



CAS meeting Beijing 21th–22th of October 2015 Revision of ISSAI 4000

1. Introduction

Professional Standards Committee (PSC) of INTOSAI has requested the Compliance Audit Subcommittee (CAS) to update the standards on compliance at level IV in the ISSAI framework. In June 2015 a draft of a new ISSAI 4000 was launched for public exposure. In this paper the secretariat gives an overview of the revision, with focus on the most significant issues.

2. Background

The PSC harmonization project established a new foundation for the ISSAIs and a common language for public sector auditing. The project defined the nature and specificities of public sector auditing. It categorized public sector auditing into three streams; financial audit, compliance audit and performance audit. It defined generic elements and concepts for all public audits. It also defined principles for the audit process, both general principles and principles related to the different parts of the audit process.

The decisions of the harmonization project and the overall principles of the new level III form the point of departure for the revision of ISSAI 4000.

3. New ISSAI 4000 - one authoritative standard

The existing Compliance Audit Guidelines consists of three documents:

- ISSAI 4000 *General Introduction*
- ISSAI 4100 *For Audits Performed Separately from the Audit of Financial Statements*
- ISSAI 4200 *Compliance Audit Related to the Audit of Financial Statements*

At the CAS meeting in 2013 the Committee decided to proceed with developing *one common authoritative standard* for compliance audit. One standard eliminates the risk of duplication, and problems of interpreting and understanding the differences between the documents.

The committee also abandoned the idea of developing a separate standard for SAIs with jurisdictional power. The committee concluded that one common standard probably better would facilitate mutual understanding and interchange of ideas and practices between auditor general SAIs and SAIs with jurisdictional powers.

PSC decided that the revision of the standards should be based on the conceptual framework of level III. The standards should give guidance on how to perform high quality audits through requirements



(shall statements), followed by explanations, which was meant to deepen the understanding of the requirements.

4. Public exposure of the new ISSAI 4000

The public exposure has resulted in comments from 26 SAIs, as well as International Development Initiative (IDI) and the Institute of internal auditors (IIA). The secretariat will evaluate all the comments, and document the outcome of the evaluation. The result of this work will be made available to the public, according to the principles of due process (issai.org).

Overall, there is a great support to the structure and content of the new ISSAI 4000. A general comment is that the new standard brings greater clarity than the existing series. Having one authoritative standard is also supported by the respondents. However some SAIs have suggested additional guidance. We support the idea, and recommend the subcommittee to address this issue in its further planning.

Duplication is a general problem in the ISSAI framework. Several SAIs have pointed out that there are duplications between the levels. In the secretariat's view ISSAI 4000 should be read as a stand alone document. As such we have accepted some degree of duplication. However the secretariat has aimed at developing more specific requirements followed by explanations giving further guidance to the auditor. Some SAIs have added improved clarity e.g. by further specification of the explanatory material. These suggestions will be handled by the secretariat.

At the CAS meeting in Beijing the CAS secretariat wish to focus the discussions on the most significant issues:

- Separate set of audit requirements for compliance auditing
- Direct reporting vs attestation engagements
- Reasonable vs limited assurance
- Propriety - how to use the concept in compliance audit

5. Significant issues

Separate set of audit requirements for compliance auditing

Some SAIs question if there is a need for a separate set of audit requirements for compliance auditing. They argue that compliance often is executed as a part of financial audit, and should therefor be a part the financial audit standards. Some argue that compliance audit aspects could be included in the performance audit standards, while others argue that the ISAE 3000-series (privat sector framework) could be applied as a basis for compliance auditing in public sector.

ISSAI 100 recognizes compliance audit as one of the three official audit streams of public sector auditing, along with financial audit and performance auditing. Compliance audit has an objective which is distinctly different from the two other audit streams. Many of the concepts and approaches in ISSAI 3000 are similar to ISSAI 4000, and the two standards relate to each other. Attestation engagement in compliance auditing shares many of the characteristics of financial audit, while the



latter concerns historical financial information. Compliance audit must therefore have an *interface* with the frameworks of financial audit and performance audit, but ISSAI 4000 can not be *substituted* by these frameworks.

Many of the concepts from ISAE 3000 were considered in the harmonization project and the revision of ISSAI 4000. In the secretariat's opinion the ISAE 3000 is not fully applicable in a public sector environment.

Direct reporting vs attestation engagements

Compliance audit is an audit type which is developed, based on principles both from financial and performance audit. With ISSAI 100, the concepts of attestation and direct reporting engagements were introduced. In the former 4000-series, there was not a clear distinction between these types of engagements. This caused confusion, both in the use of concepts but also for the auditor in performing the audit.

Through the Oslo meeting it became clear to the secretariat that many countries do attestation as well as direct reporting engagements on compliance. We believe it is important also to introduce this distinction in ISSAI 4000 and to give the auditor requirements and explanation on how to perform both an attestation and a direct reporting engagement. Throughout the document, the differences and particularities of the two streams are recognized and described.

In introducing these two forms of engagements, we also discussed the use of opinion and conclusion. The secretariat believes that forming a conclusion in the form of an opinion, would normally occur in attestation engagements, while a more open conclusion would normally occur in a direct reporting engagement.

Reasonable vs limited assurance

ISSAI 100 state that the level of assurance that can be provided to the intended user(s), should be communicated in a transparent way. Further ISSAI 100 states that the level of assurance is either reasonable or limited. The level of assurance could be communicated by giving an opinion that through the way it is formulated, explains the level of assurance to the users. This level of assurance can also be communicated in a more indirect way through the use of a conclusion. It is important for the secretariat that both ways of communicating reasonable assurance is based on the same extent of audit work.

Limited assurance is providing assurance that is lower than reasonable assurance but still at a level that are considered valuable to the intended user. The audit procedures in a limited assurance engagement are limited to investigations and analyzes.

The level of assurance can be communicated either as an explicit statement of assurance or by explicitly explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner.

Propriety - how to use the concept in compliance audit

Several SAIs have mentioned their skepticism to the use of normative criteria. They are questioning how it is possible to assess materiality and give assurance based on these criteria?



The definition of compliance audit is whether a particular subject matter is in compliance with authorities identified as criteria. The criteria can either be deriving from rules or regulations (regularity) or general principles governing sound financial management and the conduct of public officials (propriety). The user of the audit report must have a clear insight in the scope of the applicable laws that are covered by the audit, and hence what the extent of the assurance is that the user of the report/opinion can rely on.

The need for normative (propriety) criteria is where there are no rules and regulation that can be used to assess the subject matter. At the same time as the criteria are normative, it is important that the normative criteria are derived from a provision made by the legislative power. It should not be up to the individual auditor to interpret and make normative rules based on their own judgments. The use of normative criteria implies some dilemmas that needs further consideration in the meeting.