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Draft minutes FAS meeting in London 12-14 October, 2009

List of participants

Ms Annie Leclerc	Canada
Mr Mirko Gottmann	European Court of Auditors
Mr John Speed	European Court of Auditors
Ms Kathleen Healy	IAASB
Mr Dong Hyuk Eim	Republic of Korea
Ms Liezl Van Schalkwyk	Namibia
Mr Goms Menette	Namibia
Ms Brit Gagnat	Norway
Mr Jan Van Schalkwyk	South Africa
Mr Gert Jönsson	Sweden (Chair)
Mr Jonas Hällström	Sweden
Ms Johanna Gårdmark	Sweden
Mr David Hughes	United Kingdom
Mr Andrew Baigent	United Kingdom
Ms Gail Vallieres	United States

1. Opening of the meeting by the Chair

The Chair, Mr Gert Jönsson opened the meeting with a special welcome to Mr John Speed and Mr Mirko Gottmann from the European Court of Auditors. He also thanked the UK National Audit Office for hosting the meeting.

2. Approval of the agenda

The agenda was approved with the following changes:

- Mr Andrew Baigent will give an update on the progress made by the Audit Quality Project under agenda point 32, Any Other Business.

3. Approval of draft minutes from the meeting in Luxemburg

The minutes were approved with minor corrections of some typos and of missing words in agenda item 4 (the 4th bullet point) and agenda item 19.

4. Approval of draft minutes from the 20 May telephone meeting

The minutes were approved following the correction of some minor typos.

5. *Update on activities and plans for the future activities (PowerPoint presentation available on the FAS website following the meeting.)*

Mr Jonas Hällström gave an update on the activities since the last physical meeting, in Luxemburg in April 2009, and an overview of possible future activities.

Since the previous meeting FAS has:

- Finalized 17 Practice Notes previously approved by FAS for exposure. The Practice Notes will be considered for approval during this meeting;
- Carried out a consistency review of all Practice Notes developed, to ensure consistency with the clarity version of the ISA, regardless of when the Practice Note was drafted, as well as between the Practice Notes; and
- Initiated a number of communication activities.

A paper was distributed to illustrate the process for the consistency review. The paper is available on the FAS website.

In addition to the consistency review carried out by the FAS Secretariat, the UK NAO has proof read all Practice Notes.

In preparation for the INTOSAI Congress in 2010 FAS needs to start considering the work plan for the coming three year period. The new work plan will need to take into consideration the PSC proposals for future work which include:

- Harmonizing the framework;
- Raising the awareness of ISSAIs and INTOSAI GOVs; and
- Permanent maintenance of the ISSAIs and INTOSAI GOVs.

Furthermore, the work plan will need to reflect the subcommittee's view on the cooperation with the IAASB.

It will also need to include the subcommittee's work with awareness raising as well as any tasks related to development of training or information materials, or actual training and implementation activities.

Mr Hällström informed the subcommittee that there is a new IAASB task force starting in December for ISA 720, where INTOSAI will be welcome to appoint an expert.

Should FAS be interested in expanding the scope of the cooperation with the IAASB beyond ISAs, the scope of the Memorandum of Understanding between INTOSAI and IFAC would also need to be reconsidered and revised.

Mr Baigent noted that many standards concern compliance as much as financial audit and the subcommittee needs to make sure that the Compliance Audit Subcommittee is not already working with these standards. The UK National Audit Office is using all of them as a source of reference.

Mr Hällström would welcome cooperation with the other relevant subcommittees. In order to determine the need for that we need to know more about how the standards are used by SAIs today, and reflect on how we would use them if we aren't already using them. We also need to consider what organization would be needed to cooperate effectively on issues such as these.

Mr Van Schalkwyk informed the members that in preparation for the INTOSAI Congress there are already issues being raised relating to ISAE 3000 within the scope of theme I, the Value and Benefit of SAIs. This should also be taken into consideration.

Conclusion: The FAS Secretariat would welcome the subcommittee members input on:

- The focus of the subcommittee 2011-2013
- If and how the member SAIs use the ISREs, ISAEs and ISRSs? Or if they are considering using them in the future?

The FAS Secretariat will raise the issue of possible cooperation on ISRE, ISAE and ISRS work with the Chairs of CAS and PAS. The FAS Secretariat will raise the issue of possible INTOSAI contributions in other areas than ISAs with IFAC and the IAASB.

6. *Update regarding communication and awareness raising initiatives*

Ms Gårdmark reminded the subcommittee of some of the main points of the discussion on communication issues during the meeting in Luxemburg:

The goal of the communication: All SAIs should want to use the ISSAIs.

