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Dear Åse

UPDATED PROJECT PROPOSAL – DEVELOPMENT OF INTOSAI PROFESSIONAL PRONOUNCEMENTS ON AUDITOR COMPETENCE

Thank you very much for the response from the Forum for INTOSAI Professional Pronouncements (FIPP) to the submission from the INTOSAI Capacity Building Committee (CBC) regarding the proposed project to development INTOSAI Professional Pronouncements on Auditor Competence, received on the 15th of January 2020, in a mail from project liaison officer, Alexandra Popovich.

I appreciate the detailed efforts that went into crafting this response. The feedback and the additional guidance provided were instrumental in us being able to rework our November 2019 proposal into an updated and improved proposal, together with a number of new supplementary documents.

We believe that we have found an ideal solution to streamline the envisaged project, to ensure the best possible positioning of the current (and any future) work on auditor competence and to keep the framework clean, principle-based and well integrated. At the same time, conscious of the valuable insights offered in the January response from FIPP, we remain open to other options to deal with the topic at hand. The project proposal caters for additional time to have fruitful deliberations in this regard, in anticipation of approval of this project, and we look forward to these engagements.

It gives me great pleasure to present you with a set of documents for your consideration in your March 2020 meeting, as follows:

- A completely reworked project proposal document, dealing with our proposed solution to develop just three pronouncements,

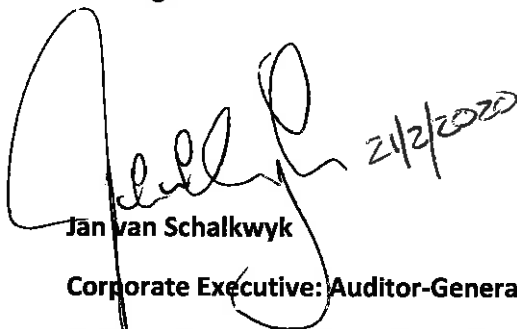
- An analysis where we have unpacked references to competencies, competence development and related matters from the existing set of professional pronouncements and certain International Standards on Auditing,
- A document where we have shared more detail, albeit at a conceptual level, regarding the documents that we propose for development, and
- A copy of the 2018 research that was done on the need for professional pronouncements on auditor competence (together with a summary of “action steps” that the Task-force on INTOSAI Auditor Professionalisation (TFIAP) compiled to conclude on the research).

Again, we remind the FIPP that these documents should be read together with the two guidance documents that the TFIAP submitted to INCOSAI for endorsement during INCOSAI in 2019. It may also be appropriate to review the pronouncements issued by the International Accounting Education Standards Board (IAESB) as these provide very interesting and relevant insights into the positioning and scope of work on auditor competence.

While the intense rework of the November 2019 project-submission should deal with the majority of issues raised in the FIPP feedback, we do believe that there is much value in responding to each of the considerations in detail. These responses are contained in Annexure A to this letter.

We are very encouraged by your invitation for the CBC to engage with the FIPP on this proposal – direct contact between the FIPP and the CBC representatives can only move us forward. Please do not hesitate to make contact with us, should you require more information in the build-up to your March 2020 meeting.

Kind regards



Jan van Schalkwyk

Corporate Executive: Auditor-General South-Africa

INTOSAI Capacity Building Committee Secretariat

ANNEXURE A:

INTOSAI CBC responses to FIPP Feedback (received on 15 January 2020)

Questions raised by FIPP members

- 1. The project group intention is to develop COMP principles and standards which would be mandatory to apply/implement if the SAI wants to state compliance with the ISSAIs***

Several members raised concerns about the potential implication for the INTOSAI community. There is a huge diversity among the SAIs. The issue of effective dates and transitions periods is an important matter if these pronouncements would be mandatory to apply when stating compliance with the ISSAIs.

Our question is whether this position needs to be decided in this early phase? FIPP would suggest postponing the decision until a later stage.

The requirements for auditors to be competent to handle the mandate of the SAI and for SAIs to apply their minds to auditor competence have been part of the auditing standards from the earliest days (see, for example, the references to auditor competence in the Lima Declaration). What the new developments will introduce would be clarity on the sub-elements of auditor competence and the means of development, making sure that there is a complete and consistent reflection on the topics of auditor competence, both at SAI and engagement level.

