

# INTOSAI



Compliance Audit  
Subcommittee

## **COMPLIANCE AUDIT SUBCOMMITTEE Meeting in Brasília, Brazil 18–19 September 2013 Minutes**

### **Day 1 - Wednesday 18<sup>th</sup> of September**

#### **Agenda item I Introduction by the Chair**

The 11<sup>th</sup> meeting of the INTOSAI Compliance Audit Subcommittee (CAS) was held in Brasília, Brazil and hosted by the Federal Court of Accounts of Brazil (TCU).

The meeting was officially opened by Mr. João Augusto Ribeiro Nardes, President of the Federal Court of Accounts of Brazil.

The Chair of CAS, Mr. Jens Gunvaldsen, expressed the Subcommittee's gratitude to the Federal Court of Accounts of Brazil, and complimented their hospitality and professional preparations for the meeting.

The Chair asked all committee members to present themselves and greeted the CAS members attending; Brazil, China, the European Court of Auditors (ECA), India, Namibia, Romania, Tunisia, South Africa, Portugal, Hungary (observer) and Poland (observer from the Subcommittee on Internal Controls Standards).

#### **Agenda item II Summing up the PSC steering committee meeting in Stockholm**

Mr. Jens Gunvaldsen summed up the 10<sup>th</sup> Steering committee meeting of the Professional Standards Committee (PSC), held in Stockholm in June 2013. The meeting confirmed and strengthened the importance of public sector auditing through the endorsement of the new level 3 ISSAIs *Principles of Public Sector Auditing*. During the meeting the importance of describing the audit process in public sector and giving common concepts in public sector auditing was addressed and discussed. There must be consistency horizontally and vertically within the standards. The process has been difficult, and there are some dilemmas that are not solved yet. The cultures in the different audit disciplines are different. The FAS standards are long, the PAS are short and CAS is something in between. ISSAI 100, 200, 300 and 400 will be endorsed in China by the INCOSAI community in October 2013. This will give public auditing a strong framework. Mr. Gunvaldsen expressed that this is a fantastic achievement.

The second issue of the meeting was the question of a possible organization over the subcommittees responsible for standard development and maintenance. The mandate

and models are different in the SAIs, and how to set up the standards is a great challenge and technically difficult. To be a profession standard setter, it is important to have the technical skills. How to solve this is a big question for the INTOSAI community. There was no decisions taken in this meeting, but it will be elaborated in the INTOSAI strategic plan from 2016 by exploring different models. The U.S. Government Accountability Office (GAO) is responsible for the task force on strategic planning and will work in cooperation with the PSC on the issue.

IDI and the capacity building committee presented their work at the meeting. South Africa has taken the lead in the capacity building committee. Observers from the World Bank and IFAC attended the meeting. The World Bank and IFAC are not always happy with the work of INTOSAI in the respect of the economic crisis in the countries. The difficult question they ask is if the frameworks we have help the economical set up in the countries that are affected by the economic crisis.

The PAS chairmanship of Brazil also attended the PSC steering committee meeting and commented on the further need to develop ISSAI combined with the continuous, ongoing activity on ISSAI implementation with emphasis on IDI. These are present challenges for the subcommittees, but also a historic opportunity for public sector auditing. It is now up to us to grasp this historic moment.

## **Agenda item III Implementation**

The CAS secretariat introduced to the committee the present situation, where implementation and further maintenance of the ISSAI 4000 series is closely interrelated.

### **a. The 3i Program of the IDI (INTOSAI development initiative)**

On behalf of the IDI Ms. Mona Paulsrud introduced the 3i Program directed towards ISSAI implementation, and the feedback from the program to the work of the committee. The 3i Program contains a structured set of implementation tools in order for a SAI to develop an ISSAI based audit practice. The program has already developed an assessment tool, an iCAT, on compliance audit, and in 2014 an implementation handbook and an e-course on compliance audit will be developed. The main feedback given from the 3i Program to the committee is that the ability to perform the professional judgment required in the standards is often weak in participating SAIs. For implementation purposes there is a need to look at the entire ISSAI framework and there is a further need for cooperation between the subcommittees.

