation to budget appropriations or the entity's patrimony,

- b) The significance in relation to legislative oversight of executive bodies, or other principles concerning the roles of different public sector bodies,
- c) The significance in relation to fundamental principles of law,
- d) The significance in relation to guaranteed rights of citizens and communities in relation to public sector bodies,
- e) The significance in relation to legality, transparency and accountability in public administration and other principles of good governance,
- f) Findings from previous audits,
- g) Breaches of constitutional budget laws approved by the Parliaments, of international or supranational legal obligations related to the public deficit, to the public debt and to the budget accounting consolidation,
- h) Severe lack of internal controls that will lead to significant and material impact in the financial position of the accounting entity concerned or in the global imbalance of the public finances,
- i) Breaches of the ceilings of public deficit or public debt or in cases of non-compliance with external obligations of budget consolidation established or endorsed by supranational entities or international organizations.

Identifying the level of assurance

Requirement

100. Depending on the mandate of the SAI, the characteristics of the subject matter, and the needs of the intended users, the auditor shall perform an audit with reasonable or limited assurance.

Explanation

101. The needs of the intended users can be reflected in the mandate of the SAI or can be identified through communication with the intended users or those charged with governance.

102. The auditor may consider:

- a) Expectations of intended users in terms of the timeliness of having assured subject matter information, and the cost of assurance,
- b) Instructions or other indications from the engaging party about the level of assurance,
- c) Generally accepted practice, if it exists, with respect to assurance engagements for the particular subject matter information,
- d) The need to promote accountability by providing relevant and reliable information on the discharging of responsibilities relating to the management and administration of public funds, the utilisation of resources and the conduct of public officials,
- e) The need to promote good governance by providing intended users with independent, objective and reliable information and encouraging continuous improvement and sustained confidence in public sector administration,
- f) The need to reinforce the effectiveness of those bodies that exercise general monitoring and corrective functions over government, and those responsible for the management of publicly-funded activities.

103. In a reasonable assurance engagement, the auditor gathers sufficient appropriate evidence to conclude that the subject matter complies in all material respects with identified suitable criteria, and gives a report in the form of a positive assurance.

104. In a limited assurance engagement, the auditor gathers sufficient appropriate evidence to conclude that nothing has come to the auditor's attention to cause the auditor to believe that the

subject matter is not in compliance with the applicable criteria. The procedures performed are limited compared with what is necessary to obtain reasonable assurance.

Understanding the entity and its environment including the internal control

Requirement

105. The auditor shall have an understanding of the audited entity and its environment to enable the auditor to effectively plan and perform the audit.

Explanation

106. By identifying and evaluating the entity's inherent and control risks, the auditor can define the nature and the extent of the evidence-gathering procedures he or she have to endeavour to appropriately address the audit risk.

107. To obtain an understanding of the control environment, it may be relevant to consider the audited entity's communication and enforcement of integrity and ethical values, its commitment to competence, participation by those charged with governance, the management's philosophy and operating style, organizational structure, the existence and level of internal audit activity, the assignment of authority and responsibility, and human resource policies and practices.

108. In the context of compliance audits, an internal control system is composed of policies, structure, procedures, processes, tasks and other tangible and intangible factors that help the audited entity to respond appropriately to risks of non-compliance with the criteria. An effective system may safeguard the audited entity's assets, facilitate internal and external reporting and help the audited entity to comply with relevant authorities.

109. Adequacy and effectiveness of internal controls is an important area for audit examination.

110. It is important that the auditor makes it clear for the intended users the limitations and characteristics of each sampling strategy to avoid misinterpretation on the analysis extent.

Audit strategy and audit plan

Requirement

111. The auditor shall develop and document an audit strategy and audit plan that together describes how the audit will be performed to reduce the audit risk to an acceptably low level, the resources needed to do so and the time schedule for the audit work.

