Helping Supreme Audit Institutions apply international auditing standards in complex and challenging contexts

A BACKGROUND BRIEFING FOR INTERNATIONAL DEVELOPMENT PARTNERS

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INTOSAI

CAPACITY BUILDING COMMITTEE

Background

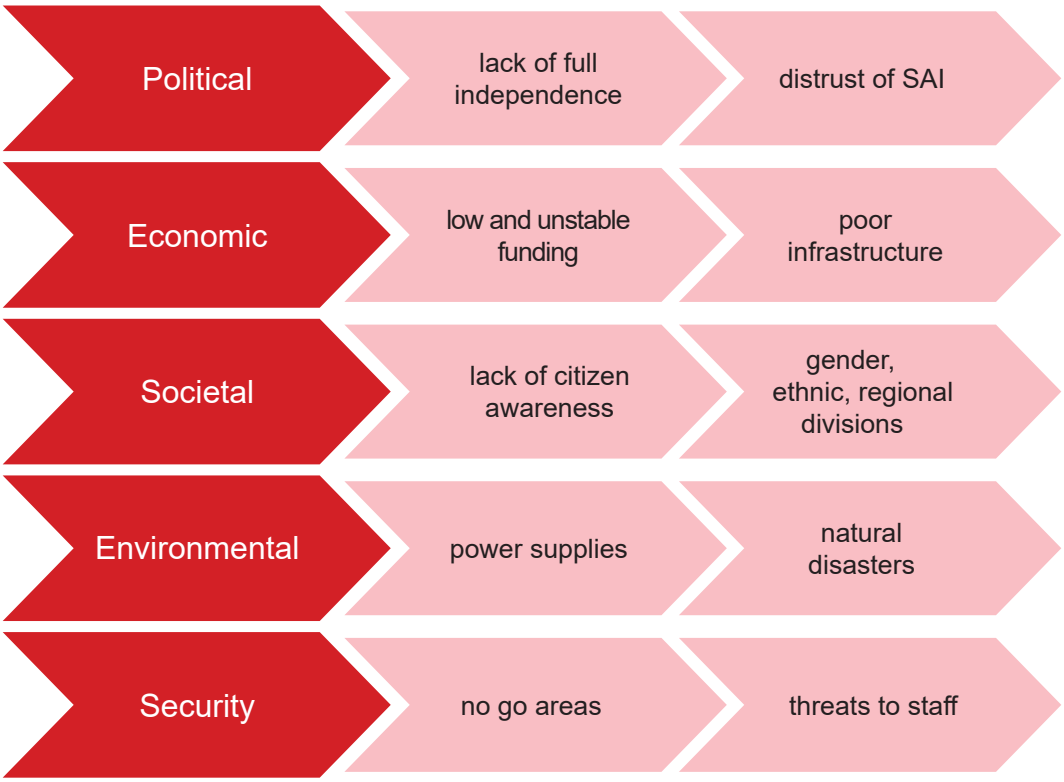
This paper has been written on the initiative of the INTOSAI Capacity Building Committee's working group in support of SAIs operating in complex and challenging contexts. Its purpose is to give an overview to international development partners of the expectations and challenges that SAIs face when implementing international auditing standards.

Introduction

Supreme Audit Institutions (SAIs) across the world are committed to improving the quality of their work and progressively carrying out their audits using international standards. Adopting international standards can be a major challenge for SAIs, especially for those in complex and challenging contexts. Well planned and coordinated support from international development partners can make a difference and speed up the process.

For the SAI to achieve its objectives, and to be able to perform as a key player in a country's public financial management (PFM) system, it is of great importance that it is a trustworthy organization. To present high-quality audit reports which can make a difference in enhancing the transparency and democratic processes of a country, the SAI needs both competence and integrity. To ensure that the SAI can live up to these expectations, support of the development of the public sector in general is needed. Support for the SAI's independence and implementation of international standards in the auditing process must be timed appropriately in relation to the development of the public sector, including the PFM environment.

