

INTOSAI



*General standards in
Government Auditing
and standards with
ethical significance*

INTOSAI PROFESSIONAL STANDARDS COMMITTEE

PSC-SECRETARIAT

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1. General Standards in Government Auditing

1.1 This section deals with general standards in government auditing. The general auditing standards describe the qualifications of the auditor and/or the auditing institution so that they may carry out the tasks related to field and reporting standards in a competent and effective manner.

1.2 The general auditing standards are that the SAI should adopt policies and procedures to

- (a) Recruit personnel with suitable qualifications (see paragraph 1.3).
- (b) Develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff (see paragraph 1.5).
- (c) Prepare manuals and other written guidance and instructions concerning the conduct of audits (see paragraph 1.13).
- (d) Support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 1.15).
- (e) Review the efficiency and effectiveness of the SAI's internal standards and procedures (see paragraph 1.25).

1.3 The general standards for SAIs include

The SAI should adopt policies and procedures to recruit personnel with suitable qualifications (see paragraph 1.2a).

The following paragraph explains recruitment as an auditing standard.

1.4 SAI personnel should possess suitable academic qualifications and be equipped with appropriate training and experience. The SAI should establish, and regularly review, minimum educational requirements for the appointment of auditors.

1.5 The general standards for SAIs include

The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their task effectively and to define the basis for the advancement of auditors and other staff (see paragraph 1.2b).

The following paragraphs explain training and development as an auditing standard.

1.6 The SAI should take adequate steps to provide for continuing professional development of its personnel, including, as appropriate, provision of in-house training and encouragement of attendance at external courses.

1.7 The SAI should maintain an inventory of skills of personnel to assist in the planning of audits as well as to identify professional development needs.

1.8 The SAI should establish and regularly review criteria, including educational requirements, for the advancement of auditors and other staff of the SAI.

1.9 The SAI should also establish and maintain policies and procedures for the professional development of audit staff regarding the audit techniques and methodologies applicable to the range of audits it undertakes.

1.10 SAI personnel should have a good understanding of the government environment, including such aspects as the role of the legislature, the legal and institutional arrangements governing the operations of the executive and the charters of public enterprises. Likewise, trained audit staff must possess an adequate knowledge of the SAI's auditing standards, policies, procedures and practices.

1.11 Audit of financial systems, accounting records and financial statements requires training in accounting and related disciplines as well as a knowledge of applicable legislation and executive orders affecting the accountability of the audited entity. Further, the conduct of performance audits may require, in addition to the above, training in such areas as administration, management, economics and the social sciences.

1.12 The SAI should encourage its personnel to become members of a professional body relevant to their work and to participate in that body's activities.

1.13 The general standards for SAIs include:

The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits (see paragraph 1.2c).

The following paragraph explains written guidance as an auditing standard.

1.14 Communication to staff of the SAI by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out the SAI's policies, standards and practices, is important in maintaining the quality of audits.

1.15 The general standards for SAIs include

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify those skills which are absent; provide a good distribution of skills to auditing tasks and a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 1.2d).

The following paragraphs explain the use of skills as an auditing standard.

1.16 Resources required to undertake each audit need to be assessed so that suitably skilled staff may be assigned to the work and a control placed on staff resources to be applied to the audit.

1.17 The extent to which academic attainments should be related specifically to the audit task varies with the type of auditing undertaken. It is not necessary that each auditor possesses competence in all aspects of the audit mandate. However, policies and procedures governing the assignment of personnel to audit tasks should aim at deploying personnel who have the auditing skills required by the nature of the audit task so that the team involved on a particular audit collectively possesses the necessary skills and expertise.

1.18 It should be open to the SAI to acquire specialised skills from external sources if the successful carrying out of an audit so requires in order that the audit findings, conclusions and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is for the SAI to judge, in its particular circumstances, to what extent its requirements are best met by in-house expertise as against employment of outside experts.

1.19 Policies and procedures governing supervision of audits are important factors in the performance of the SAI's role at an appropriate level of competence. The SAI should ensure that audits are planned and supervised by auditors who are competent, knowledgeable in the SAI's standards and methodologies, and equipped with an understanding of the specialities and peculiarities of the environment.

