

# Standard Setting in INTOSAI

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INTOSAI  
PSC

Professional  
Standards  
Committee

## Standard Setting in INTOSAI

*During the 14<sup>th</sup> meeting of the PSC Steering Committee (June of 2017)<sup>1</sup>, while discussing options for setting up a possible technical support function for INTOSAI standard setting, some members expressed the view that further changes may be needed to the standard setting process to ensure that INTOSAI can become the strong, independent, internationally recognized standard setter for the public sector it aspires to be.*

*The concerns raised moved the discussion away from the specific topic on the agenda and started a much broader debate on INTOSAI's standard setting approach. In order to bring the attention of this fundamental issue to a higher level within the Organisation, the Steering Committee commissioned the PSC Chair to prepare a paper to be addressed to the Governing Board, reflecting the discussions held about the theme.*

*Therefore, the purpose of this paper is to offer a summary of the developments that have taken place within INTOSAI in recent years on its standard setting function and the standards produced, as well as the debates that have accompanied and followed these changes. The paper is intended to help inform delegates of the Governing Board and provide a solid base for a broader reflection on the issues raised during the breakaway session scheduled for the upcoming Governing Board Meeting.*

*At the end of the session, the PSC hopes to be able to have clear view of the challenges facing INTOSAI standard setting and the fitness for purpose of its approach, as well as identification of the options available for tackling these challenges.*

### **The start of Standard Setting in INTOSAI**

Standard setting was established as one of INTOSAI's main goals in its first strategic plan (2005-2010), although the development of its auditing standards had started earlier. The first document named "INTOSAI Auditing Standards" was adopted in 1989, with its preface acknowledging that they should be understood more as "guidelines" rather than standards per se. After the adoption of this first plan, a new dedicated Committee was created (the PSC) and INTOSAI took further steps to develop and consolidate its professional standards. The ISSAI and INTOSAI GOV names were agreed on and by 2010 the first comprehensive set of ISSAIs was adopted. This is the moment that the ISSAI Framework can be considered to have been created.

From there, the ISSAI Framework<sup>2</sup> was further filled out and a due process for the development and approval of new standards was adopted (2010). At the same time the standard setting in INTOSAI grew in complexity, with a large number of working groups, committees and subcommittees, internal and external stakeholders involved throughout the process. The

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<sup>1</sup> Minutes of the 14th PSC-SC meeting can be found at the website [http://psc-intosai.org/data/files/4D/C6/0E/A5/76FBE510BA7D3AD59B59F9C2/Minutes\\_%2014th\\_PSC\\_SC\\_18\\_agosto2017\\_ver\\_s\\_o\\_final.pdf](http://psc-intosai.org/data/files/4D/C6/0E/A5/76FBE510BA7D3AD59B59F9C2/Minutes_%2014th_PSC_SC_18_agosto2017_ver_s_o_final.pdf)

<sup>2</sup> Throughout this paper we use the term ISSAI framework to refer to the whole set of documents currently known as ISSAIs, or International Standards of Supreme Audit Institutions. Nevertheless, it is important to point out that this framework is undergoing changes and will now be called INTOSAI Framework for Professional Pronouncements (IFPP). All existing documents in the ISSAI framework will be reclassified into three categories of pronouncements: principles, standards and guidance. Therefore, only the documents remaining in the standard category will keep the name ISSAI, but all documents will remain part of the IFPP.

number of documents in the framework increased considerably: currently (as of 2017), the ISSAI framework comprises 81 ISSAIs and 11 INTOSAI GOVs.<sup>3</sup>

After more than a decade of having established standard setting as one of its four main strategic goals, there is evidence of consensus within INTOSAI that the **ISSAIs are of key importance to its member SAIs**<sup>4</sup>.

### **Benefits of INTOSAI Standards**

Throughout this period, the SAI community has identified many benefits brought by the ISSAIs including: they are a driver for SAI professionalization<sup>5</sup>; they raise awareness of the importance of having an appropriate set of audit policies and standards in place at individual SAI<sup>6</sup> level, and provide the basis thereof; and also support the introduction of new audit functions in SAIs<sup>7,8</sup>.

In spite of the recognized benefits, the real need for public-sector-specific auditing standards has also been questioned<sup>9</sup>. For example: financial audit is regarded as sufficiently covered by other (private) standard setters. As such INTOSAI chose to adopt them directly with the support of practice notes<sup>10</sup>. There is an argument that performance and compliance audit principles are also already well-developed by other organisations<sup>11</sup>. In this sense, there would be little need for elaborate efforts to provide standards that are merely repeating existing standards.

