

Compliance Audit Subcommittee Meeting Tunis 3-4 April 2008

— Minutes —

1. Opening of the meeting

The fifth meeting in the INTOSAI Compliance Audit Subcommittee (CAS) was held in Tunis, Tunisia 3-4 April 2008. Mr. Abdessalem Chaabane from the Tunisian Court of Accounts opened the meeting on behalf of the Prime President of the Court of Accounts, Ms. Faiza Kefi, and welcomed subcommittee members from Brazil, Denmark, the European Court of Auditors, India, Lithuania, Mexico, Namibia, Sweden, Tunisia, Ukraine, and Norway.

Mr. Jens Gunvaldsen from the Norwegian chair thanked the Tunisian SAI for their kind hospitality and willingness to host the meeting. He welcomed especially Mexico as a new member of the subcommittee. The participants each presented themselves.

Mr. Gunvaldsen gave a short introduction to the subcommittee's work on developing INTOSAI guidelines for compliance audit, especially since the previous meeting in India. He said that the aim of the meeting was to approach a final version of ISSAI 4100 on compliance audit related to audit of financial statements, while having the first CAS discussion on the overall direction of ISSAI 4200 on compliance audit as an audit type of its own or as part of performance audit. In addition, it was an aim to have a first discussion on ISSAI 4000 General introduction. After a short discussion, the meeting emphasized the need of discussing the relationship between the three documents – e.g. on definitions, audit objectives and overall audit issues – and also of considering supplementary guidelines on particular compliance issues related to SAIs of the court of accounts type.

2. Project status – what's happened since CAS' last meeting in India 2007

Ms. Erna Lea gave an overview of the project status and of what has happened since the meeting in India. The draft guidelines from India had been adjusted after dialogue with FAS/PSC. The PSC meeting in Bahrain decided that the draft should be part of a complete set of guidelines for compliance audit, consisting of ISSAI 4000 General introduction, ISSAI 4100 related to audit of financial statements, and ISSAI 4200 on further guidance on compliance audit of its own or as part of performance audit.

An Exposure Draft was submitted to all INTOSAI members the summer 2007, and the CAS chair received comments from 40 SAIs and other parties. Many SAIs supported the draft, but there were also differing views and proposals for rewriting parts of the document. The chair thought it important to try to accommodate the various points of view in order to achieve future use among SAIs. The guidelines were therefore presented as a draft to INCOSAI in Mexico, in all official INTOSAI languages, and revised afterwards on the basis of the exposure comments.

The intention was to present the revised draft for CAS discussion, and subsequently for FAS this April, and present a final version to CAS, PSC and the Governing Board in the autumn 2008. A complete set of guidelines for compliance audit should be presented for endorsement at INCOSAI 2010.

3. Presentation, discussion and the subcommittee's conclusions of redrafted final ISSAI 4100 Compliance Audit Guidelines related to audit of the financial statements

Ms. Kelly Ånerud gave an introduction to ISSAI 4100, and also to the cooperation between IFAC and INTOSAI Financial Audit Guidelines Subcommittee (FAS) on developing INTOSAI guidelines for financial audit based on the ISAs. The idea has been to integrate 4100 in a financial audit-compliance/regularity audit framework, while parts of 4200 may border performance audit. This may lead to some overlap between the ISSAIs and also to different ways of distinguishing between them.

The follow-up of exposure comments has led to distinguishing more precisely between compliance audit related to financial statements and other aspects of compliance audit. Compliance audit is defined as consisting of audit of regularity and/or audit of propriety while keeping the total scope of compliance audit. The reporting considerations are adapted to the above. The provisions on audit criteria are adapted to the divided definition while keeping the less formal criteria. There is further elaboration on materiality, and further examples e.g. on compliance deviations, audit procedures and sample reports.

As it is now, ISSAI 4100 (as well as 4200) can be read alone, without consulting 4000. This has led to some overlap between the ISSAIs, and to the question of whether parts of the introductory and general material should be moved to 4000. Should e.g. the tailored definitions of compliance audit in 4100 and 4200 be combined and moved to 4000? ISSAI 4000 now only contains a general description and a reference to the tailored definitions. ISSAI 4100 has references to relevant ISAs – is there need for any more specific references to the ISAs, e.g. on planning or documentation?

