# Considerations regarding the comments to the exposure draft ISSAIs 100, 200, 300 and 400

At the XXI INCOSAI in Beijing in October 2013 the PSC's project group on *Harmonisation of ISSAIs – revision of the Fundamental Auditing Principles* will present the following ISSAIs for final endorsement:

- ISSAI 100 Fundamental Principles of Public Sector Auditing
- ISSAI 200 Fundamental Principles of Financial Auditing
- ISSAI 300 Fundamental Principles of Performance Auditing
- ISSAI 400 Fundamental Principles of Compliance Auditing

The exposure draft ISSAIs 100 and 300 were published on 30 August 2012 and ED ISSAIs 200 and 400 on 12 November 2012. All INTOSAI members and other interested parties were invited to provide their comments and suggestions by 15 February 2013.

The four final ISSAs were approved by the PSC Steering Committee on 18 June 2013 and represent the result of the project group's efforts to accommodate all comments and suggestions to the furthest extent possible.

The Due Process for INTOSAI's Professional Standards requires that the considerations of Project Group regarding the comments received are published on www.issai.org. These considerations are described in this paper and the lists of comments annexed.

47 SAIs or other parties have provided comments. A total of 1216 comments of substance have been registered. These have been divided into 7 different lists which are annexed to this paper.

**List 1** contains 893 comments**. These generally relates to a particular issue in one of the four drafts. The result of the project group's consideration regarding each comment is indicated on the list.

**Lists number 2-6** contains 322 comments that concern cross-cutting issues of relevance to the four drafts or matters requiring reconciliation of a wider range of different views and considerations. The project group has strived to provide a more general solution in order to accommodate these comments. **The project group's considerations are therefore explained in this paper** (in a few cases supplementary information in relation to individual comments is also provided in the lists).

**List 7** contains a few comments that touch upon matters that fall beyond the Project Groups mandate. These have been passed on to the PSC Steering Committee and are not further described here.

These lists also provide a general bridge between the item-numbers in the exposure drafts (ED IS-SAIs) and the final endorsement versions (EV ISSAIs), which should make it easier for readers to identify and compare the relevant part of the text.

PSC Secretariat

St. Kongensgade 45

DK-1264 Copenhagen K

Phone:    +45 33 92 84 00

Fax:    +45 33 11 04 15

psc@rigsrevisionen.dk

www.psc-intosai.org

1/10

**The paper contains the following sections:**
1) General considerations
2) Authority of the ISSAIs – how the ISSAIs can be referred to (cf list 2)
3) The elements of public sector auditing – especially 'assurance' (cf list 3)
4) Clarity in terminology – providing concepts for the full set of ISSAIs (cf. list 4)
5) Matters relating to the Prerequisites (ISSAIs 10-99) at level 2 (cf. list 5)
6) Alignment of presentation of the four ISSAIs (Cf. list 6)

A more general presentation of the four ISSAI's and project's achievements is provided in the **Project Group's report** to the PSC Steering Committee. This as well as a series of notes with further information on the project group's considerations can be found on the project's homepage: http://www.psc-intosai.org/psc/issai-harmonisation-project/

## 1. General considerations

The volume of comments received to the four exposure drafts reflected a reassuringly high level of engagement by INTOSAI's members.

The comments received generally supported the overall ambitions of the project and reflects that many SAIs have given the drafts developed a very thorough consideration.

As explained in the letter by which the PSC Chair presented the exposure drafts, it has been the project group's overall ambition that the revised ISSAIs 100, 200, 300 and 400 should:

- Provide a common professional foundation for the INTOSAI community that all members will support
- Strengthen the International Standards of Supreme Audit Institutions (ISSAI) and further their general use and acceptance
- Support each SAI in its efforts to adopt appropriate auditing standards, ensure high quality in audits and meet the needs of the users of the SAI's reports
- Convey the essence of public sector auditing in ISSAI 100 and provide the appropriate additional fundamental principles of financial, performance and compliance auditing in the ISSAIs 200,300 and 400

The project group has been encouraged by the answers received and has carefully considered all comments in order to achieve the above ambitions to the furthest extent possible.

The project group's resources and working time represent a contribution in kind from the participating SAIs to INTOSAI. The project group's work is therefore subject to constraints in terms of time and resources, which has made it necessary to prioritize as follows:

- 711 comments included a suggested text, while 504 comments did not. In general these two groups of comments have been treated on an equal basis. However, in some cases a SAI has suggested that more than a few lines of additional text should be developed without providing a proposal. It must be recognized that such wishes have only be accommodated to the extent

that members of the project group have been prepared to undertake the additional work of elaborating proposals for consideration.

