

Compliance Audit Subcommittee Meeting New Delhi 4-5 January 2007

— Minutes —

Opening of the meeting

The fourth meeting in the INTOSAI Compliance Audit Subcommittee (CAS) was held in New Delhi, India 4-5 January 2007. Additional Deputy Comptroller & Auditor General Mr. K.P. Lakshmana Rao and Director General Mr. A.K. Thakur from the Office of the Comptroller and Auditor General of India opened the meeting and welcomed other subcommittee members from Brazil, Denmark, Lithuania, Namibia, Saudi Arabia, Sweden, Ukraine, the European Court of Auditors, and Norway.

Mr. Jens Gunvaldsen from the Norwegian chair thanked the Indian SAI for their kind hospitality and willingness to host the meeting, and gave an introduction to the subcommittee's work on developing INTOSAI guidelines for compliance audit.

The participants each presented themselves. The Brazilian SAI had recently become a member of the subcommittee and looked forward to taking part in the work.

Project status and revised Work Plan

Ms. Erna Lea gave an overview of the project status and the revised Work Plan. Since the last subcommittee meeting in April 2006 a revised Work Plan has been presented for PSC and approved at the PSC meeting in Cameroon in September 2006. In accordance with the revised Work Plan the guidelines to be submitted to INCOSAI in Mexico November 2007 will focus on the Recommendations part of the guidelines, leaving the more detailed Application Material to be developed at a later stage. In order for PSC to prepare for approval of the draft guidelines at its next meeting in Bahrain 23-24 April 2007, the subcommittee should submit its final draft to PSC by 1 April.

Since the last subcommittee meeting the project secretariat has been supplemented with additional resources. Existing guidelines and standards containing material on compliance audit have been systematically surveyed. The Financial Audit Guidelines Subcommittee (FAS) has established a compliance audit reference expert group to facilitate coordination between FAS and CAS.

Cooperation and coordination between Compliance Audit Subcommittee and Financial Audit Guidelines Subcommittee

The compliance audit reference expert group (CAREG) established by FAS has members from the SAIs of Canada, the Netherlands, UK and US. According to its terms of reference CAREG shall provide guidance to CAS on already existing best practices, standards or guidance used or

developed in the CAREG members' SAIs. CAREG shall comment on CAS' drafts, and ensure consistency between the compliance audit guidelines and the audit scope decided on by FAS.

The CAS chair also communicates directly with the FAS chair on coordination between the compliance audit guidelines and the financial audit guidelines.

Presentation of Preliminary Draft INTOSAI Compliance Audit Guidelines

Mr. Gunvaldsen gave an overview of the historical background for developing INTOSAI guidelines for financial and compliance auditing, and presented the Preliminary Draft Compliance Audit Guidelines as an introduction to the subcommittee discussion on the draft. The presentation included the issues of overall objective of the guidelines; an integrated approach to financial and compliance audit; a broader scope than in private sector auditing; the objectives of compliance audit; the elements included in the definition of compliance audit; norms and standards which should be followed in the public sector; audit criteria; assertions on compliance audit; assessments of materiality; two aspects of the audit of internal control; reporting; limited assurance of conclusions and reporting; and the guidelines and the court type of SAI.

Discussion and subcommittee conclusions on the draft guidelines

The subcommittee discussed and commented upon the draft on a general basis and paragraph for paragraph. The meeting approved of the structure and the main content of the draft, but indicated that some important points may be presented in front of the guidelines in order to emphasize specific issues or challenges. The compliance audit guidelines are to be presented as part of a package which also includes financial audit guidelines, while recognizing that some SAIs include the audit of compliance issues within their concept of performance audit or regard it as a separate audit type. The meeting, which included members from SAIs of the court type, agreed that the general approach to compliance audit was the same for both types of SAIs, and that particularities related to the judgement part for SAIs of the court type should be dealt with in the Application Material.

There was agreement on the need to rephrase the text on the overall objective of the guidelines (the box in front) in order to take account of other sources for public money than just taxation.

The meeting discussed the issue of vague budgetary intentions as it is introduced in paragraphs 6 and which, together with norms and standards for sound management in the public sector, imply the use of less formal audit criteria, with more emphasis on validity, reliability and consistency of audit evidence (paragraphs 16-18). The majority supported this approach to less formal audit criteria, which was accepted by the meeting while emphasizing the formulation "depending on the SAI's mandate, etc." There was agreement on writing "documented intentions" instead of only "intentions", to emphasize that the intentions should be described in relevant budgetary documents, even if they may still be vague.

It was pointed out that the basis for the budget should be regarded as the starting point for compliance audit. While recognizing that in some countries the SAI is mandated to audit the budgetary assumptions and premises in anticipation of the budget decision, and in order to further emphasize the importance of access to budgetary intentions, the meeting agreed on adding a

sentence on "depending on its mandate, the SAI may audit the documented budgetary assumptions and premises."

On norms and standards for sound management in the public sector, which may be documented in only fragmentary ways (cf. paragraph 18), it was decided to add that the SAI may encourage the concerned authorities to formulate the norms and standards to be followed in the public entities on probity, propriety, etc. It was pointed out that it was more appropriate to relate the concept of compliance audit to the existence of formulated norms and standards, and that the concept of judgements was more appropriate if there were no such formulated norms or standards. This distinction might be explored in the guidelines.