Explanation

112. The purpose of the audit strategy is to devise/design the appropriate audit procedures as an effective response to the audit risk. The audit strategy describes:

- a) The subject matter, scope, criteria and other characteristics of the compliance audit taking into account the mandate of the SAI,
- b) The type of engagement (attestation engagement or direct reporting engagement),
- c) The level of assurance to be provided,
- d) The resources necessary to perform a timely audit and the date of quality control,
- e) Communication with the auditee and or those charged with governance,
- f) Reporting responsibilities, as well as to whom and when such reporting will take place, and in what form,
- g) Composition and work allocation of the audit team, including any need for experts,

h) The entities comprised of the audit.

113. The auditor develops an audit plan for the compliance audit. The audit strategy is an essential input to the audit plan. The audit plan should include:

- a) Planned audit procedures and when they will be performed,
- b) An assessment of audit risk and of internal controls relevant for the audit,
- c) The audit procedures designed as a response to audit risk,
- d) The potential audit evidence to be collected during the audit.

114. The auditor updates both the audit strategy and audit plan as necessary throughout the audit.

115. When planning and performing compliance audits, the auditor operating in SAIs with jurisdictional powers may take into consideration the need to:

- a) Identifying the person(s) who may be held liable for acts of non-compliance,
- b) Take into consideration the applicable prescriptive period,
- c) Distinguish personal liability for acts of non-compliance from the liability for unlawful acts (suspected fraud).

Sufficient and appropriate audit evidence

Requirement

116. The auditor shall plan and perform procedures to obtain sufficient and appropriate audit evidence.

Explanation

117. The auditor gathers sufficient and appropriate audit evidence to provide the basis for the conclusion or opinion.

118. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions. In assessing the sufficiency of evidence, the auditor needs to determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable. The need for further evidence is weighed against the cost and time needed to collect it.

119. Relevance, validity and reliability are measures of the quality of the evidence. Relevance refers to the extent to which the evidence has a logical relationship with, and importance to, the issue being addressed. Validity refers to the extent to which the evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which the evidence represents what it is purported to represent. Reliability refers to the extent to which the evidence is consistent when measured or tested and includes the concepts of being verifiable or supported.

120. The auditor should plan appropriate responses to assessed risks. Responses to assessed risks include designing audit procedures that address the risks, such as substantive procedures and test of controls. Substantive procedures include both tests of details and analytical procedures. The auditor should obtain evidence that the controls are operating effectively when he/she intends to rely on the operating effectiveness of controls determining the nature, timing and extent of substantive procedures.

121. The quantity of evidence required depends on the audit risk (the greater the risk, the more evidence is likely to be required) and on the quality of such evidence (the higher the quality, the less may be required). Accordingly, the sufficiency and appropriateness of evidence are interrelated.

122. However, merely obtaining more evidence does not compensate for its poor quality. The reliability of evidence is influenced by its source and nature, and is dependent on the specific circumstances in which it was obtained. The auditor considers both the relevance and the reliability of the information to be used as audit evidence.

Requirement

123. The auditor in a SAI with jurisdictional powers shall perform procedures to obtain sufficient and appropriate audit evidence regarding the liability of the public official who might be held responsible for non-compliance/unlawful acts to reduce this risk of non-detection to an acceptable low level.

Explanation

124. In planning and performing audits, the auditor in SAIs with jurisdictional powers need to gather sufficient and appropriate evidence regarding the liability of the public official who might be held responsible for non-compliance/unlawful acts.

125. The evidence gathering process continues until the auditor in a SAIs with jurisdictional powers is satisfied that sufficient and appropriate evidence exists to provide a basis for the auditor's conclusion to be proposed on whether the responsible persons are liable for the loss, misuse or waste of public funds or are discharged for their management.

126. The auditor in SAIs with jurisdictional powers evaluate, based on their professional judgement, whether there is sufficient and appropriate evidence that the public official can be held personally liable for acts of non-compliance.