1.20 Where the SAI's mandate includes the audit of financial statements which cover the executive branch of government as a whole, the audit teams deployed should be equipped to undertake a co-ordinated evaluation of departmental accounting systems, as well as of central agency co-ordination arrangements and control mechanisms. Teams will require a knowledge of the relevant governmental accounting and control systems, and an adequate expertise in the auditing techniques applied by the SAI to this type of audit.

1.21 Unless the SAI is equipped to undertake, within a reasonable time-scale, all relevant audits, including performance audits covering the whole of every audited entity's operations, criteria are needed for determining the range of audit activities which, within the audit period or cycle, will give the maximum practicable assurance regarding performance of public accountability obligations by each audited entity.

1.22 In determining the allocation of its resources among different audit activities, the SAI must give priority to

any audit tasks which must, by law, be completed within a specified time frame. Careful attention must be given to strategic planning so as to identify an appropriate order of priority for discretionary audits to be undertaken.

1.23 Assignment of priorities compatible with maintaining the quality of performance across the mandate involves exercise of the SAI's judgement in the light of available information. Maintenance of a portfolio of data pertaining to the structure, functions and operations of audited entities will assist the SAI in identifying areas of materiality and vulnerability and areas holding potential for improvements in administration.

1.24 Before each audit is undertaken proper authorisation for its commencement should be given by designated personnel within the SAI. This authorisation should include a clear statement of the objectives of the audit, its scope and focus, resources to be applied to the audit in terms of skills and quantum, arrangements for reviews of progress at appropriate points, and the dates by which fieldwork is to be completed and a report on the audit is to be provided.

1.25 The general standards for SAIs include

The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI's internal standards and procedures (see paragraph 1.2e).

The following paragraphs explain quality assurance reviews as an auditing standard.

1.26 Because of the importance of ensuring a high standard of work by the SAI, it should pay particular attention to quality assurance programs in order to improve audit performance and results. The benefits to be derived from such programs make it essential for appropriate resources to be available for this purpose. It is important that the use of these resources be matched against the benefits to be obtained.

1.27 The SAI should establish systems and procedures to:

- (a) confirm that integral quality assurance processes have operated satisfactorily;
- (b) ensure the quality of the audit report; and
- (c) secure improvements and avoid repetition of weaknesses.

1.28 As a further means of ensuring quality of performance, additional to the review of audit activity by personnel having line responsibility for the audits concerned, it is desirable for SAIs to establish their own quality assurance arrangements. That is, planning, conduct and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified SAI personnel not involved in those audits, with consultation with the relevant audit line management regarding the outcome of the internal quality assurance arrangements and periodic reporting to the SAI's top management.

1.29 It is appropriate for SAIs to institute their own internal audit function with a wide charter to assist the SAI to achieve effective management of its own operations and sustain the quality of its performance.

1.30 The quality of the work of the SAI can be enhanced by strengthening internal review and probably by independent appraisal of its work.

1.31 In certain countries the audit of regularity and legality takes the form of a preventative control of public expenditure, by means of an approval by the SAI of the expenditure.

1.32 Generally, preventative audit should be understood as an audit which is carried out at a time which still permits the auditing institution to prevent an act which is judged to be irregular.

1.33 While "a posteriori" audit may only find irregularities when they have already happened and when it is more difficult to correct them, "a priori" audit brings by contrast an immediate sanction: the refusal to authorise settlement in case of juridical or accounting irregularity established by the SAI.

1.34 Some SAIs help develop and/or review and approve accounting systems, and then later review the application of the same systems in operation.

1.35 The SAI should ensure that applicable standards are followed on both pre-audits and post-audits and that deviations from the standards which are determined to be appropriate are documented.

2. Standards With Ethical Significance

2.1 The general auditing standards include:

- (a) The auditor and the SAI must be independent (see paragraph 2.2).
- (b) SAIs should avoid conflict of interest between the auditor and the entity under audit (see paragraph 2.31).
- (c) The auditor and the SAI must possess the required competence (see paragraph 2.33).
- (d) The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 2.39).