On the other hand, there is also a perception that government auditing differs considerably from private sector auditing<sup>12</sup>. Standard setting in INTOSAI has historically recognized and built on existing standards. The main principle behind standard setting by the organisation has been “the dual approach”<sup>13</sup>. The dual approach allows INTOSAI to focus its efforts and resources on issues

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<sup>3</sup> The updated full set of documents, and the official translations, can be found at [www.issai.org](http://www.issai.org)

<sup>4</sup> For example, in a survey conducted by the PSC in 2013, 86% of respondents agreed that the ISSAIs and INTOSAI GOVs are helpful for all members of INTOSAI, including least developed as well as high-income countries, courts as well as auditor general/comptroller systems. In 2016, in the survey conducted in preparation for the INCOSAI, 93.3% of respondents indicated that the ISSAIs and INTOSAI GOVs are relevant and useful and 90.8% of SAIs replied that the ISSAI framework has influenced their audit practice.

<sup>5</sup> AFROSAI Regional Paper for INCOSAI 2016 Theme II states that “implementing a set of standards is a key component of professionalization”.

<sup>6</sup> IDI’s response to the PSC’s chair request regarding standard setting in INTOSAI (July 2017).

<sup>7</sup> In an IDI survey on Review of ISSAIs from 2014 respondent mentioned: “the ISSAIs are a great tool to be used by countries that are starting up units and/or have a low capacity in terms of human resources. This is very user friendly and is much appreciated by countries with limited resources; it provides them with a strong basis to work from”.

<sup>8</sup> Other benefits mentioned in the IDI survey include: promotes strong leadership that will leverage on strong audit practices; encourages SAIs to upgrade their capacities on ISSAI compliance to gain support and respect from the citizens/stakeholders; support of the legislature in terms of resources/budget; and increased credibility; guiding principles to encourage common/standardized practice among all SAIs members.

<sup>9</sup> Minutes of the 14th PSC-SC meeting can be found on the Committee’s website <http://psc-intosai.org/>

<sup>10</sup> Practice notes give additional guidance for public sector auditors on the International Standards on Auditing (ISAs).

<sup>11</sup> Frequently cited examples are: ISAE 3000 (Assurance Engagements other than audits or reviews of historical information), the United Nations Evaluation Group (Norms and Standards for Education), the Guiding Principles for Evaluation by the American Evaluation Association, as well as IIA’s International Standards for the Professional Practice of Internal Auditing and their Implementation Guidance.

<sup>12</sup> In an IDI survey on Review of ISSAIs from 2014, for 75% of respondents it is clear how public-sector auditing may differ from the audits provided for by other international standards (16% disagree with the statement), on the same survey a respondent mentioned that this is not clear with respect to performance audit.

<sup>13</sup> This approach meant that INTOSAI’s standard developing work should be partly based on work done by other standard setters. By recognizing, using and building on standards issued by other standard-setting bodies to the maximum extent possible and appropriate, INTOSAI should work to harmonize public sector audit internationally. INTOSAI should develop complementary guidance where a special need and/or pressing concern existed in the SAI environment and seek to influence international standards to address issues of particular interest to SAIs.

that are specific to the public sector notably to clarify how public sector auditing differs from auditing in the private sector<sup>14</sup>.

Furthermore, it has been argued that standards set by INTOSAI - which are aimed specifically at public sector auditing (even if one agrees that its principles are not fundamentally different from existing auditing standards) - have more legitimacy in the SAI community and can be more easily adopted by SAIs as they are perceived as more appropriate and easier to implement directly<sup>15</sup>. Hence, there would be a big void in world-wide standard setting considered as a whole if INTOSAI were not making standards for public sector auditing<sup>16</sup>.

Recognizing the importance given by SAIs and other stakeholders to the standards produced by INTOSAI, recent changes in INTOSAI Statutes (2016) mean that they now specifically define that one of the purposes of INTOSAI is to “set standards for public sector auditing” (Article 1, Name and Purpose, paragraph 1). Furthermore, the 2017-2022 INTOSAI Strategic Plan has as part of the organisation’s mission to “provide high quality auditing standards for the public sector”.

Nevertheless, there is a strong perception among some of the actors that have long been involved in INTOSAI standard setting activities that the organisation (and its current practices, despite the many developments in the last decade or so) **cannot yet be fully considered as sufficiently strong, to support INTOSAI’s intended status as an independent and internationally recognized standard setter**. According to this view, the standards produced to date do not all meet the required high quality to ensure a coherent and credible framework for government auditing standards<sup>17</sup>.