Main message: Focus on quality, credibility and professionalism.

Means/channels: INTOSAI Journal, FAS website, FAS Quarterly Performance Reports, FAS ambassadors, nominated key persons from all SAIs etc.

Some of the meetings/institutions where FAS has taken or will take the opportunity to speak are:

- The Board of Audit in Indonesia in connection with a meeting on the audit of disaster related aid. (Mr Jönsson)
- The CReCER – Contabilidad y Responsabilidad para el Crecimiento Económico Regional (Spanish acronym of Accounting and Accountability for Regional Economic Growth), a conference in Brazil with public financial management professionals from South- and Central America. (Mr Jönsson)
- The EUROSAI Awareness Raising Seminar in Warsaw, Poland (Mr Jönsson and Mr Hällström)
- The AFROSAI-E meeting of the technical committee (Mr Hällström)

In addition, there have been brief updates on FAS' work in meetings of Nordic and Baltic Auditors General.

Ms Gårdmark also explained the technical solution chosen to manage the translations, future edits and electronic publication of the ISSAIs.

Mr Van Schalkwyk suggested that the subcommittee members need to know if/when/how we are going to implement the ISSAI:s ourselves. It is important that we set an example before and during the Congress. It is important to stress that the broader profession will benefit from the development and acceptance of the ISSAIs, not just the SAIs.

Mr Jönsson shared some of the discussions from the conference in Brazil: the crisis we are undergoing right now in the world market is a global crisis, and it requires global solutions, such as common global standards as solutions to the crisis, or at least to limit the risks of the crisis. The G20 group has also brought the issue of accountability and transparency to the political agenda.

Mr Menette informed the members that AFROSAI-E has decided to implement the ISSAIs. The technical committee is discussing the issue during its November meeting, just as they did in March. AFROSAI-E will collaborate on the issue of implementing the ISSAIs.

Mr Jönsson stressed the importance of making use of INTOSAI's regional groups both in raising awareness of the ISSAIs and in providing training and implementation support.

Mr Baigent stressed the importance of SAIs moving towards compliance with the ISSAI framework. As subcommittee members we will need to answer the question of our own implementation.

Mr Van Schalkwyk concluded that SAIs will need to find a visible way to refer to the ISSAIs, not just the ISAs. We will want to give good emphasis on the ISSAIs and that will take some controversy away from the issues of SAIs using private sector auditing standards.

Mr Jönsson concluded that when all the ISSAIs except 1000 and 1003 are finalized we will have a new momentum in our awareness raising work. Next year we will talk more and more about awareness raising and implementation issues. FAS members and other ambassadors were promised a set of slides and speaking notes in due time for this.

Mr Baigent wondered if there is something we should be doing as a community of SAIs to provide technical support for SAIs wanting to implement the ISSAIs?

Ms Leclerc informed the subcommittee that the Office of the Auditor General (OAG) of Canada is updating their methodology to be CAS compliant (ISAs plus changes due to Canadian legal requirements). The OAG is making the methodology available to all regional audit offices if they want to use it.

The UK National Audit Office is doing the same.

Mr Gottmann brought to the subcommittee's attention the problem that not all countries have adopted accrual accounting, and they may use different accounting frameworks. This makes it very difficult to use the same software.

Conclusions: FAS members are asked to consider national, regional or international opportunities to raise awareness on the ISSAIs. They are also encouraged to consider if and how the FAS Chair, Director and FAS Secretariat can assist in such situations.

7. IAASB update

Ms Healy reported on a number of IAASB initiatives that had been progressed during the June and September

Firstly, the IAASB commissioned staff to issue a question-and-answer publication entitled *Applying ISAs Proportionately with the Size and Complexity of an Entity*. This publication, issued in August 2009, is directed at highlighting provisions within the ISAs that help guide auditors in applying the requirements to audits of small and medium sized enterprises in an efficient and effective manner, in particular to answer the question of how much documentation may be needed under the clarified ISAs.

The IAASB will issue two new consultation papers during October, one on auditing complex financial instruments and another on assurance on a greenhouse gas statement. The IAASB is seeking views on these important topics before moving forward with exposure drafts, and the topics may be particularly relevant to some SAIs. Also in October, a third Staff Audit Practice Alert is expected, on the topic of external confirmations.

The IAASB has also recently issued six ISA Modules, aimed at educating auditors and others about the primary changes to the ISAs in the areas of

related parties, estimates, communicating with those charged with governance, and communicating deficiencies in internal control. There is also an introductory module and one that covers the overall objectives of the auditor (i.e., ISA 200) including documentation requirements and the applicability of the ISAs to SMEs. A further module on group audits is anticipated shortly. The modules consist of video presentations with slides to further expand upon the video points. Ms. Healy encouraged the FAS members to promote these within their SAIs and noted that IDI might find them to also be useful.