Independence

2.2 The general standards for the auditor and the SAI include

The auditor and the SAI must be independent (see paragraph 2.1a).

The following paragraphs explain independence as an auditing standard. In particular, paragraphs 2.5 - 2.12 explain independence from the legislature, paragraphs 2.13 - 2.24 from the executive, and paragraphs 2.25 - 2.29 from the audited entity.

2.3 Whatever the form of government, the need for independence and objectivity in audit is vital. An adequate degree of independence from both the legislature and the executive branch of government is essential to the conduct of audit and to the credibility of its results.

2.4 Criteria for establishing and maintaining adequate SAI independence can most readily be made explicit for countries in which there is an elected legislature, distinguished from the executive branch of government (whether or not members of the government are also members of the legislature). As arrangements broadly of this sort operate in a high proportion of INTOSAI member countries, these standards set out SAI independence criteria for countries with such arrangements, acknowledging that modification and adaptation of those criteria would be necessary in other countries.

2.5 The legislature is one of the main users of the SAI's services. It is from the constitution or legislature that the SAI derives its mandate, and a frequent feature of the SAI's function is its reporting to the legislature. The SAI can be expected to work closely with the legislature, including with any committees empowered by the legislature to consider SAI reports. Such liaison can contribute to effective follow-up of the SAI's work.

2.6 Similarly the important results of audits of the carrying-out of the State budget and of administration and disputes and disagreements with audited administrations should be brought to the attention of the legislative body by way of report or special communication.

2.7 Special committees created within the legislative body may be charged with examining, in the presence of Ministers, delegates from the audited services and other representatives, the comments in the SAI reports and special communications. The close link between the legislative body and the SAI can also be implemented by a budgetary enquiry as well as by technical assistance to the work of parliamentary committees charged with the examination of draft budgets.

2.8 The SAI may give members of the legislature factual briefings on audit reports, but it is important that the SAI maintains its independence from political influence, in order to preserve an impartial approach to its audit responsibilities. This implies that the SAI not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests.

2.9 While the SAI must observe the laws enacted by the legislature, adequate independence requires that it not otherwise be subject to direction by the legislature in the programming, planning and conduct of audits. The SAI needs freedom to set priorities and program its work in accordance with its mandate and adopt methodologies appropriate to the audits to be undertaken.

2.10 In some countries the audit of the executive's financial management is the prerogative of the Parliament or elected Assembly; this may also apply to the audit of expenditure and receipts at a regional level, where external audit is the responsibility of a legislative assembly. In these cases audits are conducted on behalf of that body and it is appropriate for the SAI to take account of its requests for specific investigations in programming audit tasks. It is nevertheless important that the SAI remain free to determine the manner in which it conducts all its work, including those tasks requested by the Parliament.

2.11 It is appropriate for legislation to specify minimum reporting requirements, including the matters to be subject to an audit opinion and a reasonable time within which reports should be made. Apart from that, flexible arrangements for the SAI's reporting to the legislature, without restriction on content or timing of reports, would support the maintenance of independence.

2.12 It is necessary that the legislature provide the SAI with sufficient resources, for which the SAI is accountable, as well as for the effective exercise of its mandate.

2.13 The executive branch of government and the SAI may have some common interests in the promotion of public accountability. But the essential relationship with the executive is that of an external auditor. As such the SAI's reports assist the executive by drawing attention to deficiencies in administration and recommending improvements. Care should be taken to avoid participation in the executive's functions of the kind that would militate against the SAI's independence and objectivity in the discharge of its mandate.

2.14 It is important for the independence of the SAI that there be no power of direction by the executive in relation to the SAI's performance of its mandate. The SAI should not be obliged to carry out, modify or refrain from carrying out, an audit or suppress or modify audit findings, conclusions and recommendations.

