



PSC Secretariat
Ane Elmoose
Rigsrevisionen
Postboks 9009
1022 København K
Denmark

Date: 11 November, 2009

Ref no: 14-2008-0111

Dear Ane,

As agreed during the PSC Steering Committee meeting in Brasilia FAS members have discussed the issues raised regarding the proposal to review level three of the ISSAI hierarchy, the current fundamental auditing principles.

First of all, we very much welcome the initiative to review level three and the opportunity for the subcommittee to discuss both the desired purpose of level three of the hierarchy and the suggested approach.

During the FAS meeting in London 12-14 October, there was a very engaged discussion on the theme papers on consistency in the ISSAI framework drafted by the PSC Secretariat.

The purpose of level three of the ISSAI hierarchy

There was agreement among the FAS members that level one, the Lima Declaration, is high level- and principle-based enough not to be considered in conflict with or inconsistent with the technical operational guidance on level four of the ISSAI hierarchy.

The general perception was that level three should primarily be used to provide a principle-based framework with sufficient detail for SAIs to be able to refer to it in their auditor's report or audit reports as its authoritative standards. The purpose of the framework would be to tie together the concepts of the different means of public sector audit defined on level four of the ISSAI hierarchy; financial-, compliance- and performance audit. This does not preclude level three from also providing a common language and the definitions needed for public sector audit, on the contrary.

A concern among some FAS members was that should level three no longer provide high-level standards, INTOSAI members who currently refer to the INTOSAI Auditing Standards as their authoritative standard may be forced to



develop their own national standards. This would be costly for the individual SAIs and they would risk losing some credibility when they can no longer refer to international standards, such as the INTOSAI Auditing Standards. We must recognize that all SAIs are not able or willing to implement the ISSAIs on financial-, compliance- and/or performance audit on level four, and they may need level three to provide the same level of authority as they do today.

We would like to underline that there was a consensus regarding the fact that the current INTOSAI Fundamental Auditing Principles had lost their relevance with the creation of the ISSAIs on level four.

The most important conclusion was that it is absolutely essential that level three supports level four and does not in any way contradict it or compete with it.

FAS members encourage the PSC Secretariat to consider the work done by the INTOSAI Working Group on the Value and Benefits of SAIs (which will translate into the theme I discussions at INCOSAI 2010). The working group's efforts already go some way in building on the principles of the Lima Declaration, making a very practical link to the work in level 4 of the ISSAIs. In addition, the working group also attempts to bring all the work of the different committees and working groups of INTOSAI into perspective in one document. Fundamental requirement 9 (and its related guiding principles) of the Theme 1 principal paper for INCOSAI 2010 is of particular importance as it directly highlights the importance of the work done at level 4 of the ISSAIs. It does assume, though, that the guidelines will be supported by a statement / indication of some sort at level 3 that links these to appropriately defined international standards.

The proposed approach

FAS members expressed some confusion about the purpose of the assessment proposed in the theme paper. While it is interesting to have an overview of the different tasks and duties of SAIs around the world, FAS members stressed that level three of the ISSAI framework should only provide principle based standards for audit services that provide some level of assurance. Level three should not constitute the least common denominator of audit principles and standards among SAIs.

There was a discussion regarding the criteria of the proposed assessment, i.e. the characteristics of the audit assignment; object, subject, criteria and resolve of the audit. The general perception was that, where possible, INTOSAI should use the models developed by recognize standard setters, such as the International Auditing and Assurance Standards Board (IAASB), to describe different types of audit work. As there is an internationally accepted



model for categorizing different types of audit related assignments, FAS proposes that this model is used in the assessment and adjusted to the SAI perspective. This model is recognized and used by several SAIs as a framework for designing the nature and scope of their audit engagements. It is also recognized by funding agencies. The model is flexible enough to add other potential SAI tasks, such as providing assurance on internal audit. This model is illustrated in the following matrix:

Type of Audit	Level of Assurance		
	Reasonable	Limited/Negative	No assurance
Financial			
Compliance			
Performance			

With this model the assessment could include SAI tasks that provide reasonable or limited assurance, but also tasks that provide no assurance. While it may be interesting to have an overview of SAI tasks, regardless of the assurance provided, we do not think INTOSAI should give priority to providing standards or other guidance on no assurance engagements. We do not intend to exclude Performance Audit although it may be regarded as no assurance engagements in some audit environments. We recognize that the table will need to be explained, and assurance may need to be defined in a performance audit context in order for the table to be applicable in all audit areas.

General Conclusions

FAS agrees with the need to replace the current text in level three of the ISSAI hierarchy and welcomes this opportunity to discuss the purpose of level three as well as the approach to undertaking a review and redrafting of the text. We welcome this opportunity to provide our views on the subject and look forward to coming discussions in the PSC Steering Committee.

On a general level, FAS is of the opinion that the PSC can ask the Congress for the mandate to revise level three to be consistent with levels one and four of the ISSAI hierarchy during 2011-2013. Discussions among the subcommittees as well as within the PSC Steering Committee regarding the approach to revising the level three ISSAIs will help facilitate this revision.

As a complement to the proposed assessment of SAI mandates, we may want to consider undertaking an assessment of existing internationally accepted standards that can be of use for SAIs. Such an assessment might reveal a more efficient and effective approach to revising level three of the ISSAI hierarchy.

INTOSAI



Financial Audit
Subcommittee

We hope that you have found these comments helpful and constructive and would be happy to answer any questions you may have.

Best regards,

A handwritten signature in black ink, reading "Jonas Hällström". The signature is written in a cursive style with a large initial 'J' and a long horizontal stroke at the end.

Jonas Hällström
Director, INTOSAI Financial Audit Subcommittee