The implementation “stretch” for SAIs would be to conform to the detail unpacking of the concept of auditor competence, understanding that the baseline requirements to have competent auditors on engagements should already be in place.

A further consideration that informs this question is the fact that, by the earliest time that the newly proposed pronouncements can be endorsed (2022), the two CBC guides (on the INTOSAI competency framework and the development of pathways for professionalisation) will have been in place, and have been widely promoted, for at least three years.

The question justifies further debate between FIPP and the project group. The INTOSAI Global Survey (that is currently being finalised) has taken note of the competency considerations raised in the two CBC guides and should serve as

very useful and credible inputs into the debate on effective dates and transitioning considerations.

2. The risk of inconsistencies and overlaps between existing standards (ISSAIs)

There are several ISSAIs which already includes requirements addressing competency and skills, as for example ISSAI 130 Code of Ethics, 140 Quality Control (including ISQC 1 International Standard on quality control 1 which is recognized in the ISSAI 140), ISSAI 2200 and in ISSAI 3000 – 4000. FIPPs concern is that there could be risk of some inconsistencies and overlaps within the IFPP framework.

FIPP would like to see a more thorough analysis (list) of all the requirements in the existing ISSAIs (mentioned above) and how they relate to the suggested content in the COMP pronouncements. FIPP believes that this overview would be helpful to identify whether there is and in such case in which areas the risk of inconsistency and overlaps could exist.

ISQC 1 would now be introduced more directly in the ISSAI framework in our new ISSAI 2000. The ISSAI 2000 is classified as application material for the implementation of the ISSAI 2200 – 2800. This means that the SAI would need to adhere and consider the requirements in the ISQC 1 when implementing ISSAI 2200 – 2800.

FIPP would also like to highlight that the existing ISQC 1 is under revision and IAASB will in a short period of time approve the new revised ISQC 1. ISSAI 140 on Quality Control is based on ISQC 1 which means that this standard could be up for revision in a short period of time.

- *Would this affect the ambition of the project group, could it cause delays in the timeline and effect the content?*

Please refer to the attached analysis of competency considerations in the existing pronouncements in the IFPP and more specific the summary of outcomes at the end of this document. Revisiting this internal working document prompted the rework of the proposal, where we believe that the full extent of the COMP project should be to create a single anchor point for competency considerations at the level of SAI Organisational Requirements, with will a) serve as a complete and consistent reference point for existing competency considerations at engagement level and b) be backed up by the development of GUIDS relating to auditor competence.

For the full considerations in this regard, refer to the reworked project proposal.

The analysis included ISQC 1 (and the latest available ISQM documents, which will eventually replace ISQC1). While the new ISQM documents will probably provide a more complete reflection, the same challenge remains in that it raises certain concepts but that it leaves the unpacking of these to the IAESB pronouncements – hence supporting the view for a single anchor document as shown in the reworked project proposal. We do not believe that the introduction of the ISQM documents will have a significant impact on either the need for having a separate reflection on auditor competence (as above) or the detail that will be contained in this pronouncement.

3. Unpacking principles from INTOSAI-P 12 in a COMP Standard

*FIPP notes that the project group aims at unpacking principles from INTOSAI-P 12 in the suggested **standard** (COMP 7000) and not on the principle level (COMP 700). Our concern is whether this would cause inconsistency and confusion about where we unpack the aspirational principles.*

INTOSAI-P principles are aspirational principles for a SAI. The principles are identified and unpacked in ISSAI 100, ISSAI 130 and ISSAI 140. The logic would therefore be to unpack requirements in ISSAI 100, 130 and 140 as the COMPs are directly linked to the principles and requirements in the ISSAI box.

This is how the COMP box is defined in the classification of IFPP: “The COMPs will set out the competencies and professional skills, knowledge, ethics, values and attitudes required by the public sector auditor to undertake audits in line with the ISSAIs”.

