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INTOSAI



Guidance for Supreme Audit Institutions

INTOSAI



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Foreword

Government audit today enjoys worldwide recognition and in this context national supreme audit institutions (SAIs) play a significant role in auditing government accounts and operations and in promoting sound financial management and accountability. As international institutions are basically funded by public contributions from different member states, SAIs have the same fundamental interest in these institutions' living up to principles of good governance, accountability and transparency. Among auditors general there has for a long time been concern about the accountability for funds granted by their national governments to international institutions.

The International Organization of Supreme Audit Institutions (INTOSAI) is the professional organisation of SAIs. At INTOSAI's XVII Congress in Seoul 2001, the Auditor General of Norway was appointed Chair of a working group charged with the task of establishing principles for recommended audit arrangements for international institutions.

The working group has been composed of representatives from the SAIs of Austria, Denmark, India, Japan, Korea, Nepal, Norway, Saudi Arabia, South Africa, Tuvalu, United Kingdom, and Venezuela, which means that all regions have been represented, ensuring that views from different regional and national audit systems have been continuously introduced and considered.

The principles for best audit arrangements are primarily intended for international institutions and their management and governing bodies, the latter being responsible for establishing rules and regulations for the institutions. In addition the principles are meant for national authorities/ministries and their representatives in the institutions, and for supreme audit institutions.

The working group has also developed this guidance for supreme audit institutions on best practice in the audit of international institutions. The guidance is available on the INTOSAI website (www.intosai.org).

One expressed objective of INTOSAI is to share experience. The guidance included in this paper is based on many years experience in SAIs that have been active in the audit of a number of different international institutions. It is my belief that an SAI will benefit from taking part in audits of international institutions, and I hope that the guidance given here on various aspects will be of use to SAIs entering this arena. Audit of international institutions, like other audit areas, are developing, and it is my hope that this paper can be made a living document, that may be regularly updated to reflect best practice.

I would like to thank all the member SAIs of the working group, and all other SAIs that have contributed to our work for their dedication and cooperation. A special recognition to the SAIs of Austria, Canada, Saudi-Arabia, and Venezuela, which generously took on the responsibility to perform all translation tasks.

Oslo, October 2004

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Chairman of the INTOSAI Working Group
on the audit of international institutions

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1 Introduction

1.1 Background

Currently, there are a large number of international institutions around the world. Some are small with relatively few members, while others are huge with global membership.

International institutions are basically financed through contributions, guarantees or other public funds from the member states. As such, the funds are part of national budgets. Supreme audit institutions (SAIs) have a fundamental interest in good governance, accountability and transparency in international institutions, and strongly believe that good, well-organised and independent audit systems will contribute to better and more transparent control of international institutions, thus contributing to their efficiency, effectiveness and economy.

Issues concerning the audit of international institutions have been on the International Organization of Supreme Audit Institutions' (INTOSAI's) agenda over a long time, and INTOSAI has agreed on recommendations at the:

- II INCOSAI in Belgium (1956)
- III INCOSAI in Brazil (1959)
- IX INCOSAI – Peru (1977) "The Lima declaration" of Guidelines on Auditing Precepts
- X INCOSAI in Kenya (1980)

The members of INTOSAI are of the opinion that accountability in a number of international institutions are not entirely in line with present standards for good governance, and that audit arrangements could be substantially improved. Audit arrangements were in many instances established years ago, in an era where focus was more on the success of establishing international cooperation, rather than on ensuring insight into prudent, effective and transparent spending of public money. As a result, audit mandates and arrangements are often outdated, and the accounts and audit more reflect the needs of the budgetary process than the need to ensure that money is spent wisely and with transparency.

INTOSAI believes that an effective external audit is one decisive factor in better governance, and that INTOSAI members are uniquely placed to contribute to achieving this. INTOSAI collectively, and its members individually, have therefore undertaken to promote audit arrangements that encourage the auditing of international institutions by the community of SAIs, recognising their expertise and independence in the regularity and performance auditing of public money.

The topic was one of the main themes at the XVII INCOSAI in Seoul, Korea in 2001.

1.2 Outputs

1.2.1 Principles for best audit arrangements for international institutions

The INTOSAI working group on the audit of international institutions has proposed the following principles as essential to the effective audit of international institutions:

To be effective, the audit arrangements for international institutions should ensure that:

1. All international institutions financed or supported by public money should be subject to audit by SAIs, to promote better governance, transparency and accountability,

and that the external auditor:

2. Is fully independent in the conduct of the audit,
3. Has sufficient authority to carry out the audit in a manner that meets best practice in the audit of public money,
4. Has adequate resources to carry out the audit,
5. Has the right and obligation to report on the results of the audit to the member states concerned through the governing body,
6. Meets relevant professional and ethical standards,
7. Is appointed in an open, fair and transparent manner.