### **b. Questions and comments.**

**Brazil.** The 3i Program will cause huge challenges for the SAIs. Now the ISSAI is coming through and we have the opportunity to develop the professional network and experts. It is up to ourselves to do something now, we have to grasp the opportunity and help IDI in this process. The cooperation with IDI is important on specific products as courses and continues activity. What does it mean to manage the portal? It is not clear how we can do it. How should we work with mentoring of auditors and do some kind of certification? There are many initiatives from different SAIs and Afrosai-E is active. Even among

mentors there are different views to the implementation. There is a need for facilitators to give the same advices.

**The Chair, Mr. Jens Gunvaldsen.** The important question to answer is how we are going from development to implementation. To go into the problems with an optimistic view is our strength. We have to understand what IDI is working with, and try to see it from a SAIs angel. We have to ask ourselves, how can I contribute?

**IDI.** From the field, the IDI experience that people are commenting on the different audits. The IDI needs to use the committee members to answer the professional questions. They are not experts in Compliance Audit, and are not capable of answering the questions that are posed. There should be some professional answers to all the questions that are posed. The kind of experts that IDI need is those that grasp the SAI as a hole and understand how the different standards work within each SAI. Language is always crucial, and the translation is crucial for the implementation.

### **c. Implementation activities in regions**

#### **• EUROSAT goal team 2 - "Professional standards"**

Ms. Christina Breden of Romania is, together with the SAI of Slovakia, the CAS representatives in the EUROSAT goal team 2 group on professional standards. She presented the objective of EUROSAT goal team 2, which is to promote and support the implementation of ISSAIs in the European SAIs. This means to implement the standards and guidelines in the languages that are necessary. The team also sees the importance of contributing to further development.

What have been achieved?

- Survey on the application of ISSAI with EUROSAT was carried out.
- ISSAI translated into Russian.
- Needs of EUROSAT members in implementing the ISSAI and the need for a second awareness raising seminar were assessed.
- "Relevant" professional material was defined.
- An ISSAI column in EUROSAT Magazine was established.
- Information on GT2 progress is provided in EUROSAT Newsletters.
- Cooperation between EUROSAT and ASOSAT.

### **d. Implementation activities and questions from each SAI**

The CAS Chair invited all committee members to reflect upon implementation of the ISSAI 4000 series in their SAI and in their regions and how CAS can work best in order to support the implementation efforts.

**Tunis.** The role of the expert has to be taken seriously. An important question to answer is how to guaranty the quality of the expert when his/her involvement and the tool are difficult? As a CAS expert, we should define the role of the expert and explain what it is.

There must be some kind of contract where all parts have to know what to do, and we have to be precise of the expectations. The availability must be clear.

**South Africa.** If we can understand how the SAIs are implementing the ISSAI, and find out which SAIs have good experiences with implementation that would help us in our work with implementation. In addition we should find out how far the countries have come in implementing their ISSAIs. For us an important question to find an answer to is how we can combine the different audits. It is not up to us to find the answers. All the countries have to be on level 2, and all the countries must start to use the portal. We must also move quickly on level 4, and find out if we can do all the changes on level 4. IDI is working fast, and they are pushing us.

**Romania.** The tools to give feedback are to send regularly reports to the CAS-secretariat, which Romania is doing when we find it necessary. Cooperation between the secretariat and the experts in implementation of the standards is very important. But there is a need for more explanations and training seminars. There is also a need for a redrafting of the structure and contents of the 4000-series. This can be done by dividing the topics and establish some working groups with clear deadlines. We discussed the concepts of materiality, opinion etc in the meeting and we should work further on the development of these concepts.

**Portugal.** Some countries have worked with materiality, assurance etc. We should find out, maybe by a survey the situation in the different countries and identify their needs. This is important for the introduction of level 4.

**Poland.** An important question to answer for us is why we need standards. We need to translate the standards into Polish and raise awareness of the standards. Using the same definitions is important, and this can lead to more impact on our staff. New staff has to be familiar with the standards, because they will in some years train others. We have to start from a bottom-up perspective and convince the management.