- 78 registered comments were received more than 3 working days after deadline. The belated comments were therefore available after the project group had organized the comments and started its analyses and considerations. To the extent possible, these comments have been considered and accommodated at a later stage of the project group's work. It must however be recognized that this might not in all cases have had the same effect on the drafts as it could have if the comments had been available by the deadline.

## 2. Authority of the ISSAIs – how the ISSAIs can be referred to

**The comments received – cf. List 2**

34 comments concerned the sections in ISSAI 100, 200, 300 and 400 on the authority of the ISSAIs. This included:

a) Suggestions that simplification or more clarity was needed  – especially in ISSAI 100
b) Proposals to explain  the expression 'authoritative auditing standards' as well as to clarify that some SAIs issue auditing standards
c) Various comments and suggestions regarding the accuracy of the description of the relationship between ISSAIs and ISAs in ISSAI 100 and ISSAI 200
d) It was suggested to delete the possibility to 'communicate in a more general form' in ISSAI 100 as an alternative to including the statement on standards in each single report
e) It was suggested to specify the requirements to the SAI's standard setting. It was also proposed to describe the different kinds of documents (eg policies and procedures that are systematically established by the SAI) that may be regarded as 'authoritative standards'.
f) Suggestion to include language on what to do if some (relevant) principles are deviated from. It was proposed that the statement in the audit report should include a specification of any principles deviated from.  (To some extent this reflected that some requirements in the Exposure Drafts – e.g. in ISSAI 200 – were perceived to be detailed).
g) some points out that the reality in performance auditing may be that no standards exists and suggests that the principles in themselves may be valuable as a basis for internal quality control
h) confusion over the difference between audit report/auditor's report

**How the comments are reflected in the endorsement versions**

The project group has elaborated an explanatory note to the exposure drafts in order to highlight the many different situations the text accommodates and the different supported options for whether and how to refer to ISSAIs. The proposed endorsement versions fully preserve these flexibilities. The explanatory note can be found on the Project Group's homepage (http://www.psc-intosai.org/composite-280.htm).

In light of the comments achieved and the importance of the issue the project group has given this matter a high priority and considered each comment carefully. The texts of ED ISSAI 100/7-9 and ED ISSAI 100/56-65 were merged into EV ISSAI 100/7-12, so all 4 EV ISSAIs now contain a section on 'purpose and authority' in the beginning. The section in ISSAI 100 was edited through in order to achieve a simpler and more readable presentation that would preserve the full flexibility to accommodate for the different needs of SAIs. This has involved:

1) References to ethics, quality control and other prerequisites have been moved out of this section and stated elsewhere. The distinction between audit report and auditor's report has been moved to the section on reporting (cf. EV ISSAI 100/51).

2) In EV ISSAI 100/8 it is clarified that the principles can be used as a basis for 'authoritative standards' in three ways: Standards developed by SAIs, national standards adopted or by adoption of the General Auditing Guidelines. This is opposed to the wider concept of 'professional standards' that is used by INTOSAI as a common name for ISSAIs and INTOSAI GOVs.

3) The explicit recognition of combined financial/performance/compliance audits conducted in accordance with the General Auditing Guidelines has been moved to EV ISSAI 400/9 in order to reduce complexity in EV ISSAI 100/10. This solution reflects that it is primarily the ISSAIs 4000-4200 (cf ISSAI 4000/6) that provides for such combined audits.

4) All matters relating to the financial auditing guidelines have been broad together in ISSAI EV 100/11.

The project group has especially considered the suggestions of comment no. 1003 to specify the list of different documents that could be regarded as standards by a SAI; the suggestions of comment no. 797 to the effect that all audit reports (including performance audit reports) should contain a statement on the auditing standards used and the suggestions of comment no. 1002 that the national standards developed or adopted by SAIs should require auditors to specify in their audit reports if there were principles in ISSAIs 100-999 which had not been applied/applicable in the audit. There were arguments that suggested that further limitations were needed in order to ensure good practice as well as arguments for recognizing certain specific sources or solutions for SAIs national standard setting. The group has however found it important to maintain the flexibility provided for by the exposure drafts that leaves it to the responsibility of each SAIs to define the appropriate solution. This is reflected in EV ISSAI 100/8. In order to fully accommodate comment no. 1003 this also includes the recognition that the SAI's standard may be based on several sources taken together.

