

Compliance Audit Subcommittee Meeting Stockholm 30-31 March 2009

— Minutes —

1. Opening of the meeting

The seventh meeting in the INTOSAI Compliance Audit Subcommittee (CAS) was held in Stockholm, Sweden 30-31 March 2009. Deputy Auditor General Mr Gert Jönsson from the Swedish SAI opened the meeting and welcomed the CAS members to Sweden. In addition to being host of the CAS meeting, the Swedish SAI is chair of the Financial Audit Guidelines Subcommittee (FAS). On behalf of FAS, Mr Jönsson expressed gratitude to CAS and the CAS chair for the good relationship between FAS and CAS.

Mr. Jens Gunvaldsen from the Norwegian chair thanked the Swedish SAI for their kind hospitality and willingness to host the meeting. He welcomed subcommittee members from Brazil, Denmark, the European Court of Auditors, Lithuania, Namibia, Slovakia, South Africa, Sweden, Tunisia, and Norway, and especially South Africa as a new member of the subcommittee. Mr. Gunvaldsen gave a short overview of the subcommittee's work and an introduction to the agenda. Taking account of the various exposure comments, the aim of the meeting was to arrive at final versions of ISSAIs 4000-4200 to be presented to the PSC and Governing Board meetings in June and November.

Each participant presented themselves.

2. Project status – what has happened since the last CAS meeting in Bratislava

Ms Erna Lea gave an overview of the project status and of the developments since the last CAS meeting in Bratislava. The Exposure Drafts of ISSAI 4000-4200 were approved by CAS in Bratislava in September 2008 and by PSC in Beijing in October 2008. The exposure process within INTOSAI ended 1 February 2009 and CAS received comments from 23 SAIs and the FAS secretariat. An overview of the comments has been available on the PSC and ISSAI websites. An overview of comments for discussion, with suggestions for follow-up, and a summary of the main issues to be discussed were submitted to the CAS members prior to the meeting. In accordance with the Work Plan, adjusted versions of ISSAIs 4000-4200, to be discussed in Stockholm, were prepared by the chair in cooperation with CAS members from ECA, Denmark and Sweden.

2b. Main exposure comments issues to be discussed

The meeting discussed the main issues on a general basis, before the specific discussion of each of the ISSAIs in items 3-5:

- *Reasonable vs. limited assurance.*

The guidelines versions presented for discussion were based on reasonable assurance, but may on an exceptional basis be applied to limited assurance reviews. The subcommittee discussed the use of the concepts of reasonable and limited assurance, particularly in ISSAI 4200. The meeting accepted the need to deal with both concepts, but emphasized the different auditor's responsibilities, as described in ISSAI 4200 on compliance audit related to audit of financial statements. ISSAI 4200 should in the main be based on reasonable assurance, in line with the ISA approach on audit of financial statements, leading to reporting in the form of an opinion. But even if reasonable assurance, and the ISA approach, should be the main track in ISSAI 4200, the ISSAI should be sufficiently flexible to allow for combining a reasonable assurance audit of the financial statements with a limited assurance review on compliance. Such a combination is described in section 2.2, with reporting exemplified in appendix 12. Reports on compliance may be either short-form or long-form reports, as described in section 2.3.

The meeting arrived at the need to widen the scope of ISSAI 4100 beyond the use of the "assurance" concept, in line with the adjusted text in paragraph 18. The paragraph states that the guidelines "apply to auditing task where the purpose is to obtain sufficient appropriate evidence to support the findings. The conclusion may be expressed in a formalized statement of assurance or in a more elaborated form." The reports on compliance may be either short-form or long-form reports.

The subcommittee emphasized the need of further guidance on the use of limited assurance compared to reasonable assurance, to be considered in the period after 2010.

- *Authorities vs. applicable sources of law.*

The meeting discussed the proposal to amend "authorities", as used and defined in ISSAIs 4100 and 4200, to "applicable sources of law". It was decided to keep "authorities", which is also used in the INTOSAI Practice Notes to various ISAs.

- *Opinion/report on compliance vs. on financial statements.*

The subcommittee discussed the wording of ISSAI 4200, paragraph 145 (now 147) and appendix 7, and decided to amend the text to clearly setting the opinion on compliance apart from the opinion on the financial statements and from "the report on other legal and regulatory requirements" included in ISA 700. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibilities to express an opinion on the financial statements, as described in ISA 700.

- *Further elaboration on materiality.*

The meeting discussed suggestions to elaborate further on materiality, in order to accommodate concerns on how to determine materiality when planning, assessing risks and evaluating the results of the compliance audit.

Materiality is now dealt with in section 6.7 on a general basis, with references to relevant guidance elsewhere. Compliance issues may vary considerably, and the subcommittee realized the difficulties in going further into details. A possible further elaboration on how to

proceed when assessing materiality should be considered in the period after 2010.