**Namibia.** We have only done regulatory audit and not compliance. CA does not have guidelines in Namibia. The standards we have are high level. We run the 3i program with the IDI, where we check if we do our audits in according with the standards. We hold CA methodology separately, because it is not easy to share. We acknowledge the weaknesses we have, but we have seen that it is important with a platform. The iCAT is interesting, but we have to see what we are going to do. We are obliged to share, and we will look at the portal. We see it as important to have an annual refresher where the SAIs come together and share technical updates.

**India.** With the iCAT on CA, we are in a position to see the extent of implementation of ISSAIs on compliance audit by various SAIs across the world and the areas of gaps in implementation. Based on this feedback, we should be able to work on areas where there is difficulty in implementing the ISSAIs and simplify them. Even within CAS, only ECA has been able to give an opinion in compliance audit, and not even the Chair has implemented this aspect of ISSAIs on CA. Therefore we need to see why the SAIs are not able to follow the ISSAIs and review the standards and make the necessary

alterations/modifications to enable their implementation. In this regard, we have to work with the facilitators and mentors, because I am not sure if they are on the same professional level because their assessment will also be determined by their own understanding of compliance audit as practiced in their SAIs.

**Hungary.** In our country, we have problems with the translation and must consider the proper terminology. We have implemented level 2 of the ISSAI framework. The implementation tools are on two pages. We are working now on level 3, auditing principles. For level 4 we have set up working groups. The INTOSAI GOVs – as we see – are for ministries and internal auditors. We can use the IDI performance measurement framework. Based on the mandate, we can accept level 2 of the ISSAI framework in our SAI.

**European Court of Auditors.** It is crucial to distinguish clearly between standards and guidelines. The standards should come with appendixes. In a regularity audit you must do financial and compliance audit. FAS and CAS should cooperate in this respect. One of the questions to be asked is whether there is a proper use of funds. It is very important for ECA to see how the standards are implemented, but we cannot be seen as leading the international audit community concerning compliance. Therefore, we cannot be seen as experts making statements. As to the roll-out of the standards in the audit community, the efforts of IDI is impressive, yet we believe that there is room for improvement of their knowledge of standards and understanding what they ask the subcommittees to deliver. In the roll-out exercise the experts in the various subcommittees can be called upon in the regions etc. In relation to the IDI and the maintenance and development of new standards, we should priorities the tasks and decide ourselves how and when this should be done - quality is paramount even though IDI push to deliver. We should set a time frame with deadlines for our work. If we aim at presenting something at the next INCOSAI, we have effectively two years to work. We should keep that in mind when we plan and priorities what to do.

**China.** We have done a lot of things. We have translated parts of level 1 to 4 into Chinese, and it is very difficult. Ten people have become facilitators, and put energy into learning. We will this year work together and discuss the ISSAIs while utilizing the iCATs. It is difficult to understand the ISSAIs. We have different views about the same sentences, and we have to use them with our own characteristics. I work in the department of legal affairs, and we formulate and revise standards and guidelines. We find it important to investigate. We should put questions on the intranet to get feedback from auditors all over the country. To discuss the problems with the facilitators in our own country and other countries are important. We have to understand the iCAT, which is very useful for us.

**Brazil.** It is important to understand CA, and how to do CA in courts of audits. We have worked on developing standards based on level 3. We can translate it into Portuguese, but we need coordination and that the translation is correct. The meaning must be correct. We must not forget that the standard becomes a rule. We have to ask ourselves, what the concepts subject matter and audit scope means. We need help from the CAS to understand sample and assurance. What is the best practice? The answer should be posted on the CAS website. We have tried this in PAS, but what is best practice? Our experience was that this was not good and we took it of the website. We should give guidance on how to do it on level 3. IDI is writing the iCAT, but the important question is

how to conduct auditing. There is nothing about risk in level 4 in PA, and the auditors must consult the sub- committee. The experts that are working on this in our SAI need the guidance to write the material. It will take four months to finish the exercise. The different levels need different guidance. But they are interrelated. IDI do not know what to do with level 2, the matrix. We use material from Afrosai-E which is good. They are using it in training. It is on an e-course level.

