



CAS hearing on draft ISSAI 4000 Compliance Audit Standard of INTOSAI Summary of comments

Committee member <small>(comments organised according to paragraphs in draft for CAS hearing 18th-25th of August)</small>	Comment made	Comment/action taken from CAS secretariat
General comments		
Portugal	<p>As for authorities and propriety, I suggest that we leave a short concept in the text and a more detailed explanation of it, including examples, in the glossary, that needs to be revised and updated in view of the work presented by the subgroups 2 and 3. In what specifically regards authorities, the concept and explanation may need some reference to international law, binding decisions from international organizations or Courts, or generally used concepts like hard law and soft law, in order to clearly distinguish authorities from other documents that are not legally binding, even if they are important to interpret the authorities. Furthermore, maybe we could call the auditor’s attention to the hierarchy of laws and regulations. As for propriety, the same methodology could be used. When dealing with the distinction between authorities and propriety, it is important to stress that, depending on the level of detail of national legal systems, the criteria may vary from one field to another. In fact, if we are dealing with a given subject matter connected with public procurement, in some countries the criteria will come mostly of the</p>	<p>Authorities corrected throughout the document.</p> <p>The current standard does not provide examples. It is both a question of design of the standard and whether it would be appropriate to include examples.</p>



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(comments organised according to paragraphs in draft for CAS hearing 18th-25th of August)	<p>“propriety area”, whilst in other countries those criteria are mostly established in laws and regulations (there are public procurement directives in the European Union and some countries, like Portugal, Spain and France have detailed laws ruling these issues). Maybe this could be expressed in the ISSAI or in the glossary.</p>	
	<p>Emphasis of matter paragraphs and other matter paragraphs are defined in this ISSAI in the same way they were in ISSAIs 4100 and 4200. ISSAI 1706, regarding financial audit, contains, however, a lot of examples that help clarifying the concepts and that could be brought as an important input either for the text of ISSAI 4000 or for the glossary.</p>	<p>The current standard does not provide examples. It is both a question of design of the standard and whether it would be appropriate to include examples.</p>
	<p>The glossary would also need to be enriched, for instance with the concept of the components of audit risk or with concepts regarding sampling procedures.</p>	<p>Concept and components of audit risk added to glossary.</p>
<p>European Court of Auditors</p>	<p>The overall comment in the relation is basically that a discussion should be initiated at Sub-committee level at the annual meeting of the CAS concerning the issues which the sub-groups where charged with. This should broaden the input into the discussion and provide a basis for its fundamental launch. I have additionally attached a document in relation to conclusions, opinions, sampling etc relating to WG 2 which bring up statements and issues which could all be taken on board in the discussion.</p>	<p>Discussion paper to be presented at CAS meeting.</p>
	<p>I believe that the general part of the document can be developed into a text which can be put to INCOSAI, but I am not sure that we are</p>	<p>Existing cross-references to IFAC standards are omitted.</p>



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(comments organised according to paragraphs in draft for CAS hearing 18th-25th of August)	<p>there for the issues relating to the process concerning a compliance audit. In this relation, I believe that cross referencing to IFAC standards would confuse readers of compliance audit standards which leads to me to say that there are quite a few things that we need to deal with in the 'process part' of the document (taken into account that IFAC has approx 700 in their standards).</p> <p>The structure of the documents or splitting into documents may also be an issue for consideration.</p>	
FAS	<p>The explanations to the requirements. The explanations and their status are unclear and is not explained in the document. The shall requirements are written on an overall level and basically the same as in ISSAI 400. If the auditors choose not to follow the explanations, can they still say that they are applying ISSAI 4000? We would like to suggest more “shall requirements” in the standard, to enhance unity and also to strengthen the quality of the audit. If a SAI has specific regulations written in law etc these will override the standards (shall requirement) so it would not cause any problems if the standards might be seen as too detailed by some SAIs. The explanations could be referred to as application guidance or something similar, since the purpose is to explain the application, not to explain the requirement.</p>	<p>Requirements and explanations follow the drafting style guidelines of the PSC. Application of the new ISSAI 4000 would imply to follow all shall requirements, not their explanation. The CAS chair is of the opinion that the current number of requirement is the best possible common set of quality requirements for compliance auditing across the INTOSAI community. Cautious considerations as to whether to duplicate text in ISSAI 400 or not has been made in drafting the standard.</p>
	<p>Compliance with ISSAI 400. For example the definition in ISSAI 4000 is parts already existing in the ISSAI 400, but characterized as objectives, which could cause some confusion. As the definitions are formulated</p>	