### **The 2014 Evaluation Report and the Resulting Changes**

In 2014, SAI Denmark, then PSC Chair, produced an extensive Evaluation Report of standard setting in INTOSAI<sup>18</sup>. The report recognized that developing and maintaining high-level professional standards is a resource-intensive exercise requiring a high degree of continuity of

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<sup>14</sup> However, this reliance on this approach has been questioned. In its report for the Congress in 2013, the PSC stated: In practice, the development of the ISSAIs as a set of auditing standards has very much relied on IFAC’s support and standard-setting expertise. Most of the ISSAIs developed by the PSC Subcommittees and projects have either incorporated, or to some extent drawn on, IFAC’s standards. While this approach offers many advantages, it remains a key challenge for INTOSAI to build its own independent standard-setting capacity. Without sufficient independent standard-setting capacity, it is also difficult for INTOSAI to engage in cooperation with other standard-setters on an equal and mutual basis. In order to promote and safeguard public-sector auditing, INTOSAI must be able to develop and maintain clear and reliable standards in the key areas where SAIs have special needs, i.e. performance and compliance auditing.

<sup>15</sup> A comment from a respondent to the IDI survey on Review of ISSAIs from 2014 illustrates this argument. It states that international standards (ISA) are focused more on financial matters, while ISSAIs consider compliance with legislations (law and regulations) that govern public funds, thus, instilling confidence in auditors when carrying out audits and creating confidence in users, other stakeholders and the wider public regarding credibility and adequacy of public-sector audits. The regional paper by ARABOSAI to the XXII INCOSAI theme II also supports this view: the very existence of the Framework enables credibility to be cascaded throughout the INTOSAI environment.

<sup>16</sup> Remarks made at the 14th PSC-SC meeting in June 2017.

<sup>17</sup> Remarks made at the 14th PSC-SC meeting in June 2017.

<sup>18</sup> In 2013 in the XXI INCOSAI Beijing Declaration, member SAIs gave the PSC a mandate to find sustainable solutions that will provide sufficient assurance that the Framework and Due Process of INTOSAI’s Professional Standards are maintained and developed for the future. With that mandate, the PSC Secretariat launched an evaluation of INTOSAI’s standard setting. To this end, the Committee carried out a survey among individuals recently involved in the standard-setting process; a benchmarking of INTOSAI against three other standard setters (IAASB, IIA and the GAO); an evaluation of how well the standard-setting process and the resulting standards serve the needs of INTOSAI’s implementing efforts (carried out by the IDI); assessment by the subcommittees on challenges involved in developing ISSAIs 1000-4999; as well as interviews with key partners. The document produced was “Evaluation and recommendations to improve INTOSAI’s standard setting”. The full report and supporting documents can be found at: [http://psc-intosai.org/en\\_us/site-psc/psc-steering-committee/evaluation-of-intosai-s-standard-setting/](http://psc-intosai.org/en_us/site-psc/psc-steering-committee/evaluation-of-intosai-s-standard-setting/)

core participants with extensive experience in preparing and drafting standards. In this context, in order to improve INTOSAI's standard setting in processes, the report identified challenges and presented six recommendations<sup>19</sup>:

- 1) A permanent committee for professional matters to be established under the INTOSAI Governing Board;
- 2) A common group of experts drawn from PSC, CBC, KSC and INTOSAI's regions to be established to consider common issues and drive the overall development of the INTOSAI Framework of Professional Standards.
- 3) Continued efforts to be made to establish a separate advisory group which – in addition to the current external observers in the PSC Steering Committee – should include representation of auditors and users of audit reports from the regional or global level.
- 4) The standard setting process to be improved through a revision of the Due Process for INTOSAI Professional Standards
- 5) To provide a common solution for secretarial support that can be drawn upon by all bodies.
- 6) INTOSAI to define a set of long-term development goals with key indicators and milestones for the continued improvement of its standard-setting function after 2016.

The report also offered five possible future scenarios for the development of INTOSAI standard setting, each defined by a combination of a number of key measures<sup>20</sup>. Some of these recommendations have either been implemented or are in the process of being implemented, but no specific scenario was chosen. The second recommendation led to the creation of the Forum for INTOSAI Professional Pronouncements, the FIPP, which was established as a permanent body during the XXII INCOSAI in December 2016. As suggested in the third recommendation, an advisory function to standard setting is currently being strengthened by the PSC<sup>21</sup> by separating external stakeholders into two groups: the current observers to the PSC would be considered advisory partners (MoUs are in the process of being renewed) and new organisations are being considered to form a consultative body. In addition, the fourth recommendation led to a revision of the due process<sup>22</sup>, with the revised document being adopted at the XXII INCOSAI in December 2016.

Based on the evaluation report's diagnosis, these changes are expected to bring some rationality and coherence to the overall standard setting process – raising the quality and credibility of the produced standards. But, as it starts its activities<sup>23</sup>, there has been concern raised that if FIPP members may not be able to manage the amount of work needed to, at the same time, adapt the current documents to the new framework and act sufficiently effectively as a gate-keeper

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<sup>19</sup> For a more detailed description on the recommendations, see full report on the link above.