In complex and challenging contexts, the public sector in general and SAIs in particular, may face especially difficult issues, and may face many of these issues at once:



To manage these challenges SAIs may need support in adopting a wide range of approaches:

Building greater trust with, and commitment from, parliaments and governments and engaging with citizens, civil society, business and the media	Working with public service commissions to gain more control over recruitment	Strengthening internal integrity so they are seen to practice what they preach
Targeting audits at areas of importance to governments	Working with governments to strengthen public financial management systems	Building own capacity to do good enough audit and seeking to adopt and implement the ISSAIs

The audit processes of a Supreme Audit Institution

The core business of a SAI is auditing. The three audit types; performance audit, financial audit and compliance audit all follow the main basic cycle; starting with planning, moving on to conducting and then reporting. Follow-up is outside the audit cycle but still part of the SAI's core business. The SAI may have a mandated obligation to perform all audit types but can often choose what audit type should be used.

- **A financial audit** will focus on whether the financial statements of the audited entities are true and fair, and in line with the accounting framework of the country.
- **A compliance audit** will consider whether the audited entity or entities have followed the laws or regulations chosen as subject matter for the audit.
- **A performance audit** focuses mainly on performance. It will cover at least one of the three E's, economy, efficiency and/or effectiveness, and may also include compliance, to some extent.

Financial audit

Financial audit is conducted in four main phases; prerequisites, planning, conducting and reporting.

The first phase – prerequisites – is where the SAI establishes whether there are conditions to perform a financial audit. As an example, if the entity does not produce a financial statement, or there is no relevant financial reporting framework, it may not be possible to conduct a financial audit.

The second phase - planning the audit - is the most central part of a financial audit, because this is where the focus of the audit and what audit work to perform is determined. The planning is documented in an audit plan, describing the risks and the audit measures to perform to capture those risks.

The third phase - conducting the audit - is where the actual audit work is done, based on the audit plan. The conducting phase includes (statistical or judgmental) sampling, collecting audit evidence, concluding on the audit work performed and evaluating findings. The final step is to evaluate if the audit evidence collected is sufficient to support the conclusion on the financial statements.

The fourth phase - reporting – is where the final conclusion of the audit is made. The auditor's report should only include findings with an effect on the opinion, other findings could be reported in a separate report to management of the audited entity.

Compliance audit

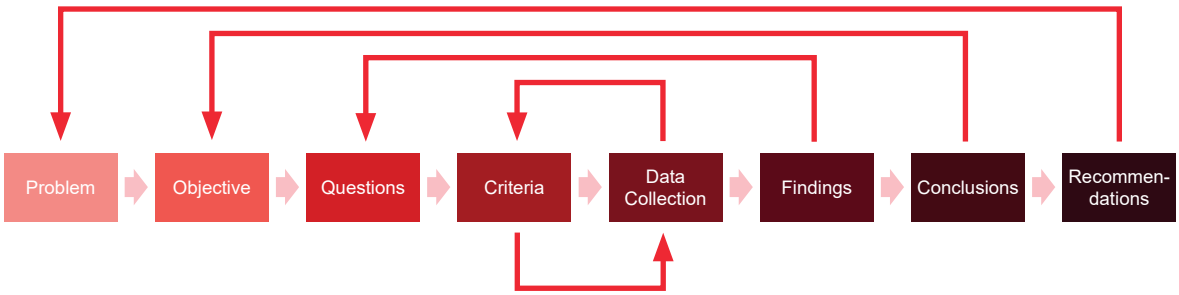
Compliance audit is performed in four steps; preparation, planning, conducting and reporting. Some steps are similar to financial audit while others are closer to performance audit. One important decision is to decide, from the start, on how the audit will be reported. This is usually indicated in the SAI's mandate.

When conducting the audit, the auditor gathers audit evidence to corroborate the conclusion on whether the auditee has complied with the relevant audit criteria. Before concluding on the audit, the auditor has to evaluate the audit evidence to determine if they are sufficient and appropriate.

Reporting is the final phase of the audit. Depending on the SAI's mandate and the initial decision on how to report on the audit, the format and content of the report will vary.

Performance audit

Most SAIs decide independently what performance audits to conduct, as well as when and how to carry them out. Performance audit follows the four general main steps of planning, conducting, reporting and follow-up. Performance audits are oriented mainly towards problems, systems or results. The audit is presented in a performance audit report that should be comprehensive, convincing, timely, reader friendly, fair and balanced.