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	they could hardly be seen as definitions.	
INTRODUCTION		
India		
§ 2	Is something missing here? Do we mean to say compliance auditing reports deviations/departures from decisions of legislatures.	Text adjusted to clarify that the authorities as the outset of the audit departs from decisiona of legislatures.
Internal Controls Subcommittee (observer)		
§ 3	Maybe the term should be "policies".	Wording corrected
§ 4	We would like to suggest to put the sentence " the mandate and constitutional role of the SAI" in the first place, before "assesment of materiality and risk" (in order of relevance).	Agreed
SCOPE OF THIS ISSAI		
Brazil		
§ 5	Style: performing performance auditing sounds weird. That's why I would suggest that we use the verb conduct for consistence. ISSAI 100 uses "conduct" an audit in many sentences. Even in the title of one of its sections. Text should be reviewed.	Agreed and corrected: "Conduct an audit." "Perform procedures."
§ 8	This does not apear to be consistent with ISSAI 400 " ... <i>We conducted our [compliance] audit[s] in accordance with the International Standards of Supreme Audit Institutions [on compliance auditing].</i> "	Agreed and corrected



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Internal Controls Subcommittee (observer)		
§ 6	We suggest to introduce the reference in plural: CourtS, and capital letters: Courts of Accounts.	Agreed
§ 7	We suggest to include a reference to the requirements that may be included in national legislation, that may limit the capacity of decision of the auditor . For instance, it could be said: "In performing... and in the absence of legal requirements, auditors..."	Agreed
DEFINITION OF COMPLIANCE AUDITING		
Portugal		
§ 14 Authorities	Maybe such a long explanation of what authorities means should come in the glossary, leaving in the text just the first sentence and adding to it "and which provide a framework within which the subject matter is to be assessed". I also suggest that we say that authority may comprise hard law and soft law and that the auditor should bare in mind, when applying authorities, that there is a hierarchy between them that must be respected . The glossary may also be enriched with examples of authorities, to help clear the concept, and so the examples could be eliminated from the text of the ISSAI.	Agreed. Text adjusted. Regularity/propriety to be discussed.
§ 18 Regularity/ propriety	Maube this paragraph should follow paragraph 13, since it still relates to the general definition of compliance audit. The text regarding regularity and propriety, in this order, as quoted in paragraph 18, could come afterwards, since it expalins this paragraph.	Agreed. Text adjusted.



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§ 19 Regularity	Is the concept that the subject matter is in accordance with authoritative rules and, regulations , issued under governing legislation and other relevant legal documents which lay down the rules and procedures to be adhered to by the audited entity which provide a legal framework within which the subject matter is being exercised, and these are properly sanctioned.	Regularity/propriety be discussed.
§ 20 Propriety	Officials entrusted with management or stewardship of public funds and public entities are expected to act with propriety in all matters concerning the discharge of their responsibilities. While expending public funds, those responsible for such expenditure should not only ensure the regularity of that expenditure in terms of compliance with the authorities, but also its propriety as to whether the expenditure is in accordance with the ‘spirit’ and ‘intention’ of such budget authorities voted by the legislators or of the code of conducts or of ethics approved by the executives or other authoritative bodies. Depending on the mandate of the SAI, the audit scope may therefore, include aspects of propriety. Propriety issues are relevant for compliance audits performed in a standalone mode or in combination with financial or performance audits.	Regularity/propriety be discussed.
§ 21 Propriety	Standards of public governance and ethics vary across nations. Auditors have professional competence and accumulated experience of public sector auditing over several decades which will help in assessing the quality of public governance and the professional and ethical conduct of public officials. Where standards of professional conduct are less than acceptable, even though the subject matter prima facie complies with the authorities, the auditor could focus on	Regularity/propriety be discussed.