127. Professional judgement in determining whether or not the public official is personally liable for non-compliance acts may include:

- a) An assessment of the way the responsibilities mentioned by the law or included in the public official's job description were carried out,
- b) Determining whether the public official's non-compliance or unlawful act determined the identified loss, misuse or waste of public funds or goods,
- c) An assessment of the possible liability exemption circumstances (force majeure, unforeseeable circumstances),
- d) An assessment of the relationships between public accountants and public managers, and the possible effects and consequences non-compliance acts may have.



Gathering audit evidence

Requirement

128. The nature and sources of the necessary audit evidence shall be determined by the criteria, the subject matter and the scope of the audit.

Explanation

129. The auditor will often need to combine and compare evidence from sources using different techniques/methods in order to meet the requirements for sufficiency and appropriateness. For example, by interviewing management and employees, the auditor may obtain an understanding of how management shares with staff its views on the entities practices and ethical behaviour. The auditor may then determine whether relevant controls have been implemented by considering, for example, whether management has a written code of conduct followed by the practice. A survey submitted to the employees could for example illuminate to what extent the management acts in accordance with the code of conduct. Based on the scope, the auditor will gather quantitative or qualitative audit evidence, or a combination thereof. Compliance auditing thus includes a variety of procedures for gathering evidence of both a quantitative and a qualitative nature.

130. The evidence gathering process continues until the auditor is confident that sufficient, appropriate evidence exists to provide the proper level of assurance to support the auditor's conclusion or opinion.

131. Audit evidence is gathered using a variety of methods such as:

- a) Observation and inspection,
- b) Inquiry; Interviews and questionnaires,
- c) Confirmation,
- d) Analytical procedures.

132. Observation involves looking at a process or procedure being performed. Inspection involves examining books, records and other case files or physical assets. The auditor consider the reliability of any documents inspected and keep in mind the risk of fraud and the possibility that documents inspected may not be authentic.

133. Inquiry involves seeking information from relevant persons, both within and outside the audited entity. Interviews and questionnaires are generally neither sufficient, nor appropriate evidence on their own. In order to obtain sufficient and appropriate evidence, interviews and questionnaires are performed together with other types of evidence gathering methods.

134. Confirmation may involve the auditor obtaining feedback directly from beneficiaries that they have received the grants or other funds that the audited entity asserts have been paid out, or confirming that funds have been used for the particular purpose set out in the terms of a grant or funding agreement.

135. Analytical procedures involve comparing data, or investigating fluctuations or relationships that appear inconsistent with what was expected based on historical data or on auditor's past

experience. Analytical procedures bring some alerts of potential non-compliance, though cannot present conclusive evidence just by itself.

Audit sampling

Requirement

136. The auditor shall use audit sampling, where appropriate, to provide a reasonable basis to draw conclusions about the population from which the sample is selected.

Explanation

137. Audit sampling is defined as the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

138. The objective of the auditor, when using audit sampling, is therefore to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

139. When designing an audit sample, the auditor would consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

140. The auditor determines a sample size sufficient to reduce sampling risk to an acceptably low level.

141. The auditor selects items for the sample in such a way that each sampling unit in the population has a chance of selection.

142. The auditor evaluates the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

Requirement

143. In SAIs with jurisdictional powers, the inquiry shall be carried out in written form when requested by the national law.

Explanation

144. SAIs with jurisdictional powers may, in particular, use the method of inquiry as set out in the laws governing the auditing procedures. This may involve preparing and sending a written communication to the relevant responsible persons asking for specific information which the audit team considers to be necessary to support the conclusions.



Evaluating audit evidence and forming conclusions

Requirement

145. The auditor shall evaluate the collective audit evidence to develop audit findings.

Explanation

146. The collective evidence including instances of non-compliance as well as the entities views are assessed using professional judgment to arrive at audit findings.