It was pointed out that there may be other budgetary authorities than the legislature and that some paragraphs should be adjusted accordingly. Compliance audit related to assets, etc., which is dealt with in paragraph 18, should be mentioned earlier in the guidelines, e.g. in the definition in paragraph 11 and perhaps in the scope paragraph.

The meeting discussed reporting issues related to the use of less formal audit criteria, which may differ depending on the mandate of the SAI, etc. The need to inform the audited entity of the used criteria may be further elaborated on in the guidelines, and also the need to comment on the entity's view in the reporting, if the entity does not agree on the use of audit criteria.

It was pointed out that the various options for the auditor's opinion, to be qualified, a disclaimer, an adverse opinion, etc. should be further elaborated on, cf. ISA 700. Reporting to e.g. the World Bank and other donors should be considered mentioned among possible reporting requirements.

The meeting discussed paragraph 45 on reporting fraud. The formulation "only a court of law can determine whether a particular action is fraudulent" should be rephrased in order to take into account that in some countries e.g. tax authorities may have such competences. The role of the SAI in the prevention and detection of fraud may be further elaborated on in the guidelines while keeping the approach of referring to the broader perspective of dealing with fraud in the public sector in the Practice Note to ISA 240.

The meeting discussed whether the footnotes should be kept in the draft to be presented to the PSC and whether some issues or information contained in the footnotes should be included in the very guidelines. The meeting was of the opinion that the footnotes were helpful while reading the guidelines and should therefore be kept in the version presented to PSC. The footnotes should not be kept in the written version presented to INCOSAI in Mexico but may be included in a web-site version and thus be accessible for the various SAIs. It should be considered whether essential information in the footnotes may be included in the guidelines text.

On the preparation of glossary of relevant terms/definitions related to compliance audit

The meeting decided to compile a glossary based on key terms and concepts used in the guidelines to be presented to PSC in April, and later to expand the glossary with new key terms used in the Application Material. During the discussion of the draft guidelines the meeting already identified some key terms to be included in the glossary. The chair will coordinate the

glossary key terms with FAS and discuss with PSC the status of the glossary in relation to INCOSAI in Mexico.

A group consisting of the representatives from Ukraine, Saudi Arabia and Sweden has already done some initial work on compiling a glossary, but in order to save time it was decided that India should continue the compilation. India will submit a list of selected terms based on the existing guidelines draft to the subcommittee members by the middle of January. The subcommittee members were asked to respond to India within a short while, and India would then finalize a preliminary list by the end of January. The chair will subsequently highlight the adjustments made in the next versions of the draft guidelines in order for India to incorporate possible new key terms in the glossary.

The work process for the final draft phase

The meeting agreed that it is not necessary to have a new subcommittee meeting before the draft guidelines are submitted to PSC by 1 April. It was accepted that the chair develops the draft in accordance with the meeting discussion and conclusions and distributes the new version to the subcommittee members for comments. The chair will harmonize the draft with FAS and have a dialogue with PSC on the question of translation into all official INTOSAI languages and other matters. The chair will keep the subcommittee members informed and allow for additional comments before the final draft is submitted to PSC.

The subcommittee decided that its next meeting should be on the Application Material part of the guidelines. The chair will prepare a paper as a basis for the discussion with proposals on the structure and the overall content of the Application Material, etc. It was decided to await the PSC meeting in April and the subsequent INCOSAI process before suggesting a date for the subcommittee meeting.

Some of the subcommittee members suggested that the next meeting should be hosted by Brazil. The Brazilian representatives asked for some time to evaluate the possibility. The chair of the meeting informed that Tunisia has indicated their willingness to host a meeting. The date and venue for the next meeting will be decided in due course.

Closing of the meeting

On behalf of the Norwegian chair Mr. Gunvaldsen thanked all the participants for their active contribution to the meeting.

On behalf of the chair and the subcommittee members Mr. Gunvaldsen especially thanked the Office of the Comptroller and Auditor General of India and Mr. Thakur and the rest of the Indian staff for their great hospitality and clever and efficient hosting of the meeting. Mr. Thakur thanked the participants on behalf of the Indian SAI and said it had been a learning experience. Ms. Gurveen Chopra thanked all participants on behalf of her colleagues in the Indian staff.

Subcommittee Meeting Participants
New Delhi, India
4-5 January 2007

Representatives

Mr. Joao Augusto Nardes (Brazil)
Mr. Mauricio de Albuquerque Wanderley (Brazil)
Ms. Lene Boisen (Denmark)
Mr. A.K. Thakur (India)
Ms. Lina Malinauskaite (Lithuania)
Mr. Dirk Kotze (Namibia)
Mr. Saad Khalaf M. Al-Gethami (Saudi Arabia)
Ms. Marie Örtengren (Sweden)
Mr. Hennadiy Shakh (Ukraine)
Mr. Sergey Kovalchuk (Ukraine)
Dr. Ralph Otte (European Court of Auditors)
Mr. Andreas Dürrwanger (European Court of Auditors)
Mr. Jens A. Gunvaldsen (Norway)
Ms. Erna J. Lea (Norway)
Mr. Leif Egil Berland (Norway)

Officers attending from SAI-India

Mr. M.S. Subramanyam
Mr. Ashutosh Joshi
Ms. Gurveen Choppy
Mr. H. Abbas