**The Chair, Mr. Jens Gunvaldsen** paid tribute to all committee members and their devotion in the implementation process. We have internal trainers attending regional meetings, and working with feedback mechanism with the IDI. But this work has to be structured in a better way. The iCAT is a concrete instrument, and the IDI knows where the problems are. This will give us a platform that makes it easier to understand where the challenges are. The importance of the communication with IDI is very clear, but we have to clarify the roles. We have to know how the IDI implement and train people out in the field. We have to ask ourselves, what can be the role for all of us, the members of the committee, IDI and the CAS secretariat.

## **Agenda item IV Maintenance**

### **a. The harmonization project - its outcomes and significance for the future**

Ms. Mona Paulsrud and Mr. Niels-Erik Brokopp presented the outcome of the harmonization project. ECA, Slovakia and Norway have been working for three years as the CAS harmonization team on this project starting in Bratislava in 2011. The achievements of the project are the ISSAIs 100, 200, 300 and 400 that will be endorsed at INCOSAI in China by the end of October 2013. The CAS harmonization team has worked with the committee as a back office function all throughout the project, and committee members have engaged actively in commenting on drafts and engaging in discussions on the way. Hence, the new Principles on Public Sector Auditing and the new ISSAI 400 are a common committee achievement. CAS saw its role in the project as a bridge between financial and performance audit, and this role was crucial in finding the solutions that tie the three audit types together on level 3.

The new level 3 ISSAIs also forms the point of departure for the maintenance process of the ISSAI 4000 series to be conducted by CAS in the coming years. The Principles on Public Sector Auditing gives the SAIs the option of applying the Compliance Audit Guidelines as authoritative standards, and hence they need to express clearly the difference between requirements and guidance. There are drafting style guidelines for the further maintenance of level 4, requiring them to follow the terminology, structure and contents of level 3. In this manner, the harmonization project is paving the way forward for the work of CAS.

## Day 2 - Thursday 19<sup>th</sup> of September

### a. CAS subgroup on Court of Accounts issues

Ms. Amel Elloumi Baoueb of the Tunisian Court of Accounts presented the work of the CAS subgroup on court of accounts issues and their proposal of a draft ISSAI 4300 call for comments, Compliance Audit in the Context of Courts of Accounts. She introduced the committee to the work behind the document, which started when the committee was formed and it was discovered that compliance audit is the audit type most commonly performed in SAIs organized as courts.

The ISSAI 4300 has been developed, revised and refined through several rounds with participation of SAI Tunisia, ECA, SAI Romania, SAI of Brazil, and SAI of Portugal. In January 2013 a meeting was held in Oslo, where it was decided, in light of the decisions of the harmonization project, to redraft the document in the structure of ISSAI 400. This redrafted version is what the group is presenting before the committee. On the basis of the document there are two options for compliance audit in the context of Courts to be integrated into level 4 in a maintenance process as additional requirements or as a standalone document.

Ms. Baoueb further presented the arguments in favor and against a separate document on Compliance Audit in the context of courts of accounts in order to make the Court model recognized as a part of the standards of INTOSAI.

Mr. Jens Gunvaldsen commented that there are two perspectives when recognizing the specifics of the courts within compliance audit, either to unite or to develop separately. In his view the best way of doing it is thorough finding a common ground for all forms of compliance audit with few and high level requirements in one common document in the further maintenance of level 4 and to add to them the requirements of the courts. In order to identify the specifics of the courts, the court group should go to the core of their audit process and identify the essential shall-requirements.

It was agreement within the CAS subgroup on court of accounts issues that there will be some shall-requirements for the courts.

**Romania** commented that this is a complex and difficult task that may take two years to finalize.

**South Africa** commented that an alternative structure of the level 4 ISSAIs could be to develop one standard for each principle.

**Portugal** congratulated Tunisia on the document and the presentation and supported the view of the chair that the court model should be recognized within the INTOSAI standards through a common ground and not as a separate document.

**Brazil** expressed the view that the specific of the audit process of courts is the extra caution in collecting evidence and the explanation in the report of who is responsible. There are some specific concepts for courts, but no need for a separate document.