<sup>20</sup> The five scenarios were: 1) Coordination by strong chairs, where Goal Chairs would have to ensure sufficient coordination among themselves and their subcommittees and the directions given by the Chairs would need to be followed by all members of the standards=developing groups; 2) Strengthening of the PSC, which would be responsible for driving the process forward, with the PSC-SC entrusted with the united responsibility for all ISSAI; 3) Building common solutions within INTOSAI, facilitated by an adequate institutional set up as part of INTOSAI's permanent organization; 4) a professional standard setter with a strong secretariat and a standard setting board established and financed through INTOSAI means; and finally 5) a separate ISSAI organization, with separate membership fees and each SAI deciding whether to be a member.

<sup>21</sup> See full proposal for the liaison with external stakeholders document prepared by the PSC Secretariat for the 14th PSC-SC meeting in June 2017 at : [http://psc-intosai.org/data/files/25/E6/AF/B0/7356C510B9D622C59B59F9C2/Liaison%20with%20external%20stakeholders\\_updated%20June%201st%202017.pdf](http://psc-intosai.org/data/files/25/E6/AF/B0/7356C510B9D622C59B59F9C2/Liaison%20with%20external%20stakeholders_updated%20June%201st%202017.pdf)

<sup>22</sup> The new Due process for INTOSAI professional pronouncements can be found at: [http://psc-intosai.org/en\\_us/site-psc/psc/due-process/](http://psc-intosai.org/en_us/site-psc/psc/due-process/)

<sup>23</sup> For FIPP purposes and responsibilities, see their Terms of Reference at: <http://psc-intosai.org/data/files/DC/B1/98/3B/EB4DB510A71774A59B59F9C2/fipp-terms-of-reference%202016.pdf>

to new pronouncements being prepared. This involves closely following and guiding their development at all stages, as mandated by the revised due process<sup>24</sup>. However, it is currently too early to conclude if this will be a real limitation in practice.

Despite recent improvements made to the standard setting process with the implementation of some of the recommendations, these measures alone are seen by some actors involved in the process as still insufficient to provide a sustainable solution to INTOSAI and its acknowledgement as a strong, independent and internationally recognized standard setter.

One of the main consequences of that, according to some of the PSC SC members, is that the quality of the standards produced by INTOSAI thus far is not on the same level as those produced by other internationally recognized standard setters, like IFAC and the IIA.<sup>25</sup> They point out that these organisations ensure quality through highly professional processes led by full-time, specialized, staff.

### **Technical support function**

One path moving forward for INTOSAI, as set out in the Evaluation Report, would involve setting up a professional technical support function (TSF). The possible responsibilities to be taken on by such body could vary widely<sup>26</sup>, from basic secretarial support to actually being responsible for writing new standards and possibly providing support in the interpretation of the standards. The main purpose of the TSF would be to support the FIPP and the subcommittees in some or all of their standard-setting activities.

The establishment of a TSF together with the recently implemented FIPP, the advisory function and the observance of the new due process are intended to, in time, take INTOSAI standards to a higher quality level, and to guarantee their ongoing maintenance and thereby continued relevance. However, this could mean a significant shift in the standard setting process, particularly if the TSF takes over some of the core activities currently performed by the subcommittees and working groups<sup>27</sup>.

The adoption of this new structure for the standard setting would entail moving away, in some measure, from the in-kind contribution model with which INTOSAI has counted on so far. Funding arrangements would have to be made to make sure this solution is sustainable in the long term, and this could include donor funding, partial SAI funding (as in the IDI model) coupled with secondment of professionals from other SAIs, development of other “commercial services”, such as certification services,<sup>28</sup>

Additionally, since this proposal was presented, it has been repeatedly pointed out that this could mean a departure from current INTOSAI practices and culture, which are traditionally based on voluntary contribution and diversity of membership as a core value in its work<sup>29</sup>. Nevertheless, it would bring the level of professionalism that some feel is missing from the

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<sup>24</sup> Remarks made at the 14th PSC-SC meeting in June 2017.

<sup>25</sup> Remarks made at the 14th PSC-SC meeting in June 2017.

<sup>26</sup> For a list of possible activities for the technical support function body, see document prepared by the PSC Secretariat for the 14th PSC-SC meeting in June 2017 at [http://psc-intosai.org/data/files/D5/14/51/04/30EEB5107B069EB59B59F9C2/Item%2010\\_May%208%202017%20Considerations%20on%20a%20technical%20support%20function.pdf](http://psc-intosai.org/data/files/D5/14/51/04/30EEB5107B069EB59B59F9C2/Item%2010_May%208%202017%20Considerations%20on%20a%20technical%20support%20function.pdf)

<sup>27</sup> Another concern raised is regarding the legitimacy of INTOSAI standards if they are not produced by SAIs. The potential impact of this argument depends on the possible organisational structure of the TSF.