2.15 A degree of co-operation between the SAI and the executive is desirable in some areas. The SAI should be ready to advise the executive in such matters as accounting standards and policies and the form of financial statements. The SAI must ensure that in giving such advice it avoids any explicit or implied commitment that would impair the independent exercise of its audit mandate.

2.16 Maintenance of the SAI's independence does not preclude requests to the SAI by the executive proposing matters for audit. But if it is to enjoy adequate independence, the SAI must be able to decline any such request. It is fundamental to the concept of SAI independence that decisions as to the audit tasks comprising the program should rest finally with the SAI.

2.17 A sensitive area in relationships between the SAI and the executive concerns provision of resources to the SAI. In varying degrees, reflecting constitutional and institutional differences, arrangements for the SAI's resource provision may be related to the executive branch of government's financial situation and general expenditure policies. As against that, effective promotion of public accountability requires that the SAI be provided with sufficient resources to enable it to discharge its responsibilities in a reasonable manner.

2.18 Any imposition of resource or other restrictions by the executive which would constrain the SAI's exercise of its mandate would be an appropriate matter for report by the SAI to the legislature.

2.19 The legal mandate should provide for full and free access by the SAI to all premises and records relevant to audited entities and their operations and should provide adequate powers for the SAI to obtain relevant information from persons or entities possessing it.

2.20 Also, by legal provision or convention, the executive should permit access by the SAI to sensitive information which is necessary and relevant to the discharge of the SAI's responsibilities.

2.21 Conditions of tenure for the head of the SAI can contribute to the SAI's independence from the executive, for instance through appointment for a lengthy fixed term or until a specified retirement age. Conversely, tenure conditions which put an SAI under pressure to please the executive would have an erosive influence on independence. For this reason it is in principle desirable that provisions relating to the termination of appointment or removal from office

should be exercisable only by special process akin to that relating to the holders of judicial or like office.

2.22 For those SAIs which exercise a jurisdictional function and which are most frequently organised in a collegial form, the independence of their members should be assured by various guarantees, particularly the principle of irremovability of judges, the privilege of jurisdiction, the determination of the treatment by the law, and the independence of the examining magistrate.

2.23 In order that the SAI not only exercise its functions independently of the executive but be seen to do so, it is important that its mandate and its independent status be well understood in the community. The SAI should, as appropriate opportunities arise, undertake an educational role in that regard.

2.24 The SAI's functional independence need not preclude arrangements with executive entities in regard to the SAI's administration in matters such as industrial relations, personnel management, property management or common purchasing of equipment and stores, though executive entities should not be in a position to take decisions that would jeopardise the SAI's independence in discharging its mandate.

2.25 The SAI must remain independent from audited entities. It should, however, seek to create among audited entities an understanding of its role and function, with a view to maintaining amicable relationships with them. Good relationships can help the SAI to obtain information freely and frankly and to conduct discussions in an atmosphere of mutual respect and understanding. In this spirit, the SAI, while retaining its independence, can agree to be associated with reforms which are planned by the Administration in areas such as public accounts or financial legislation or agree to be consulted about the preparation of draft laws or rules affecting its competence or its authority. In these cases it is not, however, a matter of the SAI interfering in administrative management but a matter of co-operating with certain administrative services by giving them technical assistance or by putting SAI financial management experience at their disposition.

2.26 In contrast to private sector audit, where the auditor's agreed task is specified in an engagement letter, the audited entity is not in a client relationship with the SAI. The SAI has to discharge its mandate freely and impartially, taking management views into consideration in forming audit opinions, conclusions and recommendations, but owing no responsibility to the management of the audited entity for the scope or nature of the audits undertaken.

2.27 The SAI should not participate in the management or operations of an audited entity. Audit personnel should not become members of management committees and, if audit advice is to be given, it should be conveyed as audit advice or recommendation and acknowledged clearly as such.

2.28 Any SAI personnel having close affiliations with the management of an audited entity, such as social, kinship or other relationship conducive to a lessening of objectivity, should not be assigned to audit that entity.

