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Date Sept 21, 2005

Ref. no. 14-2005-0149

Report by the INTOSAI Financial Audit Guidelines Subcommittee

The Working Group (WGFA), consisting of nine SAIs (Austria, Canada, Cameroon, Namibia, Norway, United Kingdom, United States, Tunisia and Sweden (Chair)), presented a structure and draft general section of the Financial Audit Guidelines in Budapest 2004. The work on creating central policy documents and processes for experts and others have been finalized over the past year by the Project Secretariat (hosted by Sweden), and the work is now focusing on creating guidance for public sector auditors.

The Auditing Standards Committee decided during its Committee meeting in Portugal in March 2002, to consider if and how it would be possible to cooperate with the International Federation of Accountants (IFAC) in order to draw upon, to the greatest extent possible, the International Standards on Auditing (ISAs) as developed by IFAC's International Auditing and Assurance Standards Board (IAASB). As a result a memorandum of understanding was agreed between the Committee and IAASB in beginning of 2004.

The work on developing International Standards of Auditing including public sector considerations is on-going. As per this date experts from INTOSAI have been appointed to seven Task Forces of IAASB to revise the standards. In addition to the participation in IAASB Task Forces experts will, during the coming year, be appointed to develop Practice Notes to ISAs which were revised before the agreement with IAASB was approved.

Strategy, Objectives and new Work Plan

A new Work Plan was approved in 2005 based on discussions at the WGFA meeting in Lima 2005. The Work Plan establishes the overall strategy and objective for the work on developing the Financial Audit Guidelines.



The following strategic objectives, strategy and actions to achieve the goals formulated by the INTOSAI Auditing Standards Committee (ASC) are formulated in the work plan:

Strategic objective

Develop high quality guidelines that are globally accepted for the audit of financial statements in the public sector

Strategy

Leverage the expertise and resources of the IAASB, an internationally respected auditing standards setting organization, for a strategic and cooperative partnership

Actions to achieve the strategic objective

Incorporate public sector considerations in the ISAs by:

- Participating as members in IAASB task forces to write audit standards on current and future projects
- Writing comment letters on exposure drafts of ISAs where there was no INTOSAI input on the IAASB task force

Provide guidance above and beyond what is provided in the ISA for public sector audits by:

- Drafting practice notes for all ISAs in order to provide special considerations for the public sector
- Drafting additional guidance to deal with the special needs of the public sector which together with ISAs and PNs will form the INTOSAI Financial Audit Guidelines

Organisation of the work and resources

The Project Secretariat (within the Swedish NAO) comprise of four financial auditors and two programme managers from the international department working part time on the project. Besides managing the project, the Project Secretariat also provides the experts of the Reference Panel with periodically information on the progress, as well as producing updated information to the INTOSAI Journal.

The Reference panel comprise of a total of 101 experts and back-office experts nominated from 65 SAIs, representing a broad spectrum of SAIs when it comes to constitutional context, legal mandate, audit practices etc. Currently, 26 experts and back-office experts are actively participating in different groups or Task Forces.

The Focus Group, created in 2004 and comprising of 5 experts, has been contributing to the development of project proposals and other ad-hoc projects initiated by IAASB. In addition, the Focus Group has had one meeting.



Initiative has been taken to create a Court of Accounts Expert Group in order to ensure the Court specific issues in all guidance developed.

Central policy documents, guiding the work of the Project Secretariat, experts and others, are fully developed and in use. All central processes have been documented and approved.

Financial Audit Guidelines Structure

The Financial Audit Guidelines structure was approved in October 2004 and will explain the unique characteristics of audits in the public sector, and give the bridge between the INTOSAI Auditing Guidelines and the ISAs. The guidance being developed, including the Practice Notes, will be incorporated in this document. The Financial Audit Guidelines will consist of:

- A description of the purpose of the INTOSAI Financial Audit Guidelines and relation to other regulations and standard setting bodies
- A bridge, linking the INTOSAI Auditing standards with the International Standards on Auditing (ISA) issued by IAASB, including a glossary,
- ISAs, issued by IAASB, with public sector considerations contributed by a reference panel expert,
- PNs, issued to each ISA, prepared by the Working Group on Financial Audit Guidelines and approved by the ASC (To be replaced by the PSC from September 2005).
- General considerations for the public sector, relating to the application of ISAs.
- Additional guidance for the special needs of the public sector beyond the scope of ISAs.