She also noted that the IAASB's discussion of the results of research undertaken to understand users' perceptions about the auditor's report may be relevant to SAIs, in particular if the IAASB decides to revise ISA 700. Finally, she noted that the IAASB's plans to determine the authority of the International Auditing Practice Statements may have implications for FAS' work.

There may be some scope to discuss how IDI can use the modules as well. There is no plan for one module per ISA, but a focus on the most important ones.

Mr Hällström noted that while the ISA Modules will be of great interest to INTOSAI members implementing the ISSAIs we also need to consider how to provide similar information about the corresponding Practice Notes.

Ms Gårdmark informed the subcommittee that the Secretariat is working with the IAASB to try to ensure permission to publish the ISAs in all the INTOSAI languages with the Practice Notes. However, permission from the translating bodies is necessary as they have copyright of the translated ISAs.

Mr Hughes would welcome access to the IAASB staff document on documentation issues relating to the clarity ISAs. SAIs adopting the ISAs and Practice Notes are likely to need additional guidance on the documentation issue and this document may be helpful.

Ms Healy replied that the IAASB are considering making available implementation guidance produced by others as a way of facilitating knowledge sharing.

Mr Hällström recognized that FAS may need to consider the need for producing public sector specific guidance on implementation issues. If so, this should be included in the new work plan.

On a question from Mr Dong Hyuk Eim Ms Healy explained that the IAASB does not have the resources to translate the ISAs themselves, but Ms Kelly Ånerud now coordinates translation efforts. There is information on the website regarding in what languages the ISAs are available.

Conclusions: Subcommittee members are encouraged to provide input to the consultation papers on auditing complex financial instruments and assurance on a greenhouse gas statement.

The FAS Secretariat will keep in mind the possible need to provide implementation guidance on issues such as documentation needs.

Ms Healy will share the staff document on documentation issues relating to the clarity ISAs.

Agenda points 7-23 relate to the final approval of consistency checked Practice Notes which have previously been approved for exposure by FAS.

All Practice Notes were considered in detail and changes, including those resulting from proof reading, were made on the screen during the meeting.

8. *Approval of PN for ISA 600*

Conclusion: The Practice Note was considered and approved.

9. *Approval of PN for ISA 610*

Conclusion: The Practice Note was considered and approved.

10. *Approval of PN for ISA 700*

Conclusion: The Practice Note was considered and approved.

11. *Approval of PN for ISA 705*

Conclusion: The Practice Note was considered and approved.

12. *Approval of PN for ISA 706*

Conclusion: The Practice Note was considered and approved.

13. *Approval of PN for ISA 710*

Conclusion: The Practice Note was considered and approved.

14. *Approval of PN for ISA 720*

Conclusion: The Practice Note was considered and approved.

15. *Approval of PN for ISA 402*

Conclusion: The Practice Note was considered and approved.

16. *Approval of PN for ISA 501*

Conclusion: The Practice Note was considered and approved.

17. *Approval of PN for ISA 505*

Conclusion: The Practice Note was considered and approved.

18. *Approval of PN for ISA 510*

Conclusion: The Practice Note was considered and approved.

19. *Approval of PN for ISA 520*

Conclusion: The Practice Note was considered and approved.

20. *Approval of PN for ISA 530*

Conclusions: A task-force, consisting of Ms Vallieres and Mr Gottmann, was set up to consider if FAS can adopt and provide a tool for INTOSAI members relating to the evaluation of misstatements.

The Practice Note was considered and approved.

21. *Approval of PN for ISA 540*

Conclusion: The Practice Note was considered and approved.

22. *Approval of PN for ISA 265*

Conclusion: The Practice Note was considered and approved.

23. *Approval of PN for ISA 320*

Conclusion: The Practice Note was considered and approved.

24. *Approval of PN for ISA 620*

Conclusion: The Practice Note was considered and approved.

25. *Information regarding the INTOSAI-Donor cooperation*

Mr Frank Grogan, the UK National Audit Office's International Director gave FAS members an update on INTOSAI-Donor cooperation in recent years.

Since 2007 INTOSAI has worked to put in place better arrangements with the Donor community to better support developing SAIs.

A small task force was set up in 2007 consisting of the members of the Finance and Administration Committee and the chairs of the main committees of the INTOSAI and, in addition, the UK National Audit Office due to its experience of technical assistance.

