



Compliance Audit Sub Committee (CAS) NEWSLETTER 2/2017



Editorial

We are pleased to bring out the second issue of Compliance Audit Subcommittee (CAS) Newsletter. The essence of this newsletter is to share professional experience and exchange information which would enrich member SAIs. We consider the newsletter as a window to the activities of CAS and a forum to share the excellent work being done by our member SAIs.

Mr. Rajiv Mehrishi, assumed charge as Comptroller & Auditor General of India and is the Chair of CAS. A brief profile of Mr. Rajiv Mehrishi is included in this edition. This issue of the newsletter focuses on the progress achieved in the projects taken up by CAS under the Strategic Development Plan (SDP) 2017-19 of INTOSAI Framework of Professional Pronouncement (IFPP), namely “Provide guidance on compliance auditing” under the Project 2.2 and “Using ISSAIs in accordance with the SAI’s mandate and carrying out combined audits” under the project 2.3.

The newsletter also serves as a prominent medium of dissemination of news/articles on audit particularly on compliance audit in the INTOSAI community. This edition of the newsletter contains an article contributed by the Supreme Audit Institution of Russia on their experience in conducting Compliance Audit. A new feature has been added from this edition onwards on ‘Compliance Audit News from IDI’.

Since the patronage of the members is essential for continuance of this newsletter, I look forward to active cooperation from all the members in making this newsletter an efficient medium of communication.

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Chair CAS Secretariat

Mr. Rajiv Mehrishi, Comptroller & Auditor General of India and Chair of Compliance Audit Sub-Committee



Mr. Rajiv Mehrishi took charge as Chair of the Compliance Audit Subcommittee upon his assumption of office as the Comptroller and Auditor General of India on 25 September 2017. As a constitutional functionary, he is primarily entrusted with the responsibility to audit the accounts and related activities of the three tiers of Government of India – Union, States and Local, the state-owned public sector commercial enterprises; and autonomous bodies financed by the Union and States Governments. His reports are laid before the Parliament and Legislatures of the States.

Mr. Mehrishi is also the Chair of the United Nations Board of Auditors and is the external auditor of the World Intellectual Property Organization. He plays an important role in the affairs of International Organization of Supreme Audit Institutions as the Chair of the Knowledge Sharing and Knowledge Services Committee, Chair of the Working Group on Information Technology Audit and as a member of its Governing Board. His other international responsibilities include being a member of the Governing Board of Asian Organization of Supreme Audit Institutions and as Chair of the Board of Editors of its journal.

Approval of Project Proposal of CAS for Project 2.2 of SDP

Project Proposal of the Compliance Audit Subcommittee - “Provide guidance on compliance auditing” under the Project 2.2 of Strategic Development Plan (SDP) of INTOSAI Framework of Professional Pronouncements (IFPP) has been approved by FIPP in its 6th meeting held at Guatemala in November 2017 with the changed working title

“Guidance on authorities to be considered while examining the regularity and propriety aspects in compliance audit”.

The Project Leader for the Project 2.2 is SAI Norway and other members of the project team are SAI France, SAI Brazil, ECA, SAI India and SAI South Africa. Presently, work on the exposure draft of the project 2.2 is under progress.

Formation of Project Team from CAS for Project 2.3 of SDP

Chair, Professional Standard Committee (PSC) has assigned the project 2.3 of Strategic Development Plan (SDP) of INTOSAI Framework of Professional Pronouncements (IFPP) on “Using ISSAIs in accordance with the SAI’s mandate and carrying out combined audits” to project team led by a representative of the Compliance Audit Sub Committee.

Chair, Compliance Audit Sub-Committee has nominated SAI-Romania to lead the Project 2.3. SAIs of Brazil, China, European Court of Auditors, Hungary and Tunisia are the other CAS members for the project.

This project is to be carried out jointly by three subcommittees under Professional Standards Committee (PSC), viz., Compliance Audit Subcommittee (CAS), Performance Audit Subcommittee (PAS) and Financial Audit and Accounting Subcommittee (FAAS).

Presently, the Project proposal for the project 2.3 is under consideration for the approval by FIPP.

Nomination of Subject Matter Experts from CAS for Project 2.6 and 2.9 of SDP

During the 14th meeting of Compliance Audit Sub Committee (CAS) held in New Delhi in February 2017 it was decided ‘in-principle’ that members of CAS who are also members of a sub-committee/working group, should be nominated as Subject Matter Expert for projects of which, such subcommittee /working group are natural owners but the projects are of relevance to CAS also.