<sup>28</sup> The 2014 evaluation report briefly discusses possible sources of financing.

<sup>29</sup> EUROSAI Regional Paper for INCOSAI 2016 Theme II states that the very core of INTOSAI is based on the principles of inclusiveness and voluntariness, which in turn means an organisation run primarily on in-kind contributions by audit organisations with good intentions and high ambitions.

organisation and bridge the gap currently preventing INTOSAI from being a strong, independent and internationally recognized standard setter it aspires to.

### **Implementation of INTOSAI Standards**

If the reasons for strengthening the standard setting process and the means to do so are more or less clear, based on the experience of other similar organisations, the challenges for tackling the necessary improvement in the implementation of the standards in SAIs are less well defined. Among other reasons, this is because of the different nature of INTOSAI – as a public international organisation – which means it cannot use some of the mechanisms that are available to other (private) standard setters. INTOSAI standards will always remain voluntary since independence (including the freedom to choose standards to base its work on) is a cornerstone to the work of SAIs everywhere and a core INTOSAI principle.

Nevertheless, surveys conducted by the INTOSAI community show that there is a high level of adoption of ISSAIs<sup>30</sup>, which supports the key assertion that SAIs consider the ISSAIs to be important. However, the evidence showing that SAIs go beyond formal adoption of the standards to concrete organisation-wide implementation of ISSAIs is harder to find<sup>31</sup>. The overall perception is that the **ISSAI framework is not sufficiently well implemented**. There is even no agreement on how ISSAI implementation can be objectively demonstrated and followed up in a systematic way. Efforts to obtain data on ISSAI adoption and implementation through surveys have shown contradicting results, so the reliability of these surveys as sources of information may not be assured<sup>32</sup>.

The main purpose of auditing standards is to raise audit quality and thus enhance the credibility of SAIs<sup>33</sup>, ultimately increasing the value and benefits they deliver to society. Standards will not have their intended impact if they are not implemented. Poor quality standards might damage the reputation of SAIs instead of enhancing it<sup>34</sup>. However, lack of implementation of INTOSAI standards will defeat the purpose of having standards at all. Producing standards is a costly and resource-intensive process, and if not used represents a large waste of resources for INTOSAI, as well as a considerable reputation risk.

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<sup>30</sup> XXII INCOSAI Theme II paper says that over two thirds of survey respondents say they have either adopted the ISSAIs directly or used them in the development of their own standards.

<sup>31</sup> We have, for example, analysis of data from SAI PMF assessments carried out by 25 SAIs which show that SAIs are putting in place appropriate standards but the challenge is conducting the audits in compliance with those standards and manuals. For financial audits, 32% of SAIs have demonstrated that they have compliant manuals and policies, but only 10% have generally implemented the ISSAIs in practice. These numbers are, respectively, 35% and 25% for compliance audit and 44% and 14% for performance audit.

<sup>32</sup> This is demonstrated for example, in the upcoming IDI report of the Global Survey 2017 results. Comparing the data from the 2014 IDI Global Survey to the 2017 INTOSAI Global Survey, the 2014 results showed that 100 % of SAIs had adopted the ISSAI standards for financial audit, 97 % for compliance audit and 90 % performance audit. In the 2017 global survey data, the figures are 72% for financial audit, 64% for compliance and 69% for performance audit. SAIs are currently reporting a lower level of adoption of ISSAI standards than they did in 2014. The difficulties to measure level of implementation are also reflected on the data presented by the ICBF report. Scores regarding Domain 4 (audit standards & methodology). In 2013, 6 SAIs reached level 3, in 2014, 4 SAIs reached level 3, in 2015, 10 SAIs reached level 3 and in 2016, 7 SAIs reached level 3 (there are 3 levels and none of the SAIs on the report reached level 4 on these years). The level of variation in only one year periods– decreasing and increasing and decreasing again – show that this difference probably does not necessarily reflect SAI practice but differences in perception and understanding of ISSAI compliance between respondents. It is important to notice that these surveys are self-declaratory (in contrast to SAI PMF and iCAT, which require answers to be back up by evidence).

<sup>33</sup> Preamble of ISSAI 100 – Fundamental Principles of Public Sector Auditing. See also ISSAI 12 – Value and Benefits of SAIs – making a difference to the life of citizens.

<sup>34</sup> This risk was mentioned by the 2013 PSC report to INCOSAI.

The implementation of the standards requires a long-term commitment from SAIs. This involves a gradual process starting with raising awareness of a SAI's top management about the importance of following professional standards and the desirability of implementing them. It also involves carrying out assessments to measure the gap between the current situation and compliance, putting in place the needed actions to bridge the gap to reach SAI-wide compliant practices. SAIs worldwide have pointed out difficulties in all of those steps. SAIs of developing countries have even argued that current standards might not be applicable to smaller, developing SAIs, as they are more geared to SAIs with advanced capacity<sup>35</sup>. Others also point out the problems with translating ISSAIs into their national languages (or even the quality of the official translations) or obtaining support regarding interpretation of the standards (currently there is no mechanism in INTOSAI to facilitate uniform understanding of concepts and their application)<sup>36</sup>.