In the IFPP chart there is a sentence in the COMP box which states that the COMP should be based on the ISSAI 100.

Our understanding of the position paper is that the existing ISSAI 100, 130 and 140 are adequate for hosting the COMPs so therefore we would suggest only unpacking requirements (ISSAI 100, 130 and 140) in the ISSAIs. FIPP’s interpretation of the suggested COMP Principle is that it is not of the same dignity at ISSAI 100, instead it would be at the same level as ISSAI 200 – 400 category of principles (see further question nr. 6 below).

Another question related to unpacking INTOSAI-P 12 is that the project group suggest unpacking the principles from INTOSAI-P 12 in a standard (COMP 7000) and not the principle level (COMP 700). Mind that there needs to be a consistency between the levels and unpacking the aspirational principles as INTOSAI-P would be done in the principle level beneath and not directly in a standard.

- *Is there a rationale for unpacking the INTOSAI-P 12 in the standard COMP 7000 and not in the principle COMP 700?*
- *What would be the consequence for not unpacking INTOSAI-P 12 and instead unpack existing organizational requirements (ISSAI 130 and 140) and principle (ISSAI 100) as the basis for principles in COMP 700 and further on the COMP standards?*
- *What in the INTOSAI-P 12 is not unpacked and addressed in ISSAI 100, 130 and 140?*

For all practical intents and purposes, the above has been addressed in the reworked project proposal that now pins the develop / unpacking process at a different level in the IFPP.

Regardless, it is perhaps necessary to give context to the references to INTOSAI-P 12 (contained in my informal engagement to the project liaison officer). The “obsession” with INTOSAI-P 12 comes from the fact that this document serves as the absolute foundation of the work that the INTOSAI CBC does on capacity development. This is evidenced, amongst others, by the fact that the 4-pronged definition of professionalism in INTOSAI (as contained in many CBC documents, but most notably in the guide of developing pathways for professional development) and the SAI PMF finds its roots in this document. All CBC interventions (including the development of pronouncements on auditor competence) will always refer to INTOSAI-P 12 as a final “understatement test” on capacity development considerations.

It is also appropriate to point out that the references in my informal commentary was specifically aimed at principle 12 that deals with capacity development considerations. While some of the key principles (e.g. professional development strategy, continuing professional development, etc. are repeated further down in the IFPP, none of these attempt to unpack, define or give substance to the concepts. Again it supports the view to have a complete and consistent anchor for other pronouncements that reference competence considerations, at the level of SAI Organisational Requirements.

4. Sequencing the development of the pronouncements and merging documents

FIPP discussed whether it would be possible to merge the two suggested standard documents (COMP 7000 and 7100)? If so, would this cause any major implications for the drafting process?

Please refer to the new project proposal, where these considerations were indeed merged, although pitched at a different level.

A FIPP member raised the question whether it would be suitable to develop the COMPs in phases: 1st: Principles, 2nd Standards and 3rd, GUIDs, as the principles are the basis and overarching the standards etc. In order to achieve milestones at an early date and to avoid future overlaps or inconsistencies, especially if there are delays for some of the documents.

Sequencing is inherent in the development process, acknowledging the need to have an anchor document at the level of SAI organisational requirements, that creates better context to a) any references to competency requirements at engagement level and b) any new GUIDS related to competencies (GUID 7500 and 7600). While sequencing is possible during the project, the CBC believes that it is necessary to think about the three documents (as per the new proposal) as a package. Having the anchor document without the related GUIDES (or the other way round) will add very little value to SAIs and potentially increase the risks around constructive transitioning (see question 1 above).

5. The content of the pronouncements

One of the key questions for FIPP is whether the content would meet the classification criteria in our IFPP framework. Meaning that the content in the suggested pronouncements would meet the criteria for a principle, standard and guidance, and of course include relevant principles, requirements and guidance.