2.29 Personnel of the SAI should not become involved in instructing personnel of an audited entity as to their duties. In those instances where the SAI decides to establish a resident office at the audited entity with the purpose of facilitating the ongoing review of its operations, programs and activities, SAI personnel should not engage in any decision making or approval process which is considered the auditee's management responsibility.

2.30 The SAI may co-operate with academic institutions and enter formal relationships with professional bodies, provided the relationships do not inhibit its independence and objectivity, in order to avail itself of the advice of experienced members of the profession at large.

Conflict of interest

2.31 SAIs should avoid conflict of interest between the auditor and the entity under audit (see paragraph 2.1b).

2.32 The SAI performs its role by carrying out audits of the accountable entities and reporting the results. To fulfil this role, the SAI needs to maintain its independence and objectivity. The application of appropriate general auditing standards assists the SAI to satisfy these requirements.

Competence

2.33 The general standards for the auditor and the SAI include

The auditor and the SAI must possess the required competence (see paragraph 2.1c).

The following paragraphs explain competence as an auditing standard.

2.34 The mandate of a SAI generally imposes a duty of forming and reporting audit opinions, conclusions and recommendations. In some SAIs this duty may be imposed on the head of the organisation. In SAIs organised on a collegiate basis the duty is usually placed on the institution itself.

2.35 Discussion within the SAI promotes the objectivity and authority of opinions and decisions. Where a SAI is structured in collegiate form, the final opinions and decisions represent the view of the organisation as a whole, even if the action is taken or exercised in bodies differentiated by their composition but not their power--for example, a Chamber, Joint Chamber or section of a Chamber. If the SAI has a single head all opinions and decisions are taken by that head or in his name.

2.36 Since the duties and responsibilities thus borne by the SAI are crucial to the concept of public accountability, the SAI must apply to its audits, methodologies and practices of the highest quality. It is incumbent upon it to formulate procedures to secure effective exercise of its responsibilities for audit reports, unimpaired by less than full adherence by personnel or external experts to its standards, planning procedures, methodologies and supervision.

2.37 The SAI needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Whatever the nature of the audits to be undertaken under that mandate, the audit work should be carried out by persons whose education and experience is commensurate with the nature, scope and complexities of the audit task. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems.

2.38 The wider and more discretionary in nature the SAI's mandate, the more complex becomes the task of ensuring quality of performance across the whole mandate. Thus a mandate which leaves the SAI discretion in the frequency of audits to be carried out and the nature of reports to be provided, demands a high standard of management within the SAI.

Due Care

2.39 The general standards for the auditor and the SAI include

The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 2.1d).

The following paragraphs explain due care as an auditing standard.

2.40 The SAI must be, and be seen to be, objective in its audit of entities and public enterprises. It should be fair in its evaluations and in its reporting of the outcome of audits.

2.41 Performance and exercise of technical skill should be of a quality appropriate to the complexities of a particular audit. Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorised operations, waste, inefficiency or lack of probity.

2.42 Where an authorised or recognised entity sets standards or guidelines for accounting and reporting by public enterprises, the SAI may use such guidelines in the course of its examination.

2.43 If the SAI employs external experts as consultants it must exercise due care to assure itself of the consultants' competence and aptitude for the particular tasks involved. This standard applies also where outside auditors are engaged on contract with the SAI. In addition care must be taken to ensure that audit contracts include adequate provision for the

SAI to determine the planning, the audit scope, the performing, and the reporting on the audit.

2.44 Should the SAI, in the performance of its functions, need to seek advice from specialists external to the SAI, the standards for exercise of due care in such arrangements have a bearing also on the maintenance of quality of performance. Obtaining advice from an external expert does not relieve the SAI of responsibility for the opinions formed or conclusions reached on the audit task.

2.45 When the SAI uses the work of another auditor(s), it must apply adequate procedures to provide assurance that the other auditor(s) has exercised due care and complied with relevant auditing standards, and may review the work of the other auditor(s) to satisfy itself as to the quality of that work.

2.46 Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor's responsibilities. It is essential that the SAI maintain confidentiality regarding audit matters and information arising from its audit task. However, the SAI must be entitled to report offences against the law to proper prosecuting authorities.