147. For the balanced and objective view, the evaluation process entails considering evidence that both supports and seems to contradict the audit findings on compliance or non-compliance.

Requirement

148. Based on the audit findings, and the set materiality, the auditor shall draw a conclusion that clearly states whether the subject matter is in compliance with the criteria.

Explanation

149. When drawing conclusions, the auditor considers the audit evidence obtained against the materiality set at the planning phase and adjusted where appropriate throughout the audit, to decide whether the subject matter is, in all material aspects in compliance with the criteria.

150. In a direct reporting engagement the conclusion should be sufficiently clear to remove the risk of misinterpretation.

Requirement

151. When the auditor provides an opinion, he/she shall, based on an evaluation of whether non-compliance is material and/or pervasive, state whether it is unmodified or has been modified on the basis.

Explanation

152. An opinion is a clear written statement of the auditor expressed in a standardized format. An opinion is normally used in an attestation engagement.

153. Delivering an opinion would normally require an audit strategy and approach that encompasses a tangible population covered by sampling during the audit.

154. Where no material instances of non-compliance have been identified, the opinion is unmodified/unqualified. An example of the form for an unmodified opinion for a reasonable assurance engagement (where appropriate wording is inserted in the brackets as applicable) may be as follows: *'Based on the audit work performed, we found that [the audited entity's subject matter] is in compliance, in all material respects, with [the applied criteria].'*

155. The auditor modify/qualify their opinions appropriately in cases of:

a) Material instances of non-compliance. Depending on the extent of the non-compliance, this may result in:

- i. A qualified opinion (if compliance deviations are material, but not pervasive): *'Based on the audit work performed, we found that, except for [describe exception], the audited entity's subject matter is in compliance, in all material respects with [the applied criteria]...'*). Compliance deviations are not pervasive, or
- ii. An adverse opinion (if compliance deviations are material and pervasive): *'Based on the audit work performed, we found that the subject matter is not in compliance...' in all material respect with (the applied criteria)... and compliance deviations are pervasive'* or

b) Scope limitation. Depending on the extent of the limitation, this may result in:

- iii. A qualified opinion (if the auditor is unable to obtain sufficient, appropriate audit evidence, and the possible effects are material, but not pervasive: *'Based on the audit work performed, except for [describe exception], the auditor were unable to obtain sufficient, appropriate audit evidence, and the possible effects are material, but not pervasive., or*
- iv. A disclaimer (if the auditor is unable to obtain sufficient, appropriate audit evidence on compliance with authorities, and the possible effects are material and pervasive: *'Based on the audit work performed, we are unable to, and therefore do not express an opinion...'*).

156. In a limited assurance engagement an example of an unmodified opinion may be: *'Based on the work performed described in this report, nothing has come to our attention that causes us to believe that the subject matter is not in compliance, in all material respects with the [applied criteria]'*. A modified opinion can state that: *'Based on the work performed described in this report, except for [describe exception] nothing has come to our attention that causes us to believe that the subject matter is not in compliance, in all material respects with the [applied criteria]'* .

157. The wording of the opinion should reflect the mandate of the SAI. The auditor may therefore use terms such as "is legal and regular", "is regular" or "has been applied to the purposes intended by the Parliament".



Reporting

Requirement

158. The auditor shall prepare a report based on the principles of completeness, objectivity, timeliness and a contradictory process.

Explanation

159. Reporting is an essential part of compliance audit and involves reporting deviations so that corrective actions may be taken, and so that those accountable may be held responsible for their actions. A written report, setting out findings and conclusions in an appropriate form, is to be prepared at the end of each audit.

160. The principle of completeness requires the auditor to consider all relevant audit findings before issuing a report.

161. The principle of objectivity requires the auditor to apply professional judgment and skepticism in order to ensure that the report is factually correct and that findings and conclusions are presented in a relevant, fair and balanced manner.