Standards for Supreme Audit Institutions

SAIs are part of an international organization called INTOSAI (International Organization for Supreme Audit Institutions), which has developed standards for SAIs to guide them in what is expected from a supreme audit institution. These standards, ISSAIs - International standards of supreme audit institutions - cover not only the audit disciplines, but organizational issues like ethical requirements, quality assurance, management, independence and transparency issues. There are three main groups of standards covering the three main types of audits carried out by SAIs – financial-, performance- and compliance audits.

The financial audit standards incorporate the standards adopted by the private sector with additional explanations related to the unique characteristics of the public sector. The financial audit standards use a comprehensive risk-based approach to financial audit, resulting in the preparation of an auditor's opinion. The performance and compliance audit standards have been developed and endorsed independently by the community of INTOSAI members, as these forms of audit are unique to the public sector.

However, it is up to each SAI to decide whether it wishes to, and can legally, adopt these standards – they are not mandatory.

To support SAIs, the INTOSAI Capacity Building Committee has developed a guide on Implementing the ISSAIs with a focus on the strategic considerations preceding the first steps towards implementation of standards, and the INTOSAI development initiative (IDI) has developed tools to help assess the extent to which a SAI is compliant with the ISSAIs.

Why adopt the international standards and what does implementation mean to a SAI?

CREDIBILITY - provide assurance to governments, parliaments and citizens that what the SAI is doing is in line with international best practices.

CONSISTENCY - to achieve comparable quality in the work conducted by different audit teams, leading to a reliable information for auditees and stakeholders

EFFICIENCY - audits can be targeted at major risk areas, focusing audit resources where they are best needed.

Building on international standards in both internal development and audits increases the credibility and reliability of the SAI's work. A credible SAI will have a positive influence on the development of the PFM system and the public sector in general.

When a SAI has decided to implement international standards, the road to compliance is greatly dependent on the context in which it works. What is the state of the public sector in general in the country and of the legal framework? What government entities, public sector processes and policy areas are in place which need and can be audited? How can that audit be carried out and reported? What control systems are working and what kind of audits are relevant in this environment? The task of a SAI must be to audit the public sector financial activities of its country and not primarily international development projects. This is especially important in contexts where SAI resources are scarce and the context challenging.

It can be expected that, to become compliant with international standards, a major change programme would be needed, involving matters as:

- Rigorous gap assessments to show how far current audit practices are from being compliant with the international standards. The assessment should also consider whether changes need to be made to the laws governing the SAI, to enable ISSAI implementation.
- Development of a detailed implementation plan with realistic costs and timelines including a strategy for managing the changes while continuing to ensure the delivery of the mandated audit programme;
- Translation of standards into national language – the ISSAIs are in the five official INTOSAI languages and are being progressively translated into other languages by individual SAIs (see the issai.org website).
- Production of new audit manuals – can usually initially be borrowed but will need to be adapted to the SAI's mandate and context.
- Development of new skills – focus on risks, understanding financial statements, improved documentation, understanding root causes of weaknesses, guidance on internal controls.

- Changes to internal SAI systems – stronger human resource management, greater focus on efficiency of audits, more engagement from managers, creation of specialist performance audit teams.
- New resource allocation and planning arrangements – more planning time in comparison with field work.
- New communications strategies – so staff, auditees, parliamentarians and others understand the need for the changes and resistance to change confronted.
- Strengthening of internal and external quality assurance – a SAI must be able to prove it is applying the ISSAIs not just claim it.

Worth keeping in mind is, that in complex and challenging contexts, it may take longer to implement the international standards than elsewhere. Progress may not be linear – perseverance and small victories are key and need to be celebrated. Audit is a cyclical process so it will take many years before staff can apply the ISSAIs consistently.

What does this mean for international development partners?

By supporting the professionalization of the SAI, through the implementation of international audit standards, donors will contribute to transparency and accountability in the country. Audits conducted in line with international standards are more efficient and consistent over time and between auditees, and thus more credible in providing assurance on different aspects of government operations. As a result, donors – as well as national stakeholders – can thus rely on the quality of the audit reports. The audits will be more relevant as a source of information for evaluating the progress of the country.

