



Note 1 on the ISSAIs 100, 200, 300 and 400 presented to the XXI INCOSAI

The following was published by the project group in 2012 in connection with the exposure of ISSAI 100, 200, 300 and 400:

Explanatory note on: “Making reference to the ISSAIs – Authority of the Fundamental Auditing Principles”

The purpose of this explanatory note is to elaborate on the text in ISSAI 100 that explains how a SAI can make reference to the ISSAIs.

The note includes:

1. A summary of the text on making reference to the ISSAIs.
2. The practical implications for SAIs.
3. The underlying considerations behind the text

Ad 1: Making reference to the ISSAIs – two options

The ISSAI 100 contains a text on how SAIs can make reference to the ISSAIs. The ISSAI 100 provides SAIs with two options of doing so. It has been a key focus to ensure, that the options are clear, transparent and flexible enough to allow for the different usage of ISSAIs within INTOSAI. The options also reflect that the Fundamental Auditing Principles are high-level principles that can be used by SAIs when developing auditing standards

SAIs can choose one of the following options when referencing the ISSAIs:

1. If a SAI develops or adopts standards that are based on or consistent with the fundamental auditing principles, the following reference may be used: *.. We conducted our audit in accordance with [national standards] based on (or consistent with) the fundamental auditing principles (ISSAI 100-999) of the International Standards of Supreme Audit Institutions.*
2. If a SAI has adopted the general auditing guidelines (ISSAIs 1000-4999) as their authoritative auditing standards, the following reference may be used: *.. We conducted our (financial, performance and/or compliance) audit (or audits) in accordance with the International Standards of Supreme Audit Institutions (on financial, performance and/or compliance auditing).*

The brackets in option 2 provide the SAI or auditor with the flexibility needed to accommodate different situations. Reference to the Fundamental Auditing Principles in audit reports or Auditor’s Reports should only be made if the standards applied fully comply with all relevant principles therein. The principles do not override national laws, regulations or mandates.

The text on conducting an audit in accordance with the ISSAIs is included in the ISSAI 100. The ISSAIs 200, 300 and 400 include a specific section on how to reference the ISSAIs for financial, performance and compliance audits respectively.

Ad 2: The practical implications for SAIs

The two options in ISSAI 100 that defines how SAIs can reference the ISSAIs have been elaborated so that they are flexible enough to support most INTOSAI members and take a wide range of different situations into account. The following examples illustrates the the options' implication for SAIs:

1) When a SAI does not wish to make reference to the ISSAIs at all.

The SAI is free to choose not to – it is underlined that the ISSAIs are not mandatory.

2) When a SAI wishes to provide reference to the ISSAIs in its yearly activity report or other general communication, rather than in, or in addition to, the individual auditor's report.

The SAI is free to do so – the fundamental auditing principles do not restrict the use of general references to the ISSAIs. The fundamental auditing principles regulate references made in auditing reporting.

3) When a SAI reports all their auditing results in one yearly audit report (e.g. to the parliament).

If a SAI reports their results in a yearly auditing report rather than providing auditing reports with the results of each engagement, this report may cover a range of financial, compliance, performance and other engagements. In this situation the SAI may make a general reference to the ISSAIs or standards consistent with the fundamental auditing principles in their annual report.

4) When a SAIs wishes to apply different sets of standards for different audit engagements.

SAIs are free to apply different options for different types of engagements. The project group wishes to maintain the widest possible freedom for the SAIs to choose. The principles do therefore not require that the option chosen for, e.g. performance auditing is the same as the option chosen for other engagements.

5) When a SAI applies a set of national auditing standards.

If a SAI chooses to apply a set of national auditing standards, the auditors should make reference to these standards. If the standards are consistent with the fundamental auditing principles, this reference can be included in the audit report. The ISSAIs at level 2 define that SAIs should conduct their audit in accordance with a set of auditing standards. The ISSAIs do not establish requirements to the process of developing such standards at the national level. SAIs may be in very different positions with regard to their capability and legal mandate for standard setting. It will therefore be for each SAI to define what the relevant sources of such auditing standards are within its national context.

6) When a SAI uses the general auditing guidelines (ISSAIs 1000-4999) as its auditing standards.

If a SAI adopts the general auditing guidelines as its auditing standards, the SAI can state, that audits have been conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

7) When a SAI wishes to state compliance with one specific ISSAI (or list of ISSAIs).

Auditors can include information on the specific (list of) ISSAIs that they consider to be relevant for an engagement in the statement of reference to the ISSAIs; i.e. the performance audit has been conducted in accordance with the ISSAIs on performance audit/ISSAI 3000 and 3100. It should be noted that the financial auditing guidelines (ISSAI 1000-2999) function as a package because of their connection to the ISAs and are generally not referenced individually.

8) When a SAI uses the general auditing guidelines (ISSAIs 1000-4999) but applies these to specific national conditions in line with the flexibility provided in the guidelines.