Since the adoption of the framework in 2010, INTOSAI has carried out efforts to support the implementation of the ISSAIs<sup>37</sup>. In 2010, the PSC established the ISSAI Awareness Raising Task Force. The task force agreed on an ISSAI Roll-Out Model describing the three stages of ISSAI implementation and defining the roles and responsibilities of the PSC, the CBC and the IDI. In addition, during the course of 2011 and 2012 the Task Force launched a number of activities aimed at creating awareness of the ISSAI Framework and promoting SAI's implementation of the ISSAIs, such as explanation folders and presentations, articles and a promotion of the ISSAI.org website. In 2012, the task force was dissolved.

In 2012, the IDI launched the ISSAI Implementation Initiative (3i Programme) to support SAIs from developing countries. The first phase of the Programme, which ended in 2014, included the development and dissemination of an ISSAI compliance assessment tool (iCATs), ISSAI Implementation Handbooks, ISSAI certification programmes for financial, performance and compliance audit (about 250 ISSAI facilitators were trained), cooperative audits and the 3i community portal<sup>38</sup>.

In 2014/2015 the 3i programme went through an independent evaluation<sup>39</sup>. This concluded that the programme was very successful in delivering well-designed tools that SAIs use regularly, but the expected impact, through improved quality of audit work and increased compliance with the ISSAIs, has yet to materialize<sup>40</sup>. However, the evaluators recognize that such changes take time and that the programme had produced the necessary pre-requisites. Currently the programme is in its second phase, in which the IDI plans to work with the following result areas:

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<sup>35</sup> Preliminary data from the Global survey carried out by IDI in 2017 show that SAIs in Low Middle Income countries reported a lower rate of adoption of level 3 and 4 ISSAIs in all three audit streams while High Income country SAIs report a higher rate for level 3 and 4 ISSAI adoption for financial and performance audits.

<sup>36</sup> These are mostly comments of respondents of the IDI Survey on the Review of ISSAIs from 2014. Some other comments from the same survey are: lack of awareness of auditors and stakeholders about the ISSAIs and their importance; requires a considerable amount of resources (time and trained people) to be implemented; lack of professionals in public sectors and buy-in by some top management (especially who were without audit standards for the past 40 years); insufficiency of good implementation samples; complexity and technicality cause challenges in application for developing SAIs.

<sup>37</sup> The South Africa Declaration (2010) encouraged all members to use the ISSAIs as a common frame of reference for public sector auditing, measure their own performance and auditing guidance against the ISSAIs and implement the ISSAIs in accordance with their mandate and national legislation.

<sup>38</sup> For lessons learned from the first phase and a more information on the second phase see <http://www.idi.no/en/elibrary/cpd/3i-programme-1/266-3i-programme-phase-ii>

<sup>39</sup> The full report can be found at: <http://www.idi.no/en/elibrary/global-public-goods/english/3i-programme/other-resources/300-independent-evaluation-report-of-the-3i-programme/file>

<sup>40</sup> For example, the report states that auditors in developing country SAIs have a poor knowledge of the ISSAIs and lack an understanding of what the requirements are.



certification and holistic SAI level support that will include initial considerations, training SAI teams, support for pilot audits and support for setting up QA function at SAI level.

In the current INTOSAI Strategic Plan, ISSAI implementation is only mentioned as part of the crosscutting priority 3, which is “ensuring effective development and coordination among standard-setting, capacity development and knowledge sharing to support SAIs and improve their performance and effectiveness”. In the description given in the plan for this priority<sup>41</sup>, INTOSAI recognizes that the essential task is not just the development of high quality standards and related material but ensuring that SAIs have the capacities and knowledge they need to use the standards and thereby improve the quality of their audits. It also says that implementation and maintenance of the ISSAIs and INTOSAI products is an INTOSAI-wide task that requires attention on the global, regional, and country levels, and that INTOSAI fully appreciates that the most carefully crafted audit standards are only valuable if they are useful for, and used by, SAIs.

Nevertheless, ISSAI implementation is not included among the five current strategic objectives for Goal 1 (Professional Standards). PSC’s strategic objectives (number 5) only indicate the committee should monitor the implementation and adoption of standards and feed any problems or issues back into the standard-setting process to ensure the standards are as useful and relevant as possible. Strategic Objectives for Goal 2 (Capacity Development) and Goal 3 (Knowledge Sharing and Knowledge Services) do not mention implementation of standards.