The format and structure of a Practice Note has been approved by the ASC.

Development of guidance

Experts and back-office experts are appointed to seven Task Forces of the IAASB. This embraces the following ISA Task Forces:

- ISA 230 – Documentation, Expert: Ms Kelly Ånerud, Norway
Practice Note planned: June 2006
- ISA 701 (ISA 705and ISA 706) – Modifications to the Auditor’s Report,
Expert: Vacant
Practice Note planned: December 2006
- ISA 260 – Communications with those charged with Governance, Expert:
Ms Tove Myklebust, Norway



Practice Note planned: September 2006

- ISA 800 (ISA 701 and 800) – Auditor’s report on special purpose audit engagements, Expert: Mr Jonas Hällström, Sweden
Practice Note planned: March 2007
- ISA 550 – Related Parties, Expert: Mr John Thorpe, United Kingdom
Practice Note planned: June 2007
- ISA 580 – Management Representation, Expert: Ms Vijaya Moorthy, India
Practice Note planned: June 2007
- ISA 620 – Using the Work of an Expert, Expert: Mr Claudio Branco, Brazil
Practice Note planned: September 2007

All the experts are active in the IAASB Task Force work and depending on the current status of the project, they have attended between one and eight meetings in their respective Task Force.

In addition to the work in IAASB Task Forces, experts from SAI Norway have worked together with the Project Secretariat in order to develop a “pilot” Practice Note for the ISA 240 on fraud and corruption. The work on developing a Practice Note on ISA 240 has recently been finalised and will be exposed for comments in September 2005.

A “Gap-analysis” has been undertaken by the WGFA to identify areas where the ISAs do not give sufficient guidance for the public sector and where there is a need to develop additional guidance. These areas are outlined in the new Work Plan and experts will be appointed by the Project Secretariat to develop guidance in these areas.

The WGFA has provided the IAASB with comments on three ISA exposure drafts (ISA 320, ISA 540 and ISA 600).

The WGFA and the Working Group on Compliance Audit has come to an agreement concerning the working procedures between the two working groups. This guidance on compliance audit to be included in the Financial Audit Guidelines will be covering some of the most significant areas identified in the gap-analysis undertaken by the WGFA.

Meetings

Meetings for selected members of this Reference Panel have been held in Stockholm during January and June 2005. Seventeen active experts and back-office experts participated in the January meeting. The purpose of this meeting was to discuss and further develop our work procedures as well as to discuss public sector



issues applicable to the work in the IAASB Task Forces. At the meeting held in June, 16 future experts or back-office experts participated. The meeting focused on providing these experts with relevant information and background for a future appointment.

The WGFA has extended the number of yearly meetings to four to be able to act upon issues in a more timely manner. The two extra meetings will be arranged as telephone conferences.

Financing

External funding was received from the World Bank for the period July 1 2004-June 30 2005. Application for continued external funding has been submitted.

Applications for funding have also been submitted to the Asian Development Bank, the Inter-American Development Bank and the African Development Bank. The application to the Asian development Bank has been approved and a sum of USD 235.000 USD (of which 35.000 USD are earmarked to cover ADB's supervision costs etc.) will be received for the period 2005-2007.

Future work

The work with developing guidance and Practice Notes to the ISAs will become even more intense during the coming period. In the Work Plan, the goals for the Working Group have been formulated, including the development of Practice Notes. The goal is to present twenty Practice Notes at INCOSAI in September 2007 for approval, and also to present drafted additional guidance.

The Project Secretariat will create Practice Note Task Forces during the later part of 2005 in order to develop Practice Notes to ISAs where the INTOSAI has had no representation in the IAASB Task Force. In total, 17 ISAs need to be approached this way. During the next twelve months, four Practice Note Task Forces with, in total, twelve experts or back-office experts will be created. During 2007 an additional two Practice Note Task Forces will be created and a total of eight experts and back-office experts need to be appointed.

The Project Secretariat will expose all Practice Notes for comments from the INTOSAI community on the PSC website before the approval process. According to the plan the first exposure (PN 240) will be available on the website during September 2005.