If a SAI adopts the general auditing guidelines as its standards they may need to be applied in a way that is consistent with national conditions as well as the circumstances of the individual engagement. The guidelines (and the ISAs) define the scope of flexibility required. In such cases the SAI can therefore still make reference to the general auditing guidelines.

9) When a SAI/auditor wishes to make reference in a report that concerns only one area of auditing – e.g. performance audit.

If a SAI or auditor wishes to state that a task or engagement is a performance audit (or i.e. compliance audit) this can be mentioned in the statement. This can also take the general form that “*we conduct our performance audits in accordance with...*”

10) When a SAI/auditor wishes to make reference in report that concerns more than one area of auditing – e.g. financial and compliance audit.

If a SAI or auditor wishes to state that a task or engagement is for instance a financial and compliance audit this can be mentioned in the statement, or be stated as follows: “*we conducted our audit in accordance with the International Standards of Supreme Audit Institutions on...*”.

11) When a SAI uses the general auditing guidelines (ISSAIs 1000-4999) but adapts these to national conditions beyond the flexibility provided in the guidelines.

If a SAI chooses to adopt the general auditing guidelines, but decides to adapt or disregard some of the requirements beyond what is recognized in the guidelines as acceptable adjustments, the SAI is in effect creating a set of national standards. The reference to the ISSAIs should be read: “We conducted our audit in accordance with [national standards] based on (or consistent with) the fundamental auditing principles (ISSAI 100-999) of the International Standards of Supreme Audit Institutions”.

12) When a SAI wishes to make a reference to the ISSAIs as well as to other national and international standards.

The SAI can refer to more than one set of standards as long as the relevant requirements applicable to the audit engagement(s) are followed.

13) When a SAI adopts a set of standards that is inconsistent with the fundamental auditing principles or the SAI does not have any auditing standards.

In these situations the SAI would not be able to state compliance with the ISSAIs or the fundamental auditing principles in any form. The principle that a SAI should apply auditing standards is already stated in ISSAI 10 The Mexico Declaration as well as in ISSAIs 20-40.

Ad 3: Making reference to the ISSAIs – the underlying considerations for the text.

The authority, function and status of the ISSAIs and the ISSAI Framework are defined by INCOSAI’s decisions on the ISSAI Framework and the further decisions and directions of the PSC Steering Committee, including the South Africa Declaration and the overall introduction to the ISSAI Framework (The purpose and authority of INTOSAI’s Professional Standards) from October 2011. It is however also stated in the project proposal for the harmonisation project that ISSAI 100 will include a section that describes the authority of the ISSAIs and how reference can be made to the ISSAIs.

The text in ISSAI 100 is based on the following:

- The fundamental auditing principles are high-level principles in line with the decision on the ISSAI Framework taken at INCOSAI in 2007.
- The fundamental auditing principles provide the basis for 1) developing auditing standards based on fundamental auditing principles, or 2) adopting auditing standards consistent with the fundamental auditing principles (as described in the general introduction to the ISSAI Framework elaborated by the PSC Steering Committee)
- The fundamental auditing principles acknowledge that SAIs may choose to adopt the general auditing guidelines (ISSAI 1000-4999) as their standards.

The ISSAIs have already defined it as a prerequisite for the functioning of SAIs that audits are conducted in accordance with defined auditing standards. This is reflected in:

- ISSAI 10 The Mexico Declaration on SAI Independence: *SAI 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)
- ISSAI 20 Principles of Transparency and Accountability: *SAIs adopt standards and methodologies that comply with INTOSAI fundamental auditing principles elaborated under the International Standards of Supreme Audit Institutions.* (ISSAI 20/principle 3)
- ISSAI 30 Code of ethics and ISSAI 40 Quality Control for SAIs

The ISSAI 100 now provides SAIs with two options on how to make reference to the ISSAIs. It has been a key focus to ensure, that the options are clear, transparent and flexible enough to allow for the different usage of ISSAIs within INTOSAI.

The text reflects the purpose of the different levels of the ISSAI Framework as defined by the PSC Steering Committee and INCOSAI:

- The ISSAIs of level 2 define the adoption and application of a set of auditing standards as a prerequisite for the functioning of SAIs. At the same time it is an important aspect of independence that each SAI is free to choose its own standards and methods.
- The ISSAIs of level 3 define a set of high-level principles that defines public sector auditing. They also define that the principles should be pursued on the basis of the individual SAI's mandate and strategies. The principles should be applied as relevant and appropriate for the specific audit assignment.
- The ISSAIs of level 4 (ISSAIs 1000-4999) translate the fundamental auditing principles into more specific, detailed and operational guidelines that can be used on a daily basis in the conduct of auditing tasks. The individual SAI have the option of adopting these as their auditing standards if they wish to do so.

The options in ISSAI 100 on making reference to the ISSAIs ensure that the fundamental auditing principles (level 3) remain fundamental principles and retain their authority as such. The fundamental auditing principles are a set of "high level" principles on which the general auditing guidelines (level 4) are based. They are not a secondary or alternative set of standards, but the principles of level 3 and the guidelines of level 4 supplement each other.