Based on the interest envisaged by CAS members, SAI Russia has been nominated as Subject Matter Expert from CAS for the Project 2.6 of Strategic Development Plan

(SDP) of INTOSAI Framework of Professional Pronouncements (IFPP) on “Consolidated and improved guidance on reliance of work of internal auditors”. The Internal Control Subcommittee (ICS) are the project owners.

Further, SAI Portugal has also been nominated as Subject Matter Expert from CAS for the project 2.9 of SDP 2017-19 on ‘Consolidating and aligning the audit of public debt with ISSAI 100’ under Working Group on Public Debt (WGPD), which is being led by SAI Philippines, Chair of WGPD.

15th Annual CAS meeting 2018 – European Court of Auditors

During the 14th meeting of Compliance Audit Sub-Committee (CAS), European Court of Auditors (ECA) had kindly volunteered to host the 15th CAS meeting at Luxembourg. Accordingly, the 15th meeting of CAS will held from 9-10 October, 2018 at Luxembourg. Detailed schedule will be intimated in due course.

ISSAI 4000: new standard, new stakes in the French speaking community

SAI France, as General Secretary of the French Speaking SAIs Association (AISCCUF – www.aisccuf.org) organized, a professional seminar in association with SAI Senegal on the new ISSAI 4000 endorsed at the INCOSAI XXII. This seminar, held in Dakar on June 28 and 29, 2017, was attended by 50 representatives of 19 different French speaking SAIs.

The focus of the seminar was on ISSAI 4000 on Compliance auditing. During two hours lecture, followed by a Question and Answer session, experts on compliance auditing discussed the stakes in compliance auditing, and its relationship with other types of activities or control. This exchange of information among the 50 attendees also provided an opportunity to share feedback and experience in implementation of ISSAIs on compliance auditing.

VI – Les principaux concepts



6.1 – Principes généraux de l'audit de conformité

Sélection des domaines significatifs pour les utilisateurs ciblés

« Lorsque l'ISC a un pouvoir discrétionnaire pour sélectionner le champ d'application des audits de conformité, elle doit identifier les domaines qui ont un caractère significatif pour (les) l'utilisateur (s) ciblé (s). »

ISSAI 4000/64

Domaines à déterminer en tenant compte des facteurs tels que:

- ✓ impact sur le citoyen choix
- ✓ attentes du Parlement
- ✓ principes de bonne gouvernance
- ✓ absence d'un système adéquat de contrôle interne

Exemple : Mode de choix non formalisé dans nos ISC même si ces facteurs entrent en jeu

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Within the French speaking SAI community, majority of SAIs have jurisdictional functions. In that context, with the adequacies and inadequacies in ISSAI 4000 with respect to jurisdictional activities of SAIs was also discussed.



Fifth Meeting of Forum for INTOSAI Professional Pronouncement (FIPP) held at Ottawa, Canada

The FIPP conducted its fifth meeting in Ottawa, on 17-21 July, 2017. The key items of discussion / decisions taken during the meeting related to project proposals for SDP projects received from different goal chairs/sub committees/project groups. Initial draft proposal for renumbering and relabeling of existing pronouncements into the IFPP was also discussed.

Sixth Meeting OF Forum for INTOSAI Professional Pronouncement held at Guatemala

The FIPP conducted its sixth meeting in Guatemala on 28-30 November 2017. FIPP members approved the exposure draft of INTOSAI P-10 on SAI Independence and Project proposals for five projects, namely guidance on compliance auditing, consolidated guidance on IT audit and Information security audit and consolidated guidance on public debt audit were approved by FIPP. FIPP membership also

considered three new projects which have been included in the revised SDP 2017-19, namely, Public procurement audit, International Pronouncement on jurisdictional activities of SAIs and Audit of Key National Indicators (KNI). While the project proposal on jurisdictional activities was conditionally approved subject to fulfilment of certain requirements, FIPP provided scoping papers on guidance on audit of public procurement audit and audit of KNIs to the respective working groups.

Article

On the experience of carrying out of compliance audit in the Accounts Chamber of the Russian Federation

The Federal Law dated April 05, 2013 “On the Accounts Chamber of the Russian Federation” (as amended) stipulates that the Accounts Chamber shall perform external public audit (control) in accordance with the standards of the Accounts Chamber, to be developed and approved, taking into account the international standards in the sphere of state financial control, audit and financial reporting.