INTOSAI and donors agreed to put together a better framework and to be more innovative when considering alternative solutions.

A memorandum of understanding will be signed next week by INTOSAI and approximately 10-12 donors. The signatories sign up to consistent principles and an agreement on a more coherent structure to support SAIs. The mechanisms have been put to the side to agree on the principles and the practical issues will be considered after signing the agreement.

The goals are to set up a better mechanism for targeting support to SAIs in developing countries and get more money for SAIs from donors. To do so, different options are being considered: a trust fund, bilateral support etc.

One of the practical issues up for discussion is the structure being put in place to support the arrangements. There will be a steering committee consisting of representatives of all donors signing the agreement and, on the other hand, representatives of INTOSAI. The INTOSAI representatives are likely to reflect a cross section of INTOSAI, a reasonable regional balance, as well as others who have something to consider in this area rather than based on their role in INTOSAI.

There will, in addition, be some form of Secretariat function to support the steering committee. It remains to be decided who will host the secretariat. Some of the difficult discussions will be around the secretariat function, its role and location.

In response to a question from Ms Vallieres, Mr Grogan explained that INTOSAI and donors are envisaging support in different forms: supporting training mechanisms, infrastructure, professional development etc. There is also a focus on supporting central and regional INTOSAI initiatives that are helpful for SAI capacity building.

Mr Grogan replied to a question from Mr Speed in clarifying that the task force would have liked everything in place by the end of the year but a more realistic ambition now is to have everything set for implementation after the Congress.

Mr Menette asked how SAIs will gain access to the funds, and Mr Grogan admitted that no mechanism has been decided yet. There will be a role of the steering committee to keep track of where money is going to make sure that support is balanced. SAIs will need assistance to put together a development plan with realistic needs assessments. There are a number of building blocks within INTOSAI already that can be used by SAIs. INTOSAI will need to support SAIs in getting the support they need.

26. *Approval of consistency checked versions of the PNs for ISA 220, 230, 260, 300, 315, 330, 450, 800, 805, 810 (previously endorsed by INCOSAI)*

Conclusion: The Practice Notes were considered and approved.

27. *Approval of consistency checked versions of PNs for ISA 200, 210, 240, 250, 500, 550, 560, 570, 580 (previously approved by FAS)*

Conclusion: The FAS Secretariat was given the mandate to align the appendix to the Practice Note for ISA 210 with the ISA.

The Practice Notes were considered and approved.

28. *Information about IAASB implementation monitoring review (PowerPoint presentation available on the FAS website following the meeting.)*

Jon Grant, Executive Director of the UK Auditing Practices Board, gave an update on the IAASB's work to monitor implementation of the clarified ISAs.

The work consists of two phases; monitoring experiences of implementation of the clarified ISAs by countries and firms, and post-implementation review of the clarified ISAs.

Mr Jönsson concluded that INTOSAI and its members have a different starting point: We are implementing for the first time, and many do so under very difficult conditions: Most SAIs do not work in accordance with international standards, and do not speak an INTOSAI language.

Mr Hällström recognized that FAS should take advantage of this opportunity to get feedback on the use of ISAs. The SAIs that are using the ISAs already can be of assistance as they are in the same position as the private firms. In that

case we need to separate what the public sector consistency needs are as opposed to the ISA consistency needs.

Mr Grant inquired about the use of ISAs among SAIs and if it would be possible to get some input from individual countries moving towards adoption.

The Swedish and UK National Audit Offices volunteered to contribute, and the new or aspiring EU countries were identified as potential respondents. In addition, the regional INTOSAI groups may be useful in identifying respondents.

Ms Healy offered to share the IAASB's public papers in her presentations during FAS meetings.

Conclusions: FAS members were asked to notify Mr Grant if they are willing and able to participate in the monitoring of the implementation process of the Clarity ISAs (Phase 1), and/or if they have ideas or comments relating to the approach to, and timing of, a fuller post-implementation review (Phase 2).

29. *Discussion on the future of FAS – tasks, organization, funding*

The FAS Chair initiated the discussion on the future of FAS and referred, among other things, to the introduction by Mr Hällström on the potential future tasks of FAS and the organization those tasks will require. There was an engaged exchange of ideas and views on the potential future focus and organization of the subcommittee.

Conclusion: FAS members were asked to consider ideas and options for FAS' future and to keep their Auditors General informed of the needs of the subcommittee.

30. *Coming meetings*

Conclusions: The next meeting will be 14-15 April, 2010, with an optional excursion on the 16th, in Cape Town, South Africa.

The meeting after that is likely to be the last week of August or first week of September 2010 in Stockholm, Sweden.