162. The principle of timeliness implies preparing the report in due time to be relevant for the intended user.

163. The principle of a contradictory process implies checking the accuracy of facts with the audited entity and incorporating responses as appropriate.

164. Any limitations in the audit scope need to be described. The report may also provide constructive and practical recommendations for improvement where appropriate.

165. The forms of reporting may be defined in law or by the mandate of the SAI.

Requirement

166. The auditor shall communicate in a transparent way the level of assurance achieved.

Explanation

167. For direct report engagement, the auditor must explicitly state whether the conclusion is given with limited or reasonable assurance. For attestation engagement, the level of assurance will be conveyed by appropriate use of standardised audit opinions.

Report structure - direct reporting

Requirement

168. The report shall include the following elements (although not necessarily in this order):

- a) Title
- b) Addressee
- c) Responsibilities of the responsible party
- d) Responsibilities of the auditor
- e) Description of the subject matter
- f) Extent and limits of the audit including the time period covered
- g) Audit criteria
- h) Identification of the auditing standards and level of assurance
- i) Compliance with ethical requirements
- j) A summary of the work performed and methods used
- k) Findings
- l) Conclusion
- m) Replies from the audited entity (as appropriate)
- n) Recommendations (as appropriate)
- o) Report date
- p) Signature

Explanation

169. The summary of the work performed and methods used helps the intended users understand the auditor's conclusion. For many audits, broad variations in procedures are possible. In practice, however, these are difficult to communicate clearly and unambiguously. Hence, the summary of the work performed and methods used need to give a brief explanation for an outside reader of how the audit was performed.

170. The findings section comprises the auditor's description of the gathered evidence compared with the criteria. It is structured in a logical manner, based on the identified criteria in a way that assists the reader in following the logical flow of a particular argument.

171. The conclusion is a statement of the auditor covering the audit scope on the basis of the findings and conveying explicitly the level of assurance of the audit. In attestation engagement, the conclusion may take the form of a clear written statement of opinion on compliance. Recommendations are most effective when they are positive in tone and results-oriented, setting out clearly what needs to be done. Cost considerations are borne in mind when determining the practicality of recommendations.

172. Incorporating responses from the audited entity by reporting the views of responsible officials is part of the principle referred to as the principle of contradiction. The principle of contradiction is an important feature of public sector auditing. It relates to the presentation of weaknesses or critical findings in such a way as to encourage correction if needed. This involves discussing the draft report findings with the audited entity to help ensure that they are complete, accurate and fairly presented. It may also involve, as appropriate, incorporating the audited entity's response to matters raised, whether verbatim or in summary.

173. Where significant compliance deviations are reported, recommendations are provided in cases where there is potential for significant improvement. It may be helpful to users that the auditor highlights ongoing corrective actions.

174. While constructive and practical recommendations assist in promoting sound public sector management, the auditor are careful not to provide such detailed recommendations so as to be taking on the role of management and thereby impairing their own objectivity.

Report structure - attestation engagement

Requirement

175. The report shall include the following elements (although not necessarily in this order):

- a) Title**
- b) Addressee**
- c) Description of the subject matter information, and when appropriate the underlying subject matter**
- d) Extent and limits of the audit including the time period covered**
- e) Responsibilities of the responsible party and the auditor**
- f) Audit criteria**
- g) Identification of the auditing standards and level of assurance**
- h) A summary of the work performed and methods used**
- i) Conclusion/Opinion**
- j) Replies from the audited entity (as appropriate)**
- k) Report date**
- l) Signature**

176. In the SAIs with jurisdictional powers, the auditor shall consider the role of the prosecutor or those responsible for dealing with judgment issues within the SAI, and shall also include as appropriate, the following elements in both direct reporting and attestation engagements:

- a) Identification of the responsible parties and the audited entity**
- b) The responsible person involved and their responsibilities**
- c) Identification of the auditing standards applied in performing the work**
- d) Responsibilities of the auditor**
- e) Operations and procedures etc. that is affected by non-compliance acts and/or possible unlawful acts. This need to include, as appropriate:**
 - a description of the finding and of its cause,**
 - the legal act which has been infringed (the audit criteria),**
 - the consequences of the non-compliance acts and/or possible unlawful acts.**
- f) The responsible persons and their explanations regarding their non-compliance acts and /or possible unlawful acts.**
- g) The auditor’s professional judgment which determines whether there is personal liability for non-compliance acts**
- h) The value of the loss/misuse/waste created and the amount to be paid due to personal liability**
- i) Any measures taken by responsible persons during the audit to repair the loss/misuse/waste created**
- j) The management’s arguments on the non-compliance/unlawful acts,**
- k) A summary of the work performed**

Explanation

177. In the case of audits conducted by SAIs with jurisdictional powers the users of compliance audit reports include the prosecutor or those responsible for dealing with judgment issues within the SAI.

178. SAIs with jurisdictional powers may conclude for discharge or personal liability for non-compliance acts. These audit conclusions are proposals. Final decisions on personal liability and sanctions are taken in a jurisdictional process.

179. The report need to explain the methods applied by the auditor in determining whether each responsible person involved in collecting, administering, managing or utilizing public funds or assets is liable for acts of non-compliance or not.

Considerations related to the reporting of suspected unlawful acts

Requirement

180. In conducting compliance audits, if the auditor comes across instances of non-compliance which may be indicative of unlawful acts or fraud, he/she shall exercise due professional care and caution so as not to interfere with potential future legal proceedings or investigations.

Explanation

181. While detecting potential unlawful acts, including fraud, is not the main objective of conducting a compliance audit, the auditor do include fraud risk factors in their risk assessments, and remain alert for indications of unlawful acts, including fraud, in carrying out their work.

182. The auditor may consider consulting with legal counsel or appropriate regulatory authorities. Furthermore, they may communicate their suspicions to the appropriate levels of management or to those charged with governance, and then follow up to ascertain that appropriate action has been taken. In regard to instances of non-compliance related to fraud or serious irregularities, because of the different mandates and organizational structures that exist internationally, it is up to the SAI to determine the appropriate action to be taken.

183. Due to the inherent limitations of an audit, there is an unavoidable risk that unlawful acts, including fraud or theft may occur and not be detected by the auditor. Fraud may consist of acts designed to intentionally conceal its existence. There may be collusion between management, employees or third parties, or falsification of documents. For example, it is not reasonable to expect the auditor to identify forged documentation in support of claims for grants and benefits, unless he/she is reasonably obvious forgeries. In addition, the auditor may not have investigative powers or rights of access to individuals or organizations making such claims.

184. A court of law can determine whether a particular transaction is illegal and constitutes a criminal offence. But also SAIs with jurisdictional powers may conclude that a particular transaction is illegal and may justify imposing sanctions to the responsible person and determining the reimbursements of undue or improper payments or of funds or misappropriation of assets.

185. Sanctions or reimbursement may depend on the action and initiative of the public prosecutor attached to the court of accounts and be decided by a separated section or chamber of the court subject to the principles of due process of law and a fair trial, in compliance with basic binding principles of rule of law, as set up in the national constitution, or in international treaties or in international agreements on human rights ratified by the concerned nation applicable with binding effect to the proceedings and rulings of the SAIs with jurisdictional powers when using its jurisdictional powers.

186. In these cases the jurisprudence of the supreme or the constitutional court of the concerned nation or of international courts the nation concerned is member and of the jurisdictional chamber of the court of accounts may also constitute the terms of reference to the audit conducted by the audit chamber of court of the accounts concerned to its members and audit staff and to the proceedings, rulings and members of the jurisdictional chamber of the court of accounts.