In accordance with the provisions of the International standard of the ISSAI 400 “Fundamental Principles of Compliance Auditing”, compliance audit may be applied independently or may be a part of a combined audit involving application of methodologies of various types of public audit, including financial audit.

Within the framework of activities of the Accounts Chamber of the Russian Federation, compliance audit is applied in conjunction with various types of public audit primarily financial audit, with due consideration to the provision of the concerned INTOSAI standard of auditing.

For example, the Federal Law dated April 05, 2013 “On the Accounts Chamber of the Russian Federation” (as amended) stipulates the authorities of the Accounts Chamber “Which performing financial audit (control), as per mandate of the Accounts Chamber. Verification of compliance with the budgetary legislation of the Russian Federation, as well as with the statutory provision regulating legal budgetary relations, should be verified”.

In compliance with the provision of the Federal Law, the Public Audit Standard adopted by the Accounts Chamber of the Russian Federation on financial audit include verification of compliance with financial audit with budgetary legislation of the Russian Federation particularly with regard to:

- performance of the functions and authorities of the federal treasurer, chief administrator of the federal budget revenues, chief administrator of the sources of financing the federal budget deficit and recipient of budget funds;
- arrangement and maintenance of budgetary accounting by chief administrators of budget provisions and determination of budgetary reporting reliability;
- management of federal property and its designated use.

The said standard is obligatory to be followed during financial audit and compliance audit carried out by the inspection staff of the Accounts Chamber of the Russian Federation.

Since verification of legality and lawfulness of use of public resources is one of the top-priority objectives of public audit performed by the Accounts Chamber of the Russian Federation, the issues of compliance audit are also included in such public audit standards in the form of “Audit in the Sphere of Procurements of Goods, Works and Services by Audited (Controlled) Entities”, “Audit of Federal Information Systems and Projects” apart from other standards.

Provisions on the compliance audit are also included the consolidated statements of Violations Identified in the Process of External Public Audit (Control), prepared by the Accounts Chamber of the Russian Federation together with controlling and auditing entities of the Russian Federation, and municipalities.

The statement is not part of the regulatory function by its nature and has the status of an information and reference document which is developed on the basis of the principle of legality also intended to ensure the uniformity of the classification of violations.

The consolidated statements helps in clear categorization of violations identified in audit and ensure consistency in reporting on the monitoring activities of the Accounts Chamber of the Russian Federation and controlling and auditing bodies of the Russian Federation and local authorities. The statement includes the following eight types of violations:

- 1) Violations in the process of formation and utilization of budgets;
- 2) Violations in maintenance of accounting records or preparation and presentation of accounting (financial) statements;
- 3) Violations in the sphere of management and disposition of state (municipal) ownership;
- 4) Violations in government (municipal) procurements and procurements by separate types of legal entities;
- 5) Violations relating to activities of the Central Bank of the Russian Federation, its organization subdivisions and other banks and non-bank credit organizations included into the banking system of the Russian Federation, state owned corporations, state owned companies, organizations participating in the Russian Federation through

charter (pooled) capital and other organizations, including publicly-owned (or municipally-owned) property;

6) Violations in the process of utilization of funds of financial and humanitarian assistance of the Russian Federation, provided to foreign states as well as in implementation of international contracts and intergovernmental agreements and in relation to production sharing agreements;

7) Other violations;

8) Improper use of budget funds.

For each identified violation, the statement provides a reference to the penalties, including those provided under the Code of the Russian Federation on Administrative Offences.

In the Accounts Chamber of the Russian Federation, compliance audit observations are applied while performing audit of the federal budget and budgets of state non-budgetary funds of the Russian Federation, at all these stages of audit namely – preliminary, operative, and follow up audit.

In particular, within the framework of preliminary audit of formulation of the federal budget and budgets of state off-budgetary funds of the Russian Federation, the Accounts Chamber of the Russian Federation evaluates draft budgets as instruments of the state's social and economic policy instrument, their correspondence to the provisions of the messages of the President of Russian Federation and other program documents. An analysis of the validity of draft budget targets for compliance with the regulatory and methodical basis of their formation is also carried out. The results of audit are reflected in audit conclusions on draft federal laws on the federal budget and budgets of state non-budgetary funds of the Russian Federation, are submitted by the Accounts Chamber of the Russian Federation to chambers of the Federal Assembly.