This solution also leaves it for each of the SAIs that develops standards to decide whether or not to require that auditors should specify explicitly in their statements in case there are requirements of the standards that have not been applied or applicable. Questions over whether the ED ISSAIs 100,200, 300 and 400 contained too detailed principles has been considered in relation to the individual items in the documents and has led to a shortening of ISSAI 200 (cf. comments on list 1).

If INTOSAI as some point wishes to provide further guidance relating to the role of SAIs as a national standard setter for public sector auditing this could be achieved through the ISSAIs at level 2 of the ISSAI Framework.

The text of EV ISSAI 100/7-12 draws on and supplements previous INCOSAI decisions most notably:

- The Mexico Declaration on SAI Independence endorsed in 2007 that provides that *SAIs should use appropriate work and audit standards, and a code of ethics, based on official documents of INTOSAI, International Federation of Accountants, or other recognized standard- setting bodies* (ISSAI 10/Principle 3).
- The Principles of Transparency and Accountability endorsed in 2010 as a result of INTOSAI's Strategic plan 2004-2010. These provide that *SAIs adopt standards and methodologies that comply with INTOSAI fundamental auditing principles elaborated under the International Standards of Supreme Audit Institutions. SAIs communicate what those standards and methodologies are and how they comply with them.* (ISSAI 20/Principle 3).
- The further recognition of the importance of auditing standards in ISSAI 30 and 40.
- The South Africa Declaration on the ISSAIs by which the INCOSAI in 2010 encouraged all INTOSAI members to use the ISSAIs as a common frame of reference for public sector auditing and implement the ISSAIs in accordance with national legislation.

*Read more on the project's homepage  ⊳ Note 1 on the homepage contains a more general explanation of the project group's considerations regarding the authority of the ISSAIs. This was also published in connection with the exposure of ISSAI 100.*

## 3. The elements of public sector auditing – especially 'assurance'

**The comments received – Cf. list 3**
Approximately 69 comments touches upon the concepts described in the exposure draft's sections on 'Elements' of public sector auditing and reflect a wide diversity of views.

The comments can be grouped in two general "camps": Those emphasizing the importance of the assurance concept and asking for a more consistent use of the concept across all four drafts and those emphasizing that SAIs have special role, i.e. in the field of performance audit that makes it difficult to apply the assurance concept in all cases:

*Comments emphasizing the general importance of assurance*
a)  Suggestions that the ISSAI definition of "audit" should somehow be aligned with IAASB's definition of assurance engagements
b)  Observations that the levels of assurance are not consistent across the drafts. Suggestions that it should be mentioned in ISSAI 100 and possibly also in the other drafts
c)  Suggestions that attestation engagements standards should be incorporated in the ISSAI in a manner that applies beyond compliance audit. Text should be moved from ISSAI 400 to ISSAI 100.
d)  Suggestions that the concept of (reasonable) assurance is critical to all audits, including performance auditing, and ISSAI 300 should reflect this. Each type of audit should include a discussion of assessment of audit evidence and the provision of assurance.

e) Comments that in ISSAI 300 audits that aim to provide assurance have been set apart as non-typical. Legitimate approaches and objectives should be portrayed with an even hand.

f) Comments that the two concepts 'levels of confidence' and 'levels of assurance' were unclear in ISSAI 100

*Comments emphasizing the need to consider the special role of SAIs - or in other ways improve upon the drafts*

g) Suggestions that it will often be the SAI that selects the topic/scope or subject matter and/or criteria

h) Suggestions that this may be part of a strategical planning process before the planning of the individual audit.

i) Suggestions to include principles regarding such selections (e.g. based on risk/materiality)

j) The notion that some SAIs do not issue an opinion/standardized conclusions on whether the subject matter is in accordance with criteria

k) Suggestions that it should be clearly stated in ISSAI 300 that auditors are not normally expected to provide an overall opinion on economics, efficiency and effectiveness.

l) Comments suggesting that the concepts of direct/attestation engagements and limited/reasonable assurance should not be considered principles of compliance auditing or is more general relevant

m) Suggestions that the forms of compliance auditing (direct / attestation engagements) have no influence on assurance

n) Comments to clarify that a compliance audit may either result in an opinion or in a (non-standardized) conclusion and suggestions that reports may contain findings of importance to the users (cases of non-compliance) without expressing a limited/reasonable assurance-style conclusion.

o) Suggestions that the "two levels of assurance" may not always apply to compliance audit.