The subcommittee discussed and commented upon ISSAI 4100 on a general basis and paragraph to paragraph. The discussion dealt with the structure and content of ISSAI 4100 compared to structure and content of 4200 and 4000. It was decided to keep 4100 as it is, and to be read alone, while recognizing a need to make adjustments in order to achieve consistency when all three documents are seen together at a later stage. In this way some of the text may have to be repeated in order to allow both 4100 and 4200 to be read alone. At the end all three documents should nevertheless be presented as a package, which may lead to a reassessment of whether some of the duplication should be deleted or replaced by references, or maybe moved to 4000.

The meeting discussed the definition of compliance audit, if the same definition should be used both in 4100 and 4200, and whether it should be placed in 4000 and/or in all three documents. It was pointed out that the present definition in 4100 was an all-embracing one – including audit of propriety – which also was applicable to 4200. At this stage the definition should therefore be presented in all three documents, while referring to possible later adjustments as described above.

ISSAI 4200 was regarded as a more general document than 4100, and should be supplemented with both definition and other general text from 4100 on planning, materiality, etc. Since compliance audit related to audit of financial statements may be regarded as a variant of compliance audit in general, 4200 should be the more general guidelines and renumbered 4100. The present 4100 should be renumbered 4200. The original numbering is kept in the rest of these minutes, except for the listing of the total guidelines in point 5.

The meeting discussed the need for re-exposure of ISSAI 4100 which is planned to be presented to the Governing Board for approval in November 2008. The PSC secretariat had pointed out that there was no time for re-exposure before the Governing Board meeting.

The subcommittee decided the following:

1. present ISSAI 4100 for approval to the PSC in October 2008 and Governing Board (GB) in November 2008 (with drafts of ISSAIs 4000 and 4200 for information). It should be made clear to the PSC and GB that there will be a need to subsequently re-open ISSAI 4100 for structural changes related to having three separate ISSAIs on CA, and subsequent changes that may arise from the exposure of ISSAIs 4000 and 4200. The GB should be asked for permission to make conforming changes to ISSAI 4100 as necessary.
2. expose a complete set of CA guidelines to the INTOSAI community for comment after presenting the documents to the GB in November 2008. The complete set will consist of three documents:
 - a. ISSAIs 4000 and 4200 for first time exposure and
 - b. approved ISSAI 4100 for information, and for comments on necessary structural changes to achieve consistency amongst the three documents: ISSAIs 4000, 4100 and 4200.

The discussion of the various paragraphs pointed out many details which should be followed up in the revised version of 4100. The chair was mandated to make necessary technical amendments in the text. On the discussion of materiality levels in paragraph 38, the Swedish representative wanted to delete letter h) on "the visibility and sensitivity of the matter, including the importance given to the matter by the public, the legislator, etc." and letter i) on "the legitimate expectations of the citizens and the public on the conduct of public administration (for audits of propriety)". The meeting was of the opinion that this text concerned elements of the context of compliance audit and should be kept.

The meeting discussed reporting for SAIs of the court of accounts type, which may take many forms. The question was referred to the later consideration of supplementary guidelines on court of accounts issues.

Appendix 10 contains examples of an auditor's report on the financial statements with a reasonable assurance opinion on the financial statements and a limited assurance conclusion on compliance, and the meeting discussed whether it was appropriate to present an example of limited assurance. It was pointed out that the guidelines were based on reasonable assurance, and did not encourage limited assurance conclusions. Limited assurance conclusions should nevertheless be kept as an option for exceptional circumstances.

4. Presentation and discussion on ISSAI 4200 on compliance audit performed separately from the audit of financial statements, eg. as a part of a performance audit or on its own

Mr. Gunvaldsen gave a short introduction to the discussion, and said that the aim of ISSAI 4200 was to give further guidance on compliance audit not related to the audit of financial statements, e.g. as a part of performance audit or of its own. He pointed out the definition issue, as discussed above, the use of the assertion concept, whether the reasonable assurance framework was applicable for 4200, and the short form reporting as well as other kinds of (long form) reporting. It should be discussed whether the guidelines should present more from the evaluation (political science) tradition while keeping the assurance (auditing) tradition.