During operative analysis of utilization and control over organization of utilization of the federal budget and budgets of state non-budgetary funds of the Russian Federation, an analysis of cash management of the budgets in comparison with the approved targets of the federal laws is performed. On the basis of the analysis, an operational report (operational information) is prepared quarterly and submitted to the Accounts Chamber of the Russian Federation to chambers of the Federal Assembly. Follow-up audit of utilization of the federal budget and budgets of state non-budgetary funds of the Russian Federation is carried out for the purposes of verification of legality of utilization of budgets, reliability of accounting and reporting system, and completeness and timeliness of compliance with the targets approved by the federal laws. The results are reflected in audit conclusions for each chief administrator of the federal budget funds. The audit conclusion on utilization of the federal budget and budgets of state non-budgetary funds of the Russian Federation, are submitted by the Accounts Chamber of the Russian Federation to chambers of the Federal Assembly.

Some of the most indicative violations presented in the Audit Conclusion of the Accounts Chamber of the Russian Federation for the report on utilization of the federal budget for 2016 are non-compliance with:

- the provisions of the Budget Code of the Russian Federation and other normative legal acts regulating legal budgetary relations;
- the main tasks set up in decrees of the President of the Russian Federation and in messages of the President of the Russian Federation for the Federal Assembly of the Russian Federation (as related to the budgetary policy);
- the Federal Law on the federal budget and the Decree of the Government of the Russian Federation “On Measures to Implement the Federal Law On the Federal Budget”;
- the social and economic development strategies and state policy concepts in the relevant sphere;
- state programs and other program documents;
- the Federal Law “On the Contract System of the Federal and Municipal Procurement of Goods, Works and Services”.

Therefore, from the above it is evident that the issues of compliance audit are clearly reflected in audit activities of the Accounts Chamber of the Russian Federation.

Compliance Audit News from IDI

Moving towards ISSAI based Compliance Audit: Challenges and Choices for SAIs

Introduction

IDI has been engaged in facilitating the implementation of compliance audit ISSAIs with its 3i Programme since 2012. During this period IDI has also delivered a cooperative audit programme assisting some SAIs in conducting ISSAI based compliance audit. We have experienced that SAIs conduct compliance audits in many different ways following the methodologies required by their mandate. This write-up covers aspects of ISSAI based compliance audit methodology and compares it with current audit practices of SAIs that IDI has engaged. It identifies the challenges SAIs are facing in moving towards ISSAI based compliance audits. To enable the auditors to conduct the audit following the ISSAIs SAIs need to make their own choices considering the unique challenges they are facing.

How SAIs can move from current practices to ISSAI based compliance audit?

ISSAI based methodology describes a systematic process of an audit which requires a logical application of the concepts throughout the audit. ISSAI outlines an organized

approach where the auditor selects the topic following given parameters which may demand, based on the subject matter, narrowing it down to a manageable scope. Auditor performs audit procedures on the risks identified to arrive at an overall conclusion on the compliance status of the subject matter.

In their existing methodology in some SAIs, auditors would choose an area for audit what might seem important to them. The absence of a set audit objective would make it difficult for them to conclude on the overall subject matter based on the non-compliances identified. While performing the audit, teams would find issues of non-compliances as and when it appears.

Application of ISSAI based methodology ensures that the auditor thinks about the purpose, how the audit result can be beneficial to the user and how to ensure the quality. The auditor can identify many critical areas and contemporary issues of the subject matter by using an appropriate risk assessment process. Following the methodology will result in significant audit findings that would add value to the entity and its operation and helps to achieve objective audit results that will create more impact. Also, by presenting the audit results in an organized manner as guided in the ISSAIs, SAIs can support the management and the users of the report to determine the significance of the issues identified in the audit.

What will it take to move towards an ISSAI based compliance audit?

Implementation of professional standards and performing the audit following the ISSAIs are not easy tasks. SAIs face many difficulties in their sincere initiatives to move from their existing audit practices to the ISSAI based methodology and practice. To appreciate the concepts embedded in ISSAIs, SAIs need to enhance the professional knowledge and skills of their staff. Auditors will then be able to change their approach from their current



understanding of audit to the application of the tasks required by the ISSAIs. Following are some approaches SAIs may consider to move towards an ISSAI based audit practice:

a. Adopting ISSAI based audit methodology

ISSAI based methodology requires an auditor to use the concepts of risk and materiality in the audit. Standards entail that the auditor exercises professional skepticism and professional judgment throughout so that a quality reviewer can find evidence of these in the documentation of the work of the auditors. To align their audit methodology with ISSAIs SAIs can improve on the following areas:

Risk assessment: Sometimes auditors may find a risk at the execution phase which they didn't identify in the planning phase. At the same time, some high-risk areas determined in planning may not be a risk at execution phase. ISSAIs acknowledge this and suggests that risks might change during execution, and the auditor can revise the plan accordingly. Auditors need to consider that audit planning is an iterative process, as the risks they have assessed in planning may change, at the same time, they may observe new risks of material non-compliances emerging from areas which they didn't anticipate beforehand.