In practice, the collaboration mentioned in crosscutting priority 3 is being put into practice for standard setting – with the three Goal Chairs having an important executive function in relation to FIPP and sharing the responsibility for the governance of the FIPP as part of the PSC SC – but not on efforts to support ISSAI implementation<sup>42</sup>. INTOSAI has not yet reflected on the implications of the standards it produces on other activities carried out within the organisation, or what possible role regional organisations can have in cooperation in bridging the distance between INTOSAI and individual SAIs regarding ISSAI implementation<sup>43</sup>.

When the issue of the feedback loop (the above mentioned objective to monitor implementation and feed problems back in to the standard setting process) was brought up during the 14<sup>th</sup> PSC-SC meeting, participants were quick to point out that this is not a simple discussion: there is very little reliable data to allow for systematic follow up of implementation<sup>44</sup>. The tools currently available that could provide more information regarding implementation, namely the iCAT (tool to map compliance with ISSAIs, part of the 3i Programme) and the SAI-PMF (tool to assess SAI performance on many dimensions), are timely and costly to implement, and thus are not carried out frequently and widely. Furthermore, measuring implementation depends, for example, on individual SAIs establishing quality assurance mechanisms to monitor compliance with policies, processes etc<sup>45</sup>.

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<sup>41</sup> See 2017-2022 INTOSAI Strategic Plan, page 14.

<sup>42</sup> ASOSAI Regional Paper for INCOSAI 2016 Theme II states that the impact on individual SAIs is not always very evident. In particular, on matters of the implementation of the ISSAIs by member SAIs, INTOSAI’s efforts are not yet enough to prepare the SAIs of developing nations in terms of skills and knowledge on ISSAI implementation.

<sup>43</sup> PASAI in a contribution to the PSC has illustrated some of the roles Regional Organisations can have in this respect.

<sup>44</sup> In addition, in a survey conducted by the PSC in 2013, one of the respondents commented that regarding feedback and monitoring, this is only truly possible after implementation has been achieved in a big group of SAIs. This is not the case yet. If we want to strengthen the due process, we need to invest in implementation, not only in a standard setting body. A comment in the IDI Survey on Review of ISSAIs from 2014 also mentioned that it is costly for INTOSAI to monitor implementation and that there is lack of consistency of existing follow up mechanisms of implementing ISSAIs.

<sup>45</sup> The 2016 AFROSAI-E State of the Region Report on the Institutional Capacity Building Framework (ICBF) Self-Assessment found that a significant number of SAIs were yet to establish quality assurance functions to monitor

The difficulties faced with measuring implementation and also with supplying the standard setting process with qualitative information to improve the standards are obstacles to further improve quality and relevance of INTOSAI standards to SAIs worldwide<sup>46</sup>. The lack of concrete and reliable information on implementation challenges also make it more difficult for INTOSAI standards to find the necessary balance of basic requirements and the actual capacity of SAIs in different development levels and models to implement them, which are essential elements in assuring the relevance of standards to SAIs<sup>47</sup>.

### **The way forward**

In sum, after more than a decade of renewed efforts to strengthen INTOSAI auditing standards, significant progress has been made. The SAI community recognizes the importance of ISSAIs. Nonetheless, their level of implementation still seems to be low and the standard setting process, despite recent improvements, is still not considered on par with other similar organisations.

The impact of the recent changes made to the standard setting process is still too early to be evaluated. Nevertheless, in light of the questions raised during the 14<sup>th</sup> PSC-SC meeting held in June 2017 and the opportunity presented by the breakaway session during the 70<sup>th</sup> Governing Board Meeting, the PSC Chair is seeking input from the INTOSAI Governing Board members concerning **the priorities and the level of ambition that INTOSAI should have regarding its standards and standard-setting process**. This input should take into consideration: the unique nature of INTOSAI; the needs of its member SAIs; and the implications and related costs and opportunities for INTOSAI as an organisation.

In order to guide the discussion, the PSC Chair offers the following key issues for consideration:

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compliance with their policies, processes, structures and systems. This is also supported by the data collected by the Open Budget Index (2015) which found that 66% of SAIs had established a quality assurance system, but just 34% had a quality assurance system that met ISSAI 40 standards.

<sup>46</sup> A respondent in the PSC Survey from 2013 states that from his/her experience, the standard setting process in INTOSAI has focused its energy in the development and revision processes, ignoring whether the SAIs could effectively use/implement the standards. In its input to the evaluation of the standard setting process in 2014, the CBC also recommends that the process should consider implementation feasibilities and which aspects should be prioritized for implementation.

<sup>47</sup> A SWOT analysis carried out at the PSC SC meeting in 2014 lists as opportunities, among others: invest in regions for feedback, bring in the perspective of intended users (especially in the developing world), build on experience with implementation activities from external stakeholders, tying maintenance closer to practical implementation.