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	<p>propriety issues to ensure that audit conclusion do not provide a misleading picture of the state of public financial management and the stewardship of public moneys. Further, where public financial management is concerned, providing assurance on compliance with regularity alone does not address the issue of whether the managers charged with protecting public funds have discharged their fiduciary responsibilities in a proper manner.</p>	
<p>European Court of Auditors</p>		
<p>§ 17 Authorities</p>	<p>This is in opposition to 'authorities' for regularity. But between the two it appears that there is a grey zone of interpretation. Both types should be laid down too ease understanding once discussed. The dilemma of what is what; propriety or performance audit should be discussed and laid down.</p>	
<p>§ 20 Propriety</p>	<p>Revenue collection should also be included. This is where some SAIs may regard the interpretation and spirit of the rules as part of regularity, comment made above.</p>	<p>A text proposal is most welcome.</p>
<p>§ 21 Propriety</p>	<p>Suggested amendment: " where the audit systematically provides sufficient and appropriate audit evidence therefore" Comment to last sentence: Are we within or beyond compliance auditing?</p>	<p>Amendment accepted.</p>



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Internal Controls Subcommittee (observer)		
§ 11	The proposed standard could better communicate the characteristics of compliance auditing, including characteristics that differentiate compliance auditing from other auditing done in accordance with INTOSAI standards.	This definition is endorsed in ISSAI 400.
REQUIREMENTS OF THE COMPLIANCE AUDIT PROCESS		
GENERAL REQUIREMENTS OF COMPLIANCE AUDITING		
Portugal		
§ 29 Professional judgment and skepticism	The situation of conflicting provisions should also be mentioned, since it also requires professional judgement and skepticism.	A text proposal is most welcome.
§ 44 Audit risk	The definition of audit risk, including its components (inherent risk, control risk and detection risk) may be inserted in the glossary.	Concept and components of audit risk added to glossary.
European Court of Auditors		
	This part should include a section on strategic/multi-annual planning which is over and above the individual audit process.	A text proposal is most welcome.
§ 26 Professional judgement and skepticism	The user should be defined in the glossary at least.	Definition of user, responsible party and auditor inserted in glossary.



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§ 35 Quality control	The role of the supervisor should be explained and requirements attached to its function.	A text proposal is most welcome.
§ 37 Audit team management and skills	Although outsourcing some work, the auditor shall remain responsible for the results insofar they are used as part of the audit evidence.	Text added to paragraph.
§ 46 Confidence and assurance	Is this at the appropriate place? As users of compliance audit reports generally include the legislature as representatives of citizens making decisions and priorities concerning the calculation and purpose of public sector expenditure and income, the quality of information provided by the auditor or another party is crucial for the audit to contribute to good governance in providing the basis for informed decisions.	An alternative proposal is most welcome.
India		
§ 47 Reasonable and limited assurance	Can we say 'audit conclusion is expressed positively' when we say subject matter is not in compliance? Can we say 'audit conclusion is expressed negatively' here when there is no negative opinion?	See ISSAI 100 para. 33 and ISSAI 400 para. 40 and 41. May be in need of further elaboration.
§ 49 Materiality Comment from CAS secretariat	I agree. Infact, the explanation given in 'Glossary' is more elaborate.	To be considered for further elaboration.



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Internal Controls Subcommittee (observer)		
§ 25 and throughout the General Requirements section	The use of the words “should” and “shall” should be consistent throughout the standards.	Agreed and corrected
§ 29 Professional judgement and skepticism	We suggest to add /or: and/or the need of...	Agreed
§ 48 and Glossary	The statement that, for a limited assurance engagement the audit conclusion is expressed negatively is not consistent with current practice.	See ISSAI 100 para. 31-33 and ISSAI 400 para. 40. and 41.
§ 60 Communication	We suggest to change “proper” by “process”.	Agreed
FAS		
§ 47 Confidence and assurance	The clarification between attestation and direct engagements and also limited assurance and reasonable assurance. The different scopes will demand different approaches and the auditor needs more guidance on these matters. It is our opinion that a clear distinction between these different types of procedures should apply to	To be considered for further elaboration.



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	compliance audits as well as financial audit. There are significant differences between engagements to provide limited assurance and engagements to provide reasonable assurance. More guidance on limited assurance is needed.	
	<i>“In the special circumstances where limited assurance compliance audit work is performed as part of a reasonable assurance audit of financial statements, the limited assurance on compliance is clearly stated in the auditor’s report and set apart from the opinion on the financial statements.”</i> This paragraph is included in the section of limited assurance. It is our belief that much more guidance in relation to the description on the managements responsibilities as well as the auditors responsibilities and work effort should be provided.	To be considered for further elaboration.
§ 57 Documentation	There are very limited requirements related to documentation of the compliance audit process, shouldn’t there be more that is required?	To be considered for further elaboration.
REQUIREMENTS RELATED TO THE COMPLIANCE AUDIT PROCESS		
Planning and designing a compliance audit		
Portugal		
§ 67 Audit scope	I suggest that we could also insert a new paragraph pointing out the most relevent situations that can lead to adjustments in the audit scope throughout the audit process, one instance being the one referred to in paragraph 136 and another being the one in paragraph 148.	A text proposal is most welcome.
§ 81 Subject matter and criteria	Subject matter can be identified both at macro as well as at micro level. At the macro level, the SAI decides which departments/themes	Middle section inserted into paragraph.