Materiality: SAIs in their current practice use the materiality concept, However, they need to apply it throughout the audit, in order to be ISSAI compliant. The ISSAI recommends using both quantitative and qualitative materiality. Compliance audit subject matters are often qualitative and require the application of qualitative materiality. SAI needs to enable the teams to appropriately apply materiality in the planning, execution and reporting stages of the audit.

Documentation: ISSAI based methodology emphasises on documentation. We often find that while SAIs have extensive documentation to support audit findings, they need to strengthen their documentation of the audit process, primarily documenting the work of the auditors. The documentation requirements need to be specified in SAI's audit methodology, checked by supervisors and independently quality assured. Lack of time, resources and skills are some of the challenges SAIs face in having appropriate documentation in place.

b. Setup appropriate organizational structure

Implementation of ISSAIs in the SAI also requires changes in SAI's organizational structure and management. Some SAIs conduct their audits without clearly separating the three distinct types of audit. To conduct ISSAI based compliance audit the SAI needs to have a set of compliance auditors who are familiar with the ISSAI based methodology. At the same time, the SAI is required to establish adequate quality control and assurance mechanisms to ensure quality output.

c. Resource allocation

An ISSAI based audit methodology requires more time and resources to complete than the average time required in SAI's current audits. Some SAI teams mentioned that in their current audit planning, they use less than 10 percent of the total audit period. ISSAI based methodology asks for considerable time in planning, and SAI teams need to balance the time allocated between the planning and execution to conduct an audit. To enable the auditors to plan appropriately and bring out the genuine risks, SAIs need to allocate adequate working days and human resources. The teams report that if the

SAI can provide enough time and resources, audit teams will be able to plan and perform the audit and complete the documentation required by the ISSAI based methodology.

d. Supportive leadership

Supportive leadership helps to maximize the efficiency of the SAI and to achieve organizational goals. It often has the potential to influence and drive the auditors' efforts towards ISSAI implementation. Leadership at all levels is vital in the SAI, as line managers must also demonstrate leadership skills. IDI has supported two SAIs, namely SAIs of Bhutan and Tonga in the implementation of ISSAIs in SAI level support under the 3i programme. In both SAIs leadership starting from the head of SAI to the project team, audit team, and quality assurance team played a tremendous role in achieving the positive results.

How can IDI support the SAIs in implementing the ISSAIs?

IDI has initiated the revision of its compliance audit ISSAI Implementation Handbook in line with the requirements of ISSAI 4000 following its approval at the INCOSAI 2016. In 2017 IDI delivered a cooperative audit programme on compliance audit of procurement for 11 SAIs of PASAI region. The handbook documented the ISSAI based methodology, and it was used in the cooperative audit programme. IDI has also initiated SAI level support programmes for SAIs of Bhutan and Tonga that have embarked on the implementation of ISSAIs.

In the delivery of the cooperative audits and SAI level support IDI has experienced that the challenges the SAIs are now facing in conducting the ISSAI based audit are coming from the difference between their current audit practices and the requirements of the ISSAI. As a professional standard, ISSAI requires a professional level of competencies to understand and apply it in the audit.

Recently the IDI has participated in the development of INTOSAI Competency Framework for compliance auditors based on the ISSAIs. The competency framework details and defines the ideal competencies expected of an individual's professional capacity to carry out a compliance audit. It focuses on developing a set of universally valid core competencies, at the same time allowing the INTOSAI regions and SAIs to tailor, and further develop these to suit their unique mandates and needs. IDI has also initiated discussions on SAI Audit Professionals Certification Pilot.

Conclusion

ISSAI implementation is a continuous process that aims for an SAI be able to conduct ISSAI compliant audits. For this, SAIs need to move from their standalone audit to an ISSAI based audit methodology which has brought a systematic process of compliance auditing. Based on its specific situation SAI can determine their best path to implement the ISSAIs. At the same time, it is also imperative to have an independent quality assurance mechanism in the SAI that can assure whether the SAI audits are ISSAI

compliant or not. With the efforts from SAIs, regions, and IDI together we aim to address the challenges SAIs are facing now and help the SAIs to conduct the ISSAI compliant audits.