p) Suggestions that in performance audits the analysis is done as a part of the process of writing the report - not "after the audit procedures".

q) Suggestion that the section on reporting should be expanded in ISSI 100 (cf. "old ISSAI 400") and a more uniform description of reporting applied in the other 3 drafts and a number of suggestions that concepts used in relation to reporting needs explanation

**How the comments are reflected in the endorsement versions**

The project group has tried to accommodate these many different views in the best possible way. This has involved the following:

1. The definitions of attestation engagements and direct reporting engagements in the context of the ISSAIs have been edited and moved from ED ISSAI 400/50-51 to a new section entitled 'Types of engagement' in EV ISSAI 100/9. This distinction is also reflected in EV ISSAI 100/30 regarding financial, performance and compliance auditing and EV ISSAI 100/51 regarding reporting.

2. The section on confidence and assurance has been clarified in EV ISSAI 100/31-33. This section now includes:

-  A distinction between two *forms* of assurance. This is based on ED ISSAI 300/5-7,30-32 and ED IS-SAI 400/6, 35, 49, 52 (as well as ED ISSAI 200).
- A distinction between two *levels* of assurance. This is based on ED ISSAI 400/53-54, 74 in comparison with ED ISSAI 300/5-7, 31 (as well as ED ISSAI 200). This distinction is also reflected in EV ISSAI 100/40 concerning audit risk.

The separation between these two distinctions will better convey the concept of assurance in the context of public sector auditing as it recognizes the two forms which are relevant for financial, performance and compliance auditing on an equal basis. It also provides a measure of flexibility that will better accommodate for the different applications within INTOSAI. These include:
 - SAIs that wishes to apply the concept of 'reasonable assurance' in the context of evaluation of evidence in performance auditing, but may not always provide an overall view/conclusion/opinion in a standardized format on whether the subject matter is in accordance with (criteria derived from) the principles of economics, efficiency and effectiveness.
-  SAIs that wish to apply the concept of assurance in the context of compliance audits of the direct reporting type by providing various forms of conclusions that may not necessarily be in the standardized format.

The expression 'level of confidence' is eliminated. The term 'confidence' is used as follows:
- in relation to the overall purpose of public sector auditing, which includes – as one aspect -  *encouraging continuous improvement and sustained confidence in the appropriate use of public funds and assets and the performance of public administration* (EV ISSAI 100/20)
- In relation to the need of users: *The intended users will wish to be confident about the reliability and relevance of the information which they use as the basis for taking decisions* (EV ISSAI 100/31).

3. The special role of SAIs has been better reflected in EV ISSAI 100:
- The notion that SAIs decide which audits it will conduct and that audits may have different objectives is clarified through an improved order of presentation in ISSAI 100 – cf. ISSAI 100/16-21
-  It has been clarified that in the case of 'direct engagements' (performance audits and compliance audits) it is the auditor that measures or evaluates the subject matter against criteria and presents the outcome in a report. The auditor selects the subject matter and criteria taking into consideration risk and materiality. (Cf. EV ISSAI 100/29 compared with ED ISSAI 400/51).
- A distinction has been made between 'strategic' and 'operational' aspects of planning in EV ISSAI 100/48. This also aligns the concept of 'scope' used in ED ISSAI 400 with the concept of 'approach' used in ED ISSAI 300. Strategically, audit planning should define the scope, objectives and the approach to be applied in the audit. The objectives are what the audit is intended to accomplish. The scope defines the subject matter and criteria that the auditors will assess and report on and is directly related to the objectives. The approach describes the nature and extent of the audit procedures for gathering the audit evidence. The audit should be planned to reduce audit risk to an acceptably low level.

4. The reporting section of EV ISSAI 100 has been elaborated so EV ISSAI 100 can better be read without prior knowledge to ISSAIs 200, 300 and 400 and/or generally used concepts. The content is based on ED ISSAI 200/161-168, ED ISSAI 300/32 and ED ISSAI 400/74

With the section on the elements the project group has strived to provide a set of concepts that serve as a common ground for all INTOSAI members and are recognized by SAIs as well as the wider auditing profession. Members of the project group have referred to and compared with the terminology used by existing ISSAIs and other international and national standards throughout the drafting process.

*Read more on the project's homepage ▸ Note 2 provide a more general explanation of the project group's considerations in relation to the section on the elements of public sector auditing. Note 4 provides a comparison of the key concepts of ISSAI 100 with the International Framework on Assurance Engagements issued by IFAC/IAASB.*


## 4. Clarity in terminology – providing concepts for the full set of ISSAIs

**The comments received – cf. list 4**
159 pointed to the need for a more consistent use of terminology or more clearly stated definitions/explanations on the terms. In a number of comments this was stated in general together with a number of specific examples.