The definition of

- *Principle (100 – 129): Defines basic set of concepts and principles that defines public sector auditing and the different types of engagements supported by the ISSAIs. Principles are written as “should”.*

- *Principle (200 – 400): These define the elements and principles of financial/performance/compliance auditing, with reference to the fundamental principles of public sector auditing. Principles are written as “should” and they address the auditor.*
- *Standard: Standards for auditing, in conformity with the audit principles. Includes detailed requirements describing how the auditor (or the SAI) shall perform audit work. Standards includes requirements and explanations (performance and compliance audit standards) or application material (as in the financial audit standards. The purpose of the application material/explanations is to give substance to the requirement and briefly explain the intention of the requirement.*
- *Guidance (GUID) is: Guidance that supports the auditor in the audit process on how to apply the ISSAIs in practice. Non-mandatory guidance demonstrating how the requirements in the standards could be operationalized. Guidance does not include requirements nor uses the language of “shall or should”.*

FIPP have got a brief overview of the topics for each pronouncement with references to the underlying guidance on pathways for professionalization and competency framework.

Though FIPP would like to have a deeper understanding on the content. Therefore, we would like to see a more detailed outline and examples of information (principles/requirements/guidance) the project group is suggesting including in each pronouncement.

When developing the more detailed outline and content, consider the definitions as stated above and the suggestions for structure and drafting (see below under heading “Suggestions for structure and drafting”). We all need to bear in mind that the outcome of component 1 in the SDP 2020 – 2022 could affect the definition and classifications in the IFPP.

The whole issue of classification criteria is addressed in section A4 of the reworked proposal.

This reworked proposal is informed by an analysis (in the form of an internal working document) where the CBC have analysed references to competencies, competence development and related matters from the existing set of professional pronouncements, and a document where more detail, albeit at a

conceptual level, is shared regarding the documents that are proposed for development.

The CBC believes that the reworked proposal provides the most streamlined and conceptually sound solution for inclusion of competence considerations in the IFPP, but needless to say we remain open to other solutions. Timeliness have been adjusted to provide for appropriately constructive discussions in this regard to play out.

6. GUIDs for ISSAI organizational requirements, instead of principles and standards on COMP?

A few members raised the question whether we need specific competency standards, principles and guidance for COMP or whether there could be a possibility to develop GUIDs for the relevant ISSAIs instead. A motive for this is that the main principles and requirements on competency already exist within the ISSAI box (ISSAI 100, ISSAI 130, ISSAI 140, ISQC 1 etc.).

This question would be crucial, especially if we identify risks of overlaps and inconsistencies within the framework. FIPP is aware of the space created for the pronouncements for competency (COMP). We would like to hear the project group thoughts on this suggestion and your thoughts on the overlaps with organizational requirements?

Again, this question is largely overtaken by the submission of the analysis of competency considerations in the existing pronouncements in the IFPP and the reworked proposal.

The CBC fully agrees that the need of the INTOSAI community is best served at the level of GUIDS, but this presupposes the existence of a single complete and consistent anchor (proposed at the level of SAI Organisational Requirements) that will introduce and give context to the newly proposed GUIDS. It is also very clear from the analysis of current pronouncements that there is a need to “bring together” considerations regarding auditor competence in a single document to ensure that there is a complete and consistent reflection in this regard in the IFPP and that this “single reflection” creates an appropriate context for the engagement level competency considerations, in the same way that the IAASB crafted its audit pronouncements, understanding that the detail reflections on auditor competence will sit elsewhere, in the IAESB pronouncements.

For the current project, only two GUIDS are planned, but the CBC believe that in future, there may be a need to add more at that level. It does not foresee any developments at the level of principles and standards, as references to auditor competence are already contained in these. FIPP may want to consider bringing better alignment and completeness to these reflections in future revisions of pronouncements at this level – again a consideration outside the current project proposal.

7. Timeline for the pronouncements and the establishment of the project group.

FIPP recognizes the dedication and the ambition of the previous work done within professionalization of auditors. Our question is whether the timeline is too ambitious considering our experience so far when it comes to the approval processes. We have not so far approved any pronouncement after discussing it once at a FIPP meeting. In some cases, the pronouncement has been discussed three times. Another issue related to the timeline is, as far as we have understood it, the project group is not yet formally established. This might cause delays.