- *Removing and adding references.*

It was decided to remove references to IIA (Institute of Internal Auditors) standards in ISSAIs 4100 and 4200, while keeping the general reference in ISSAI 4000. References to IFAC's Code of Ethics were removed, as references to the INTOSAI Code of Ethics were considered sufficient. It was decided to add references to the INTOSAI internal control standards.

- *Court of Account issues*

The meeting realized the wide diversity in the work performed by Court of Accounts SAIs, It was decided to amend the wording "In other SAIs operating in a Court of Accounts environment" in ISSAI 4100, paragraph 192 and correspondingly in ISSAI 4200, to "In some SAIs operating in a Court of Accounts environment".

3. Presentation and discussion on adjusted ISSAI 4000 Compliance Audit Guidelines – General Introduction

With a few minor additional adjustments, the subcommittee approved of the adjusted ISSAI 4000.

4. Presentation and discussion on adjusted ISSAI 4100 Compliance Audit Guidelines For Audits Performed Separately from the Audit of Financial Statements

The subcommittee discussed and commented upon ISSAI 4100 on a general basis and paragraph to paragraph. It was decided to add definitions of "conclusion" and "opinion", and to delimit the use of "opinion" to ISSAI 4200 related to the audit of financial statements. The auditor's report on compliance subject matters normally contains a conclusion based on the audit work performed. When compliance audit is performed together with the audit of financial statements, the conclusion may take the form of an opinion. The conclusion may also be expressed as a more elaborated answer to specific audit questions.

It was decided to make some adjustments in the document in order to widen the scope of ISSAI 4100 beyond the use of the "assurance" concept, in line with the adjusted text in paragraph 18, as described in item 2b, reasonable vs. limited assurance.

The meeting discussed an exposure comment on audit procedures when internal controls are not considered reliable, dealt with in paragraph 88 (new 89), and made a minor adjustment in the text. The issue also applies to ISSAI 4200, new paragraph 96. The meeting recognized the need to deal further with the issue, which may be done as part of the future maintenance of the guidelines. In addition, the INTOSAI internal control standards subcommittee should be informed on the discussion.

With some minor additional adjustments, the subcommittee approved of the adjusted ISSAI 4100.

5. Presentation and discussion on adjusted ISSAI 4200 Compliance Audit Guidelines – Compliance Audit Related to Audit of Financial Statements

The subcommittee discussed and commented upon ISSAI 4200 on a general basis and paragraph to paragraph. It was decided to add definitions of "conclusion" and "opinion", as described in item 4 above, with emphasis on reporting in the form of an opinion, as in the ISA framework, but also address the need for other forms of reporting as described in paragraph 171 (new 173).

It should be ensured that ISSAI 4200 in the main is based on reasonable assurance audit, but allowing the use of limited assurance review on an exceptional basis, as described in item 2b, reasonable vs. limited assurance. As stated in 2b, the meeting emphasized the need of further guidance on the use of limited assurance compared to reasonable assurance, to be considered in the period after 2010.

With some minor additional adjustments, the subcommittee decided to forward the adjusted ISSAI 4200 for approval at the PSC meeting in June and subsequently to the Governing Board meeting in November. The same applies to ISSAIs 4000 and 4100. After having received the minutes and the adjusted ISSAIs, the CAS members will have 2-3 weeks to check out the detailed adjustments made on the meeting decisions, before the final ISSAIs have to be submitted to PSC.

6. Discussion on the need for further exploration of Court of Accounts issues to be continued after INCOSAI 2010

Ms. Amel Elloumi Baoueb gave an introduction to a "concept note" prepared by the Tunisian SAI and distributed to the CAS members prior to the meeting. Taking account of the wide range of particular processes and specificities between the various Court SAIs, the CAS meeting in Bratislava recognized a need to go further into the Court of Accounts issues. The Tunisian CAS members were asked to consider the possibility of taking initiative to such an exploration.

In the "concept note" it is proposed to identify and analyze key issues and trends within the various Court SAIs, which may lead to recommendations and guidance on compliance audit in areas not covered by ISSAIs 4000-4200. The draft ISSAI on Court issues presented to CAS in Bratislava is seen as the starting point for developing a guidance document. It is proposed to gather information on Court issues through sending a questionnaire to a sample of Court SAIs, in addition to studying relevant documents and making interviews with a limited number of officials.

The meeting welcomed the Tunisian initiative and supported to start with a survey as indicated. A working group consisting of CAS members from Court SAIs, and led by the Tunisian SAI, should be in charge of the work. The working group should try to identify relevant issues prior to developing the questionnaire, and also try to identify the INTOSAI members of the Court type. It should be assessed whether to send the questionnaire to all Court SAIs, and may be also to other SAIs that have some form of judicial authority.

