

Discussion Paper for the CAS expert seminar on September 16, 2014

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Issue: Identification of audit criteria, how do we come from authorities to criteria

Implementation challenges:

In some cases it is difficult to identify and determine proper audit criteria ensuring solid basis for the evaluation as well as being unchallengeable by the audited entity and/or its governing (supervising) bodies. This is especially relevant for performance audits, but may also relate to compliance audits concerned with propriety.

Importance for the maintenance process:

Compliance audits (primarily concerned with regularity) could be suitable to reveal requirements, tasks, benchmarks or indicators set (or expected) by the relevant governing/supervising institutions or the audited entities themselves in respect of their operation, processes, structure or performance. In view of this, such audits may serve as basis for determining proper and unchallengeable audit criteria to be applied for further audits.

Relevant specific titles of Compliance audit standards:

- in respect of *Objectives*:

ISSAI 400. 13-14:

13. The objective of public-sector compliance auditing, therefore, is to enable the SAI to assess whether the activities of public-sector entities are in accordance with the authorities governing those entities. This involves reporting on the extent to which the audited entity complies with established criteria. Reporting may vary between brief standardised opinions and various forms of conclusions, presented in short or long form. Compliance auditing may be concerned with *regularity* (adherence to formal criteria such as relevant laws, regulations and agreements) or with *propriety* (observance of the general principles governing sound financial management and the conduct of public officials). While regularity is the main focus of compliance audit, propriety may also be pertinent given the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials. Depending on the mandate of the SAI, the audit scope may therefore include aspects of propriety.

14. Compliance audit may also lead SAIs with jurisdictional powers to pronounce judgments and sanctions on those responsible for managing public funds. Some SAIs are mandated to refer facts liable to criminal prosecution to the judicial authorities. In this context, the objective of the compliance audit may be extended, and the auditor should take due account of the relevant specific requirements when devising the audit strategy or planning and throughout the audit process.

ISSAI 4100. 24-25:

24. The particular objectives of a compliance audit must be tailored to the circumstances, based on the subject matter and criteria involved. In general, the objectives of public sector auditors in performing compliance audits are to:

- a) Gather sufficient appropriate audit evidence to conclude whether the information on a particular subject matter is in compliance, in all material respects, with a particular set of criteria, and
- b) Report the findings and conclusions to the legislature and/or other bodies as appropriate

25. For SAIs representing the Court of Accounts system, the objective is also to communicate compliance deviations to the appropriate bodies or open the process leading to a formal judgment in aspects related to the judicial function of the courts such as identification of the responsible authority/agent and determination of any potential offence.

ISSAI 4200. 30-31:

30. Depending on the mandate and constitutional role of the SAI, the overall objectives of public sector auditors in performing compliance audit in connection with the audit of financial statements are to:

- a) Obtain reasonable assurance about whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the authorities which govern them, and
- b) Report the findings and conclusions to the legislature and/or other bodies as appropriate.

31. For SAIs representing the Court of Accounts system, the objective is also to communicate compliance deviations to the appropriate bodies or open the process leading to a formal judgment in aspects related to the judicial function of the courts such as identification of the responsible authority/agent and determination of any potential offence.

- in respect of *Authorities and criteria*:

ISSAI 400. 29:

Authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials. Most authorities originate in the basic premises and decisions of the national legislature, but they may be issued at a lower level in the organisational structure of the public sector.

ISSAI 4100. 43 & ISSAI 4200. 50:

Criteria may be formal, such as a law or regulation, ministerial directive or the terms of a contract or agreement. Criteria may also be less formal such as a code of conduct or principles of propriety, or they may relate to expectations regarding behaviour, for example what may be considered acceptable in regard to class of travel or levels of hospitality and entertainment at government expense if such limits are not explicitly stated elsewhere. Administrative guidelines used as criteria should be in compliance with laws and regula-

tions. The sources used as a basis for the audit criteria can in itself be part of the compliance audit.

ISSAI 4100. 46 & ISSAI 4200. 53:

The determination of criteria can be straight forward, but in some cases the identification may be more complex. In some cases public sector auditors may find checklists a helpful means in gaining an overview of the suitable criteria to be used. Public sector auditors use a number of sources to assist in the identification of criteria. Some examples of such sources are set out in Appendix 2.

Subjects to be discussed:

- using compliance audit as vehicle for identifying and determining audit criteria where necessary and appropriate;
- collecting information on items supporting determination of criteria to be applied for subsequent audits (especially for performance audits and compliance audits concerned with propriety) as part of a compliance audit;
- adding the support of identifying appropriate audit criteria applicable for subsequent (primarily performance) audits on related topics as potential task to the audit objectives as well as handling this issue among types and sources of criteria.