187. Although the auditor do not determine if an illegal act constitutes a criminal offense or if civil liability has occurred, they do have a responsibility to assess whether the transactions concerned are in compliance with applicable laws and regulations and constitute infringements that will lead the court to impose sanctions or reimbursement of undue or improper payments or of fund assets misappropriated, preceded by a fair trial with compliance with binding principles of rule of law in a jurisdictional chamber and full guaranties of defence.

188. The auditor may have also to proceed, in certain cases, under the supervision of a member of the court of account responsible for the audit, to special investigations, in order to determine who are the precise responsible entities for the illegal transactions, and the exact level of censure, negligence or intentional behaviour or conduct of the responsible entities concerned.

189. Last, but not least, the auditor may also have to identify the rules and regulations and accounting principles infringed, budget management authorities and the sanctions and reimbursement in which the responsible persons incur. This will be done under action of public prosecutor and in due course of the proceedings and the rulings of the jurisdictional chamber of the court of accounts and its members, who act like judges of a court of justice.

190. For such investigations the auditor may have to derogate the level and criteria of materiality initially adopted.

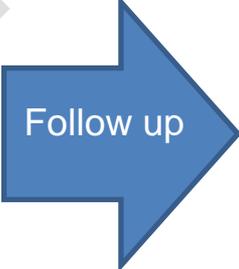
191. The SAIs with jurisdictional powers must also communicate unlawful acts to the prosecution body who decides whether or not the case needs to be treated in a court of justice.

192. Fraudulent transactions are, by their nature, not in compliance with the applicable law. The auditor may also determine that transactions where fraud is suspected, but not yet proven, are not in compliance with the applicable law. Material unlawful acts normally result in a modified audit opinion or conclusion.

193. If suspicion of unlawful acts arises during the audit, the auditor, where permitted by law, may communicate to the appropriate levels of management and those charged with governance. In this case, those charged with governance are likely to be ministerial or administrative bodies higher up in the reporting hierarchy. Where appropriate and reasonable, the auditor may follow up and ascertain that management or those charged with governance have taken appropriate action in response to the suspicion, for example by reporting the incident to the relevant law enforcement authorities. The auditor may also report such incidents directly to the relevant law enforcement authorities.

Incidental findings

The auditor may often come across examples of non-compliance in connection with other types of audit work being performed. Even though the auditor was not actively looking for the existence or absence of the particular condition, public expectations might influence the decision to report such incidental findings. Unless the scope of the audit is re-evaluated and the incidental findings are incorporated into the ongoing compliance audit, the auditor does not obtain or provide assurance with respect to the existence or absence of the condition related to the incidental findings. It may, however, be possible to express a conclusion with limited assurance depending on the circumstances.



Follow up

Follow-up

Requirement

194. The auditor shall follow up instances of non-compliance when appropriate.

Explanation

195. A follow-up process facilitates the effective implementation of corrective action and provides useful feedback to the audited entity, the users of the audit report and the auditor (for future audit planning). The need to follow up previously reported instances of non-compliance will vary with the nature of the subject matter, the non-compliance identified and the particular circumstances of the audit. In some SAIs, including SAIs with jurisdictional powers, the follow-up may include issuing legally binding reports or judicial decisions. In audits carried out on a regular basis the follow-up procedures may form part of the subsequent year's risk assessment. The need for any follow-up of previously reported instances of non-compliance will vary with the nature of the non-compliance and the particular circumstances. This may include formal reporting by the auditor to the legislature, as well as to the audited entity or other appropriate bodies. Other follow-up processes may include reports, internal reviews and evaluations prepared by the audited entity or others, a follow-up audit, conferences and seminars held for, or by, the audited entity, etc. In general, a follow-up process facilitates the effective implementation of corrective actions and provides useful feedback to the audited entity and to the users of the report and to the auditor in planning future audits. Follow-up processes may be set out in the mandate of the SAI. While such recommendations may be constructive for the audited entity, they may not be of such a detailed nature that the compliance auditor's objectivity may be impaired in future audits.