Ms. Ånerud gave an introduction to the draft and asked whether the overall direction was sufficiently adapted to an INTOSAI context, e.g. on the issues of reasonable assurance, the objective of a compliance audit, and reporting considerations and examples of reports in the appendices. She referred to the discussion in point 3 of the definition of compliance audit, and duplication of general material, and asked whether the references to further guidance in other literature throughout the document were helpful. The draft builds on already existing guidelines, while filling in necessary gaps, as indicated by PSC as an approach to developing INTOSAI guidelines.

The subcommittee discussed and commented on the draft on a general basis and pointed out many details which should be followed up in a revised version of the draft. The discussion may be summarized in the following:

The structure (and name) of ISSAI 4200 should be assessed in a comparison with 4100. The discussion in point 3 on the relationship between all the three documents and the renumbering of the documents applies also to ISSAI 4200. The references to further guidance in other literature are helpful.

The definition should present the same all-embracing scope as the definition in 4100, but have to be further developed e.g. on the interface between compliance audit and performance audit, as when dealing with evaluation as a part of compliance audit. It should probably not be necessary to develop additional guidelines on compliance audit as a part of performance audit.

The scope of ISSAI 4200 should be widened and incorporate different views, in order to make the guidelines applicable to all SAIs depending on the SAI's mandate:

- The concept of reasonable assurance should be kept;
- Long-form reporting should be further dealt with, e.g. in the context of reporting to Parliament;
- The criteria for significance or materiality should be further elaborated.

5. Presentation and discussion on ISSAI 4000 – a general introduction to guidelines on compliance audit

Mr. Gunvaldsen gave a short introduction to the discussion and said that the intention of ISSAI 4000 was to have a general introduction to compliance audit, dealing with the need of compliance

audit related to public accountability, transparency, good governance, etc. The definition of compliance audit should be lifted from 4100 and 4200 and dealt with as a whole in 4000. The diversity in organizing and performing compliance audit should be dealt with, and 4000 should focus more on compliance audit in relation to other audit types as financial audit or performance audit, and on compliance audit as an audit type of its own.

ISSAI 4000 should refer to compliance audit in a court of accounts environment, and introduce ISSAI 4300 on court of accounts issues if it is decided to develop such guidelines. The structure and further outline of 4000 have to be decided as a part of the discussion on moving text from 4100 and 4200, as indicated in points 3 and 4.

The subcommittee discussed ISSAI 4000 and indicated that 4000 could be a short document containing the reasons for compliance audit, an all-embracing definition, paragraphs defining compliance audit related to different audit types, and presenting scope and outline of the total compliance guidelines. The total guidelines should then consist of:

- 4000 General introduction,
- 4100 The broad scope of compliance audit,
- 4200 Compliance audit related to audit of financial statements,
- 4300 Compliance audit in a court of accounts environment (if so decided).

ISSAIs 4100 and 4200 should have a content that could be read alone, while referring to a possible later adjustment as described in point 3.

6. Discussion of the potential need of an ISSAI 4300 Compliance Audit Guidelines – Court model

The possible need for separate guidelines containing all specificities of compliance audit in a court of accounts environment was discussed throughout points 3 and 4, and summarized at this point of the meeting. The meeting noted that there were important differences between various SAIs of the court of accounts type.

It was decided that the CAS members from Tunisia, ECA and Brazil should form a group – led by Tunisia – to develop a draft to be discussed at the next CAS meeting in September 2008. CAS should then decide if there is a need for such a document. The group was asked to present the draft to the CAS chair by the beginning of August.

7. Work ahead – presentation of the Work Plan 2008-2010

The meeting discussed and approved the Work Plan, incorporating an additional CAS meeting in May 2009, and the draft of ISSAI 4300 to be presented to the chair by the beginning of August 2008 and discussed at the next CAS meeting.

The subcommittee raised the possibility of receiving in June a preliminary draft of all documents to be discussed at the meeting in September 2008. The possibility of extending the next meetings to three days, with an additional possible social or excursion day, was raised.

The CAS members from ECA, Denmark, India and Sweden agreed on assisting the chair in the further development of ISSAIs 4000 – 4200 prior to the next CAS meeting.

8. Venue of the next CAS meetings

The meeting discussed possible venues for the next meetings. The chair will shortly return to the venue for the meeting in September 2008.

9. Any other business

Mr. Gunvaldsen thanked the participants for a very good meeting and the Tunisian SAI for being an excellent host.

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Tunis
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