How can international development partners help SAIs?

The SAI must be in the lead of its own development, setting its own goals. The international development partner should listen to the SAI and base its support on detailed assessments of both the SAI's point of departure and the context where it operates. Assessments should result in joint conclusions between SAIs and partners to ensure there is a shared vision.

Support for the development of the SAI needs to be well timed and coordinated with the general development of the public sector, the PFM sector and parliamentary control systems. Development partners may need to help the SAI access different types of external help and coordinate with other development partners, in the public sector in general and in the SAI in particular. If there are multiple donor partners helping one SAI, there should be an open dialogue about the organization's absorption capacity and what initiatives should be introduced in what order to ensure the greatest impact.

Development partners are encouraged to select external advisors who understand the work of SAIs, including the ISSAIs, and are prepared to provide flexible support

over the long haul. International development partners can also help provide or fund the professional training and certification of public sector auditors, both in the SAI and through professional training institutes or universities.

Over time it is well worth the investment to offer targeted support to help the SAI build internal and external quality assurance capacity. As the audit capacity improves, it is important to a keep focus on audit impact and encourage SAIs to follow up their audits over many years and report publicly on the extent to which recommendations have been implemented.

To follow up on the compliance with international standards, SAIs are encouraged to undergo periodic, external independent reviews. When considering the results of such assessments, SAIs as well as partners should remember that change is slow and difficult, especially in complex and challenging contexts where there may be both internal and external setbacks along the way.

How can international development partners work with others to help SAIs?

Supporting the development of training in accountancy and audit, and the professionalization of the accountancy profession, in general is both an investment in the SAI's resource base for recruitments and in the long-term quality of accounts in the public sector. International development partners can also provide more direct support to the development of ministries of finance and accountants-general so that government bodies can produce rigorous, timely and accurate financial statements. Support to line ministries and public sector entities will also serve to improve the quality of accounts and the audit evidence available to SAIs. The executive may also need help to understand their role in relation to the SAI and to implement SAI audit recommendations.

Development partners may also provide support to civil society organisations, business and the media so that they can understand and use the SAIs' audits.

Within the framework of support to different parts of the public sector, development partners could look for synergies –e.g. when supporting national revenue offices, look for opportunities to help the SAIs audit such programmes using the ISSAIs.

SAIs may also need external support in providing information, and development support, to parliaments so that they better understand the role of the SAI and what implementing the ISSAIs involves. This support could include offering independent assessments to SAIs, governments and parliaments on the resources needed to deliver the SAIs' audit mandate; including if warranted the resources to retain qualified staff.

International partners can act as advocates for the SAI – encouraging parliaments and governments to provide SAIs with the independence, resources, staff, training

and capacity development support to be able to deliver ISSAI compliant audits. By increasingly relying on the audit work carried out by the SAI in the execution of its' mandate, (i.e. not commissioning separate audits of donor projects) international partners can strengthen the credibility of the SAI and improve national understanding of the audit results.

Donors should also take care not to cause harm to the SAI, by limiting the SAI's mandate, resources or ability to conduct its work independently, through other public sector reforms.

International partners can also encourage countries to consolidate public external auditing arrangements where external audit responsibilities are duplicated.

For more information?

- www.issai.org – the INTOSAI Professional Standards Committee (PSC) leads the efforts within INTOSAI to provide to the Supreme Audit Institutions (SAIs) relevant, professional and clear standards and guidance that add credibility to the work of the individual auditor and the resulting audit reports.
- www.intosaicbc.org – contains useful materials on SAI capacity development and a specialist section on auditing in complex and challenging contexts, including access to webinar recordings and short stories with relevant examples from SAIs.
- www.idi.no – offers a wide range of support as SAIs start to implement the ISSAIs including through initial assessments, e-training courses, training and guidance materials.
- www.intosaidonor.org – the INTOSAI-Donor Cooperation is a strategic global partnership between INTOSAI and development partners which seeks to enhance the capacity of SAIs in developing countries.