The answers should then be analysed with a view to present an overview of issues that might be included in a guidance document. The analysis should be basis for a CAS discussion on how to proceed further. The possible guidance could either be provided in a separate Court of Accounts document or included in some sort of application material for ISSAIs 4100 and 4200.

The CAS representatives from Brazil and the European Court of Auditors agreed to be members of the working group.

7. Information from FAS on Financial Audit Guidelines status

Mr Gert Jönsson from the Swedish FAS chair informed on the Financial Audit Guidelines status. The guidelines consist of ISAs together with INTOSAI Practice Notes developed by FAS. FAS intends to present a complete set of guidelines to INCOSAI in 2010, and the first version of the complete set is now almost finalized. A glossary will be included in the set as ISSAI 1003.

Asked whether the glossary could be a common one for the financial and the compliance audit guidelines, Mr. Jönsson said that it was a relevant question to discuss, but at present FAS is preparing its own glossary. CAS will in due course take initiative to a glossary discussion, in order to avoid unnecessary differences in definitions.

Commenting on FAS work beyond INCOSAI 2010, Mr. Jönsson said there was a lot of work to be done, but the FAS chair saw it necessary to find a more permanent solution to the staff question.

8. CAS work ahead

Ms. Erna Lea gave an introduction to the CAS work ahead. ISSAIs 4000-4200 will be presented for approval at the PSC meeting in June and subsequently presented to the Governing Board meeting in November. The translations into the four other INTOSAI languages are planned to take part in September/October. Native Arabic, French, German and Spanish speaking CAS members will be asked to review the translations in November/December. The final versions will be presented for approval at INCOSAI 2010.

The FAS chair informed that FAS intended to use the ECA translation service for translations into French, German and Spanish, and only use a translation firm for the Arabic version. ECA was asked to consider the possibility of corresponding translations of the compliance guidelines, but the answer will depend on the translation service's capacity. The ECA CAS representative will try to clarify the issue.

The meeting discussed the CAS work beyond 2010, based on the corresponding discussion at the meeting in Bratislava. The PSC intention is that PSC and the subcommittees will act as INTOSAI "boards" and approve any changes made to the ISSAIs. The subcommittees will be responsible for monitoring developments and initiate any required updating of the ISSAIs. The subcommittees will be mandated to approve any conforming changes in ISSAIs as a consequence of changes in the underlying ISA or in other ISSAIs.

The discussion concentrated on how to organize the monitoring, how to get feedback on the use of the guidelines and on the need of adjustments, and on how to organize the necessary updating of the guidelines. The implementation of ISSAIs 4000-4200 in the various members SAIs of INTOSAI is the central link between the completion of the present CAS work on developing guidelines, and the monitoring, feedback and future updating of the guidelines.

The subcommittee discussed how to raise the awareness in the various SAIs of the importance of implementing the compliance audit guidelines. It should for instance be considered to engage the regional INTOSAI organizations, to attend seminars, to develop application material on how to use the guidelines, and may be to develop teaching material in cooperation with IDI. May be the INTOSAI capacity building committee could be engaged. Cooperation with IAASB on corresponding issues related to ISAE 3000 could be relevant.

The meeting emphasized the important role for CAS members as "experts" in the future implementation of the guidelines. It also emphasized the importance of early implementation of the guidelines in the CAS member SAIs, in order to get experience and draw lessons that might be used in other SAIs. As a result of this, may be the application material could be adapted to how developed the SAI in question might be prior to the implementation.

The meeting decided to establish working groups for following up the various issues. The working groups are on:

- *Court of Accounts issues*, consisting of Tunisia, Brazil and the European Court of Auditors (see item 6 above).
- *Awareness/implementation*, consisting of South Africa, Namibia and Norway.
- *Maintenance of the guidelines*, related to issues as limited vs. reasonable assurance, negative assurance, materiality, etc., and also to the monitoring issue, the need for application material, etc, consisting of Sweden, Lithuania and Slovakia.

The CAS members that were not present at the meeting were asked to join an appropriate group.

The working groups should interact and coordinate their work. The first task for a group would be to present a work plan at the next CAS meeting.

The next meeting was planned to be held not later than January 2010. Those CAS members that have not yet hosted a meeting were asked to reflect on the possibility of hosting the next, and to report back to the chair.

9. Any other business

No issues were raised.

10. Closing of the meeting

Mr Gunvaldsen thanked the participants for their active contribution to the meeting and to the finalizing of ISSAIs 4000-4200. The Swedish SAI was thanked for being an excellent host.

Subcommittee Meeting Participants
Stockholm
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