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	<p>will be audited in the forthcoming period. Based on the mandate of the SAI, request for audit topics may be coming from Parliament or the Government. The audit will be, in these circumstances, always conducted with full independence by the SAI, with full authority to define the scope of the audit, the audit program and methodologies, to lead the audit team , review the audit work, ensure the audit quality control and that will be the only responsible for the approval of the report. After selecting the departments/themes, the SAI may select the subject matter within them at the micro level for compliance audits based on materiality and risk. The selection of subject matter both at the macro as well as micro level could be based on risk assessment and analysis of materiality of possible areas, including those relevant for the purposes mentioned in para 7, 8 and 9.</p>	<p>Unsecure of reference in last sentence of paragraph.</p>
<p>§ 82 Subject matter and criteria</p>	<p>I suggest that the examples of authorities stick together in one single paragraph of the ISSAI and also in the glossary. So being, this sentence could be shortened: "Sources of information used in selecting subject matters can be authorities and information on risk.</p>	<p>Agreed and adjusted</p>
<p>§ 84 Subject matter and criteria</p>	<p>I have some difficulties in understanding this paragraph. Procurement may also be a matter of propriety, In fact, within the European Union there are directives that rule procurement procedures above the defined thresholds and in In Portugal there is a Code for Public Procurement, which integrates hard law. So, considering these aspects from a regularity or from a propriety point of view depends on the national legal system and on the the detail of national legislations. Transactions where approvals are not obtained from competent authoritative body or decisions are taken bypassing the delegated authoritative body would also be a matter of regularity in</p>	<p>To be discussed.</p>



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	Portugal.	
§ 105 Understanding the entity	This paragraph, as paragraphs 14 and 82, gives examples of authorities that could be merged in one single paragraph or in the glossary.	Text adjusted.
European Court of Auditors		
§ 81 Subject matter and criteria	Is there a link between the two statements? Suggested reformulation: The selection of subject matter both at the macro as well as micro level should be based on risk assessment and analysis of materiality of possible areas.	Reformulation incorporated.
§ 105 Understanding the entity	This appears to be general and if this is the case, it may be that this paragraph should be placed above along with the general issues for compliance auditing.	
§ 121 Risk of fraud	<i>"Fraud risks are also generally linked to breach of propriety and need to be looked at closely by public auditors." Are we sure?</i>	Regularity/propriety to be discussed.
§ 127 Audit strategy and audit plan	The spirit and intention of authorities may for some SAs be related to compliance of formal authorities. Waste and extravagance: Is this related to deadweight or economy as included in performance auditing?	Regularity/propriety to be discussed.
India		
§ 67/68 Audit scope	I agree. This part needs to be elaborated. Scope could include the time period being covered in audit, focus of audit/description of areas under audit, extent and limits of audit in the sense specific transactions or area being audited.	To be considered for further elaboration.



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	<p>We need to give 'scope constraint' as well, so as to indicate any constraints Auditors face in conducting audit involving the aspects/items scoped.</p>	
<p>Internal Controls Subcommittee (observer)</p>		
<p>§ 106 Understanding control environment and internal controls</p>	<p>In paragraph 106 and further we would suggest to refer to ISSAI 1315/ ISA 315 (Understanding of the Entity and Its Environment, Including the Entity’s Internal Control) in two ways:</p> <p>(1)For entities where the SAI also has a financial audit engagement it could be stated that auditors make use of the work done in the financial audit, and use if possible the findings, eliminating the aspects not relevant for internal control of compliance risks.</p> <p>(2)For entities where the SAI has no financial audit engagement it could be stated that auditors conduct the work as prescribed in ISSAI 1315/ISA 315, eliminating the aspects not relevant for internal control of compliance.</p>	<p>References to the ISSAI 1000 series is suggested to be omitted by committee members.</p>
	<p>In paragraph 106 and further we would suggest to refer to GOV 9110 and 9130, the Guidelines for the audited public entity in which the COSO-model / Components of Internal Control are elaborated.</p>	<p>Issue still unsolved: should the subcommittees of the PSC develop a system of cross-references across the new level 4 ISSAIs.</p>