**How the comments are reflected in the endorsement versions**
The project group has clarified the definitions of a range of key concepts. The project's mandate (approved project proposal) and the PSC Steering Committee's directions provides that the ISSAI 100 should provide the basic concepts for the full set of ISSAIs. The project group has therefore strived to reflect all key concepts in ISSAI 100 (cf. also the explanation on assurance above). The ISSAI 100 will therefore provide a general conceptual basis for public sector auditing that will be relevant for all future INTOSAI activities in relation to standard setting as well as knowledge sharing and cooperation.

*Read more on the project's homepage ▸ Note 3 provides the key concepts of public sector auditing as defined by ISSAI 100.*


## 5. Matters relating to the Prerequisites (ISSAIs 10-99) at level 2

**The comments received – cf. list 5**
27 comments touched upon issues that relates to matters that are covered by the Prerequisites for the Functioning of SAIs (ISSAIs 10-99) at level 2 of the ISSAI Framework. This included:

a) A number of SAIs asks for a more consistent reference to level 2.
b) Some ask for more elaborate principles on quality control
c) It was asked – what if a SAI has a well-functioning quality control system that differs from the system described in ISSAI 40?
d) It was suggested to add language describing that information may be classified or otherwise prohibited from general disclosure by federal, state, or local laws or regulations and recognizing that audit organizations are subject to public records laws.

**How the comments are reflected in the endorsement versions**

The different purpose of level 2 and 3 of the ISSAI Framework as defined by previous INCOSAI decisions has been better reflected in the introduction of EV ISSAI 100. The references to ISSAI 10, 20, 30 and 40 has been more consistently stated so unnecessary repetition is avoided.

ISSAI 40 concerns the system of quality control established by the SAI at the organizational level and was endorsed by INCOSAI in 2010. The ISSAIs 100, 200, 300 and 400 should not duplicate, contradict or add to the content of ISSAI 40 and it is for the SAI to consider the concrete measures needed. The reference in EV ISSAI 100/35 is therefore stated as follows: *'Each SAI should establish and maintain procedures for ethics and quality control on an organisational level that will provide it with reasonable assurance that the SAI and its personnel are complying with professional standards and the applicable ethical, legal and regulatory requirements. ISSAI 30 - Code of Ethics and ISSAI 40 - Quality Control for SAIs contain guidance in this regard. The existence of these procedures at SAI level is a prerequisite for applying or developing national standards based on the Fundamental Auditing Principles.*

The auditor's consideration of quality control at the level of *individual audits* is reflected in EV ISSAI 100/38. Further is provided in the context of financial audits (ISSAI 200), performance audits (ISSAI 300) and compliance audits (ISSAI 400).

The project group especially considered the general concern expressed by comment no. 1047 on legal requirements of confidentially. The group has found that this is well accommodated by the following: 1) The reference to ISSAI 20 in EV ISSAI 100/9 (Cf. ISSAI 20/Principle 1 regarding *the balance between public access to information and confidentiality of audit evidence and other SAI information*. 2) EV ISSAI 100/7 which states that the principles *do not override national laws, regulations or mandates* 3) The sentence '*The auditor has to respect existing requirements of confidentiality*', which was added to EV ISSAI 100/49 as a result of the group's discussions.

## 6. Alignment of presentation of the four ISSAIs

**The comments received**
29 comments concerned the alignment of presentation in the four ISSAIs. 3 of these provided proposals on how the order of presentation in the beginning of ED ISSAI 100 could be improved.

A further number of comments encouraged in different ways that the structure of the 'package' of all four ISSAIs could be improved and aligned. Individual comments suggested e.g.:
a) Same headlines (table of content) and same order/sequencing of principles and different subjects
b) More similar level of detail and length
c) Less repetition between the four documents

**How the comments are reflected in the endorsement versions**
The project group has rearranged the order of presentation in EV ISSAI 100 and aligned the outline (sequence) and titles of main headlines in all four documents. The ED ISSAIs 200, 300 and 400 draws

on the guidelines of financial, performance and compliance auditing and reflect the differences between these areas as well as the current stage of development of the 3 sets of guidelines. The remaining differences in outline are therefore fully intended and reflect the project group's engagement of the 3 PSC Subcommittees FAS, PAS and CAS.