

INTOSAI



Compliance Audit Guidelines

General Introduction

Endorsement version

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1 Introduction

1. Compliance audit deals with the responsibility of the SAI to audit whether the activities of public sector entities are in accordance with the relevant laws, regulations and authorities that govern such entities. This involves reporting on the degree to which the audited entity is accountable for its actions and exercises good public governance. More specifically, these elements may involve auditing to what extent the audited entity follows rules, laws and regulation, budgetary resolutions, policy, established codes, or agreed upon terms, such as the terms of a contract or the terms of a funding agreement. Compliance audit tasks performed by SAIs may cover a wide range of subject matters and may vary widely on an international basis.
2. The objective, scope and nature of a particular compliance audit depends on a number of factors, including the mandate and constitutional role of the SAI, as well as laws and regulations that are relevant to the audited entity. However, in general, the objective of compliance auditing is to enable the SAI to report to the appropriate bodies on the audited entity's compliance with a particular set of criteria. Such criteria may be derived from relevant financial reporting frameworks, laws, regulations, parliamentary decisions, terms of contracts or agreements, or may be other criteria deemed by the auditor to be suitable criteria.
3. The Compliance Audit Guidelines represent the fourth level (Auditing Guidelines) of the International Standards of Supreme Audit Institutions (ISSAI) Framework, where the Founding Principles constitute level 1, the Codes for SAIs the second level and the Fundamental Auditing Principles the third level (including the INTOSAI Auditing Standards).
4. For compliance audits performed together with the audit of financial statements, the Compliance Audit Guidelines supplement the INTOSAI Financial Audit Guidelines (ISSAI 1000 – 2999).
5. Depending on the structure of the public sector and the mandate of the SAI, the Compliance Audit Guidelines cover compliance audit at all levels of government: central, regional as well as local. Furthermore, the guidelines may also be applied to audits of private entities when they are involved in the management of public property or services, for instance through partnership arrangements or as recipients of public grants or subsidies.
6. The Compliance Audit Guidelines are written from two main perspectives:
 - **ISSAI 4100** deals with compliance audit performed separately from the audit of financial statements, for example as a separate audit task or related to performance audit
 - **ISSAI 4200** deals with compliance audit related to the audit of financial statements

The two ISSAIs are written as consistent, stand-alone documents. Much of the material related to planning and performing compliance audit is therefore very similar or even the

same. However, where there is a need to differentiate, the guidance has been tailored to the specific purposes.

2 Authority of the Guidelines

7. The INTOSAI Compliance Audit Guidelines have been developed to assist SAIs in applying the INTOSAI Auditing Standards, particularly in their work on reporting on compliance. As is the case for the INTOSAI Auditing Standards, the Compliance Audit Guidelines do not have mandatory application within INTOSAI and each SAI must judge the extent to which they are compatible with the SAI's mandate.
8. The guidelines are intended to be relevant to compliance audit in SAIs representing both the Auditor General system and the Court of Account system, but do not cover particularities related to the judgement part of compliance auditing in SAIs of the court type.

3 Diversity in Organizing and Reporting on Compliance Audit

9. SAIs organize compliance audit in the way that is deemed most efficient in light of the mandate and role of the SAI within the particular constitutional system. In practice, this gives rise to a great degree of international diversity in organizing and reporting on compliance audit. Compliance audit may be carried out as part of the audit of financial statements or as part of a performance audit. Compliance audit may also be carried out as a separate audit task, for example at the request of the legislature or other bodies to which the SAI reports, or at the initiative of the SAI itself.¹
10. In addition, some SAIs may have special compliance audit tasks and responsibilities established by their mandate or otherwise. Such tasks may include:
 - a) The judicial function of SAIs organised as Courts of Accounts,
 - b) Activities related to suspected fraud and corruption,
 - c) Investigation of suspected illegal acts or other misconduct for the purpose of decisions on the sanctioning of individuals or reporting to law enforcement authorities,
 - d) Assessment of the truth and completeness of information submitted by ministers to a parliament.
11. Compliance audit reports may take different forms, such as:

¹ Compliance audit is the typical audit in the case of the 'a priori audit' foreseen by the audit mandate of several SAIs.

- a) Separate compliance audit reports which may be either short form or long form reports depending on the needs of the users of the report
 - b) Opinions on compliance, which may be included in the auditor's report on the financial statements, or in a separate report
 - c) Opinions stating whether activities or transactions that have come to public sector auditors' attention in the course of discharging other audit responsibilities were carried out in compliance with authorities,
 - d) Reports on specific instances of non-compliance,
 - e) Reports that no instances of non-compliance have come to the auditors' attention during the course of the audit.
12. These variations are discussed in the Compliance Audit Guidelines together with examples of reports where appropriate.

4 Relationship to Other Auditing Standards

13. The Compliance Audit Guidelines build upon INTOSAI's Fundamental Auditing Principles and standards promulgated by other standard setting organisations with which INTOSAI has a cooperation agreement, such as IFAC and The Institute of Internal Auditors (IIA).
14. The International Framework for Assurance Engagements, issued by IFAC's International Auditing and Assurance Standards Board, concerns engagements in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. Within this framework the International Standards on Auditing (ISAs) apply to engagements of assurance of financial statements (historical financial information). The International Standards on Assurance Engagements (ISAEs) apply to engagements on assurance of other subject matter information than financial statements.
15. SAIs carry out compliance audit by virtue of their mandate and role within the constitutional system. They have an important role in promoting public accountability and in contributing to improved public sector management. Although the ISAs and ISAEs are relevant for work carried out by public sector auditors, the scope of compliance audits and related reporting responsibilities are often broader than those envisaged in the ISAs and ISAEs.
16. International Standards for the Professional Practice of Internal Auditing issued by the IIA define internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The internal audit activity should evaluate risk exposures and the adequacy and effectiveness of controls encompassing the organization's governance, operations, and information systems

including compliance with laws, regulations, and contract terms and conditions. If the compliance audit activities of a SAI involve reliance on internal auditors, the SAI may also consider to what extent the IIA standards have been applied by internal auditors.