31. *PSC paper on consistency in the ISSAI framework – PSC proposal to revise level three of the ISSAI framework*

There was an engaged discussion on the PSC Secretariat's paper on the consistency of the ISSAI framework, how level three of the framework should best be used and the process proposed to achieve the suggested goals.

Some of the issues raised were:

- The Lima Declaration offers high level instructions for SAIs, and on level four we provide guidance on the operational level. There is no inconsistency between those levels, the problem is level three. Level three needs to support level four on a principal level.
- Level three needs to be auditing standards as some many SAIs use the INTOSAI Auditing Standards as their authoritative standards and level four as guidelines.
- The approach suggested in the paper to identify SAI's audit tasks was considered unnecessarily complicated. It was suggested that the IFAC

model is used and adjusted to the SAI perspective as suggested by some PSC Steering Committee members during the meeting in Brasilia:

	Assurance		
	Reasonable	Limited/Negative	No assurance
Financial			
Compliance			
Performance			

The FAS members agreed that when there is a well known and accepted model, that model should be used unless there are good reasons not to. This is a globally accepted model already accepted by many SAIs as well as by funding agencies. It has been tested and generally accepted. The model is flexible enough to add other potential SAI tasks, such as providing assurance on internal audit.

- Theme 1 of the Congress will break down the Lima Declaration into thirteen principles on why SAIs exist. Ideally, that discussion will take care of the need for clarifications of SAIs' roles with a focus on the impact of the work on a country's citizens.
- Either level three needs to provide INTOSAI members with auditing standards to which they can refer in an audit, or that reference needs to be made to level four. In that case level four will need to distinguish more clearly between requirements and guidance. Removing level three as standards will force some SAIs to develop national standards if they are not able to apply level four as standards.
- In the area of financial audit you can have a general text at level three and a clarification that you need to comply with level four to comply with INTOSAI standards.
- If we want to be credible and want to provide high level audit services we need to follow internationally accepted standards. For financial audit we should not provide an alternative to the ISAs and Practice Notes.
- It is essential that level three supports level four and does not in any way contradict it or compete with it.

Conclusion: The FAS Secretariat will write a reply to the paper with the assistance of the United States and South Africa. The paper will be distributed for comments by FAS members before sending it to the PSC. We will strive to be pro-active rather than re-active in relation to these issues.

32. Any Other Business

ISSAI 40 task force on Quality Control

- Mr Baigent informed the subcommittee of the progress of the task force on ISSAI 40 on Quality Control. The ISSAI is in outline following the "companion approach", but the task force will need to go further than just

adding a few brief notes to ISQC1. Mr Baigent will share the draft with the subcommittee as soon as it is available.

- Mr Jesús Lazaro Cuenca was originally nominated to take part in the group together with Mr Baigent. It was suggested that Mr John Speed takes Mr Lazaro Cuenca's place in the group.

The ISSAI can be found on the PSC website:

[http://psc.rigsrevisionen.dk/media\(875,1033\)/ISSAI_40_E_Preliminary_draft.pdf](http://psc.rigsrevisionen.dk/media(875,1033)/ISSAI_40_E_Preliminary_draft.pdf)

Exposure of INTOSAI GOV 9140 and 9150

- INTOSAI GOV 9140 and 9150 regarding internal audit are currently on exposure. The Chair encourages all FAS member SAIs to respond to the exposure draft. In addition, the IAASB has an ongoing task force on ISA 610 – Using the Work of Internal Auditors, with an INTOSAI Expert nominated by FAS. Our position is that INTOSAI should work through this subcommittee and through the appointed INTOSAI expert to influence the content of the ISA.

There was a brief discussion on the problems with applying the "one audit" concept to the relationship between external- and internal auditors.

33. Conclusions of the meeting

The conclusions are summarized under each point. The conclusions are available in a PowerPoint presentation on the FAS website following the FAS meeting.

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A final note brought to the attention of the subcommittee by Mr Gottman on the importance of correct punctuation – not only in audit standards:

A panda walks into a café. He orders a sandwich, eats it, then draws a gun and fires two shots in the air.

"Why?" asks the confused waiter, as the panda makes towards the exit. The panda produces a badly punctuated wildlife manual and tosses it over his shoulder.

"I'm a panda," he says, at the door. "Look it up."

The waiter turns to the relevant entry and, sure enough, finds an explanation.

*"**Panda**". Large black-and-white bear-like mammal, native to China. Eats, shoots and leaves."¹*

¹ *Eats, Shoots & Leaves – The Zero Tolerance Approach to Punctuation*, by Lynne Truss