The composition of the project group is crucial as it would affect the quality, acceptability of the pronouncements within INTOSAI community and sustainability of the project. FIPP finds it satisfactory to see that there is an ambition to have an Advisory panel as this would probably enhance the quality of the document. Therefore, we would appreciate if we could see the members of the project group and Advisory panel listed in the revised project proposal.

The CBC notes the advice of the FIPP in this regard and have already responded to some degree by proposing a certain level of consolidation in its reworked project proposal. The CBC understands the need for multiple engagements on the deliverables proposed and has allowed for a reasonable level and period of engagement between FIPP and the project group.

The CBC supports the view that the quality of what is produced for inclusion in the IFPP is the overriding consideration in this regard, accepts that any reworks / resubmissions required will be informed by this overall consideration and trusts that the efficiency with which FIPP engages with the project, is well-informed by the in-kind nature of the work done at the TFIAP.

The concerns about the TFIAP not being reconstituted yet are valid, but at the same time, the CBC is not comfortable to commit specific AGs and SAls to in-

kind resource commitments in the absence of approval for the project. The way in which the TFIAP has been used up to now – as a sound-board, quality mechanism, etc will continue, which implies that the detailed development work will be handled by a few dedicated individuals in SAI SA and AFROSAI-E.

The CBC will share the names of TFIAP members and the advisory panel as soon as possible, but invite the FIPP to be quite explicit in its expectations in this regard.

8. Research material

FIPP would like to see and read the report from the research activity performed by the Task force. Could the project group send the material to FIPP LO for further distribution to FIPP members.

A copy of the research document has been attached to the February 2020 submission.

The research is available to the whole INTOSAI community on the INTOSAI CBC web-site – www.intosaicbc.org/task-force-on-intosai-auditor-professionalisation/

9. Conforming matters with project group

After reading the documents FIPP members would like to conform the following matter with the project group:

- *Competency framework, please confirm that the competency framework would only be addressed in the GUIDs?*

Given the INTOSAI principle of “global profession, local solution” that recognises the level of diversity in the INTOSAI community, the level of detail found in the current INTOSAI competency framework will be best placed at the level of GUIDs.

It is perhaps important to note that the content of the competency framework as it relates to audit competencies, comes directly from the IFPP and, as such, should be familiar territory for SAIs and auditors.

- *Would the pronouncements (especially on principle and standard level) recognize that some SAIs have different categories of auditors, for example some auditors only audit less complex entities and others are only involved in auditing complex entities or programs.*

Yes – this recognition sits at the heart of all the TFIAP work that was done in the past 6 years. It is also the reason why the CBC believed that the competency considerations contained in the IAESB pronouncements was too prescriptive to fit the INTOSAI community, hence opting for a more generic reflection.

- *Would the GUIDs reflect how the vertical boxes (audit types) of competency relates to combined audits?*

The GUIDS will deal with certain process requirements to develop and implement appropriate competency frameworks and to develop pathways for professionalisation. As such, the principle of having to cater for unique requirements posed by combined audits, is catered for.

In the current proposal, this will be contained in a broad consideration, at SAI level, to come up with competency requirements tailored to the needs of the SAI, while the detailed process considerations will follow at the level of GUIDS.

It may be appropriate to feed the detail that sits behind this question back to the TFIAP for further consideration during the detailed work.

- *Several SAIs audit listed entities and apply the IFAC education standards for financial auditors. Would these new standards and principles diverge from IFAC education standards?*

The 2018 TFIAP research recognises the fact that many SAIs has adopted the IAESB pronouncements, either as an overall consideration for competence management in the SAIS or for specific considerations in auditing listed entities.

The proposed new pronouncements will not change this. As indicated above, the intention is to craft pronouncements to cater for the diversity in the INTOSAI community, which asks for a slightly more generic approach in certain instances (such as the definitions of initial professional development or even underlying knowledge). The use of the IAESB pronouncements, which are a lot more prescriptive when it gets to competence requirements, will represent a specific (and narrower) application of the INTOSAI considerations around competence.

General reflection – for all the matters raised in 9, more detail is available in the two CBC guides that deal with competencies.