**Hungary** congratulated Tunisia on the presentation.

**The committee** concluded that on the basis of the draft ISSAI 4300 the Court model will be recognized as a part of the standards of INTOSAI through integration into a common Compliance Audit Standard. Committee members are invited to comment on the document to the SAI of Tunisia by the end of October, and the CAS subgroup on court of accounts issues will send the final document to the CAS secretariat by December 2013.

#### **b. CAS maintenance strategy**

The CAS secretariat presented the issue paper on CAS maintenance strategy, summing up a previous committee hearing. The main proposal of the strategy is to restructure the ISSAI 4000 series into one common authoritative standard for compliance auditing following the structure of ISSAI 400, where the present contents of ISSAI 400 forms the basis for requirements and the present contents of ISSAI 4100/4200 forms the basis of the guidance of the document.

Further, the strategy identifies four main areas in need of further development:

1. The audit process leading to a CA opinion.
2. Identifying the subject matter and criteria
3. How to achieve assurance
4. Authority and propriety

**Brazil.** We should choose something that is in harmony with the other subcommittees. We are doing something like this in PAS. It is important to keep in mind how to portray the combination of compliance with performance and financial auditing in such a standard.

**The European Court of Auditors** congratulated the CAS secretariat on the maintenance paper. The ISSAI 4000 should be slim and distinguish clearly between narrative reporting and a report with an opinion. SAIs often mixes compliance and performance auditing, and the quality tends to be poor.

**China** commented that there should be common concepts on level 4 for all compliance audits, and then comes specific audit models. It is important to point out the variation. In China we have comprehensive auditing involving FA, CA and PA.

**India.** A lot of compliance audit is being done by SAIs across the world and while they may have their own national standards, these should be in sync with the INTOSAI standards and as the subcommittee on CA, we should ensure that we develop common standards which can be implemented by all the SAIs. However, there has to be certain degree of flexibility in view of the specific mandate of the SAI and the local requirements. For instance, for SAI India, it is extremely important to examine issues of propriety while carrying out a compliance audit but the concept of propriety audit is not known to many SAIs. Therefore, having one document on ISSAI 4000 series is fine but we need to specify the concepts that “**shall**” be followed and those that “**should**” be followed. There cannot be a compromise on basic concepts of CA like authorities, criteria etc.

Mr. Jens Gunvaldsen summed up by stating that the further maintenance of the ISSAI 4000 series takes as point of departure the work and the history of CAS so far, the comments given to ISSAI 400 and focus on core requirements to become one, common authoritative standard for compliance auditing directly applicable to all SAIs.



Prior to the next CAS meeting, a first draft of such a document is to be developed. The priorities of the committee in developing the document will be the following:

1. Develop the shall-requirements: what is common for everyone.
2. The specific considerations of the courts: on each requirement to consider if there is a need for specific issues related to courts
3. The interface between compliance and other audit types: considerations related to combinations of compliance with financial or performance auditing

The CAS secretariat summed up the work plan of the committee in the maintenance of the ISSAI 4000 series and the committee was divided into the following three maintenance groups:

1. Technical group: Tunisia, South Africa, India and Portugal.
2. The audit process leading to a compliance audit opinion and how to achieve assurance: Romania, Namibia, ECA, China, Brazil.
3. Identify the subject matter and criteria and authorities and propriety: India, ECA.

## **Venue next meeting**

Venue of the 12<sup>th</sup> CAS meeting in 2014 has not yet been decided. The Chair invited committee members to come forward if there is an interest in hosting the CAS meeting in 2014.

## **AOB**

The CAS secretariat informed that CAS has given a comment to an IFAC draft framework for good governance in the public sector.

## **Closing of the meeting**

The Head of the Applied Methods and Support for Audits Department, Mr. Dagomar Lima and the Head of the International Relations Division, Mr. Luciano Danni of the Federal Court of Accounts of Brazil congratulated all CAS members with the work done over the last days and expressed their gratitude for the opportunity to host the CAS subcommittee.

The Chair of CAS, Mr. Jens Gunvaldsen, thanked the participants and the hosts of the meeting for their dedication and participation in the work of CAS.