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	In paragraph 106 and further we would suggest to avoid new and non-complete definitions like in paragraph 108: "The control environment is the culture of honesty (...)". We would suggest to use or to refer to definitions used in other ISSAI's or GOV's.	Endorsed ISSAI 400 text.
§ 108 Understanding control environment and internal controls	This will enable the auditors in their assessment of whether to rely on controls or not. (i.e. depending on the design and operating effectiveness of the selected controls).	Requirement in § 106 is clear. If needed, a text proposal is most welcome.
§ 109 Understanding control environment and internal controls	We suggest to add "or a combination of both."	Agreed
	"In evaluating internal controls, the auditor assess the risk that internal controls may not prevent or detect material instances of non-compliance". Reference to "they" is a bit confusing.	Agreed
	Maybe add the following sentence: " An effective system of internal control is one where all the components are operating together in an integrated manner." Adopted from COSO.	Agreed
§ 111 Understanding control environment and internal controls	<p>Maybe elaborate more by referring to the actual components of internal control as per internal control standards and give abrief explanation of each component in the context of compliance:</p> <p>Internal control system is composed of:</p> <ol style="list-style-type: none"> 1. Control environment (culture of honesty and ethical behavior that provides the foundation for the system of internal controls) 	To be considered at a later stage.



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	<ol style="list-style-type: none"> 2. Risk assessment (identifying and assessing risks to the achievement of the compliance with authorities by the audited entity or relevant to the subject matter) 3. Control activities (policies and procedures put in place to mitigate the risks of the achievement of compliance objectives) 4. Information and communication (sources of information used to produce compliance related reports and the communication of compliance issues by the audited entity within and outside the entity) 5. Monitoring-(separate and/or on-going evaluation of the internal controls relevant to compliance in order to assess whether they are operating effectively or whether there's a need to change them due to changes in the compliance environment) 	
<p>§ 112 Understanding control environment and internal controls</p>	<p>These sentences are after the one dealing with substantive testing, so it can be understood that sampling is about substantive testing, but this part should deal with internal control (tests of control). So it needs clarification if this sampling is for test of control or more for</p>	<p>To be considered at a later stage.</p>



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	substantive testing, in later case it should be put not in this part.	
Gathering audit evidence		
European Court of Auditors		
§ 137 Audit sampling	This section should be discussed. It appears to set different requirements for quantitative and qualitative sampling, is this appropriate?	To be discussed.
Internal Controls Subcommittee (observer)		
§ 128 Sufficient and appropriate audit evidence	We miss in paragraphs 128 and further a description about how the internal control influences the audit approach, i.e. can the auditor rely on the internal control system (assuming that management adequately manages compliance risks), mainly reperforming the work of internal control or should more substantive testing be done. In paragraph 42 it is stated that the auditor considers the three dimensions of audit risk but it is not elaborated how this affects the audit once the inherent risks and control risks are assessed.	To be considered at a later stage.
§ 133 Sufficient and appropriate audit evidence	We suggest to add "or a combination of both."	Agreed.
§ 137 Audit sampling	Paragraph 137 and the following paragraphs on audit sampling: The draft section addressing audit sampling uses terminology that is not consistent with other audit standards, including ISSAI 1530, <i>Audit</i>	See ISSAI 400 para. 57. To be discussed further.



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	<i>Sampling.</i>	
Concluding and reporting		
Portugal		
§ 154 Reporting	I suggest that, in order to make perfectly clear the distinctions between short form reports and long form reports, the structure should be altered, inserting a new paragraph in the explanation stating that there might be short and long form reports and that both will be dealt with above. Suggestion for paragraph 158 "Compliance audit reports may take the form of compliance audit reports (short form) or of compliance audit special reports (long form). Further guidance on both forms and on the respective contents is given below.	Agreed. Reference to paragraphs in comment confusing.
India		
§ 154 Reporting	We may consider including 'Audit Approach' involving a mention of audit objectives, audit scope, criteria and methodology here since it is long form report/special report or a standalone compliance audit report to distinguish it from a short form compliance audit report.	To be discussed.
Internal Controls Subcommittee (observer)		
§ 157 Principle of contradiction	It could be understood that the contradiction principle has no room in other types of audit. Maybe it would be better to change it by other word, since it can be applied to other types of audits.	"Unique" deleted.



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§ 157 Compliance audit special reports	We think this concept of "preparer of the Report" should be clarified, cases when it's not the SAI who prepares it (but then, even if formally, isn't the SAI the preparer?)	To be considered at a later stage.