- **Standard Setting process**

INTOSAI is currently in the process of implementing the recent changes made to its standard-setting process, with the introduction of a new framework for professional pronouncements, the creation of the FIPP, the revision of the due process and the introduction of the SDP. The advisory function is also in the process of being strengthened. However, getting agreement for the introduction of a technical support functions is proving difficult.

- ✓ Is the current set-up (without the TSF) likely to bring the desired improvements to the IFPP?
- ✓ Can actors in the INTOSAI standard-setting process (subcommittees/working groups/project groups and FIPP) deliver (in a timely and quality fashion) on the expected outcome of the SDP? Would a TSF help in this respect?
- ✓ Does INTOSAI need to implement a robust TSF, mirroring other similar organisations, in order to achieve its aspiration to be a strong, independent and internationally recognized standard setter?
- ✓ If it were to implement a robust TSF, could INTOSAI preserve its core values while adapting its culture (of in-kind contributions and voluntary work), transitioning to the inclusion of some form of professional, full-time staff for this new body?

- **Implementation of Standards**

There is a risk of (high-quality) standards being produced as an end in themselves if ISSAI implementation does not advance. The 3i programme has been producing good results, but it is currently the only significant initiative within INTOSAI regarding ISSAI implementation.

- ✓ Is INTOSAI giving enough priority to ISSAI implementation in its activities? If not, what more could be done? What could be the roles of the PSC and other INTOSAI committees in this regard?
- ✓ Does INTOSAI require more data on the implementation and impact of ISSAIs at the SAI level? If so, how could this data be obtained?

**The outcome of this discussion will provide valuable insight to support PSC's work** in the fulfillment of its strategic objectives to achieve our goal to promote strong independent and multidisciplinary SAIs and encourage good governance by (1) advocating for, providing and maintaining international standards of Supreme Audit Institutions (ISSAIs); and (2) contributing to the development and adoption of appropriate and effective professional standards (INTOSAI Strategic Plan 2017-2021). The PSC Chair will collect feedback from the Governing Board breakaway session and continue to invite contributions and insight from across INTOSAI on standard setting. It will take these contributions and related proposals to the PSC Steering Committee and provide a report at the following Governing Board meeting.

**Professional Standards Committee**

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## List of Consultation Material

- ✓ PSC Evaluation Report (October 2014)
- ✓ Consultation Responses on draft of evaluation report by AFROSAI-E, EUROSAI, GAO, General Secretariat, SAI South Africa, SAI Sweden
- ✓ Status on Goal 1 (Report II) to INCOSAI 2013
- ✓ SWOT analysis at the PSC SC meeting in 2014
- ✓ PSC benchmarking of standard setters
- ✓ PSC Survey Results and comments
- ✓ IDI Evaluation Report to PSC (2014)
- ✓ Subcommittees assessment paper for evaluation report
- ✓ Internal & External scan results for Strategic Plan 2017-2022
- ✓ INCOSAI 2016 Survey Results on Theme II
- ✓ Theme paper on INCOSAI 2016 Theme II
- ✓ Regional papers (for all regions) for INCOSAI 2016 Theme II
- ✓ 3i Evaluation Report
- ✓ PSC-SC 2017 meeting minutes
- ✓ PSC-SC email contributions after 2017 meeting
- ✓ ICBF Self-Assessment Report 2015 and 2016
- ✓ Preliminary analysis of Global Survey 2017 results by IDI
- ✓ Analysis of SAI PMF assessment results (provided by IDI)

## Annex:

### Standard Setting in INTOSAI Strategic Plans:

#### 2005-2010: Goal 1- Accountability and Professional Standards

Promote strong, independent, and multidisciplinary SAIs by (1) encouraging SAIs to lead by example and (2) contributing to the development and adoption of appropriate and effective professional standards.

#### 2011-2016: Goal 1 - Accountability and Professional Standards

Promote strong, independent, and multidisciplinary SAIs and encourage good governance by: 1) providing and maintaining International Standards of Supreme Audit Institutions (ISSAIs) and 2) contributing to the development and adoption of appropriate and effective professional standards.

#### 2017- 2022: Goal 1- Professional Standards

Promote strong, independent, and multidisciplinary SAIs and encourage good governance, by: 1) Advocating for, providing and maintaining International Standards of Supreme Audit Institutions (ISSAI); and 2) Contributing to the development and adoption of appropriate and effective professional standards.

Plus: INTOSAI'S MISSION

INTOSAI is an autonomous, independent, professional, and nonpolitical organisation established

to provide mutual support; foster the exchange of ideas, knowledge, and experiences; act as a recognized voice of SAIs within the international community; provide high quality auditing standards for the public sector; promote good governance; and foster SAI capacity development and continuous performance improvement.