The principles are being presented to the XVIII INCOSAI in Budapest, Hungary, in 2004, for approval.

1.2.2 Definition and list of international institutions

The working group formulated the following definition of international institutions to guide its work.

Definition:

An international institution is an organisation whether or not established by a treaty, in which two or more states (or government agencies or publicly funded bodies) are members and in which a joint financial interest is overseen by a governing body.

The purpose of such an international institution could be to achieve international co-operation in dealing with issues of an economical, technical, social, cultural or humanitarian character. This could be co-operation in the field of governance, security, finance, scientific research, environment or the realization of joint technical, economical, financial or social projects.

A list of the international institutions that meet this definition has been produced by the working group. This list will be presented at the XVIII INCOSAI in Budapest and made available to SAIs through the INTOSAI website (www.intosai.org).

1.2.3 Guidance for SAIs

This document is intended to provide guidance for SAIs in promoting the establishment of better audit arrangements for international institutions and preparing SAIs for undertaking such audits. The guidance does not duplicate standards and guidelines issued elsewhere, nor does it presume to provide a comprehensive summary of all the issues that an individual SAI will need to consider before deciding whether or not to undertake such audits. It does provide a framework for the future work to improve audit arrangements and gives some useful guidance on practical matters for SAIs who are less experienced in auditing international institutions.

The document is divided into 3 chapters:

Chapter 2 provides guidance on how SAIs might promote the recommended principles for best audit arrangements in international institutions.

Chapter 3 identifies relevant issues concerning the preparation in an SAI wishing to undertake the audit of international institutions.

Chapter 4 refers to the relevant auditing standards, and identifies certain aspects of the audit of international institutions that may differ from audits in a national context.

The relevant recommendations issued by INTOSAI on this topic are listed in an annex to this document.

2 Promoting principles for best audit arrangements

2.1 Introduction

INTOSAI expressed in the Lima declaration of 1977 that:

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| <ol style="list-style-type: none">1. "International and supranational organisations, whose expenditures are covered by member country contributions, shall require an external, independent audit similar to that of individual countries.2. Although this audit shall be adapted to the structure and tasks of the respective organisation, it shall be conceived along lines similar to those of the supreme audits of member countries.3. To ensure the independence of such an audit, the members of the external audit institution shall be appointed mainly from within the Supreme Audit Institutions." |
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An international institution is, as an autonomous body, responsible for establishing its own rules and regulations, including the audit arrangements. The rules and regulations should be based on internationally accepted principles. International institutions vary in their set-up. Typically, however, they are constituted under international law as a legal entity and may enter into various commitments following their own established rules. A governing body consisting of representatives from all (or some of) the member states decides such rules, among which are financial rules and regulations covering financial management, budgets and accounting as well as auditing. Management carries out the day-to-day management of the international institutions within the framework laid down by the governing body.

The issue of rules and regulations covering audit is outside the direct influence but within the sphere of interest of INTOSAI and the SAIs. Both parties should be consulted on significant issues concerning audit matters.

For INTOSAI and the member SAIs the way forward must be to influence

- the national representative to the institutions; and
- the institutions themselves.

2.2 Benefits from using SAIs as external auditors

In promoting the adoption of the principles for best audit arrangements of international institutions, SAIs will want to emphasise the major benefits of an audit

undertaken by members of the INTOSAI community. The points to draw attention to include:

- the independence of SAIs from Governments within their own countries;
- that SAIs are in many instances institutions with a long history and high standing in matters of propriety;
- the considerable hands-on experience of the SAI community in undertaking international audits to the highest professional standards – i.e. that the majority of international institutions are audited by SAIs;
- that SAIs are non-profit making institutions and will therefore frequently be able to provide audit services cost-effectively;
- the strong links between SAIs established within INTOSAI;
- the mechanisms in place within INTOSAI for establishing and addressing relevant standards for public sector audit and in sharing best practice in every aspect of public sector audit work;
- the experience of SAIs in conducting performance audits in addition to audits of financial statements; and
- the willingness and ability of the SAIs to work in partnership with developing countries.

The external auditor is the only really independent source of information to the governing body and the member states on whether the international institution performs economically, efficiently and effectively to achieve the purpose for which it was established. The members of the governing body of an international institution represent the member states, “the owners”. As the funds allocated to the institutions come from public funds, national authorities are accountable for the use of these funds. INTOSAI believes the best way of achieving a well functioning, transparent system is by employing SAIs for the audit.

2.3 The role of the individual SAI

It is the responsibility of governments to ensure that funds entrusted to international institutions are spent well and accounted for in a proper manner. As the auditor of the government, any SAI needs to assure itself that adequate accountability exists for contributions to international institutions. If not satisfied, the SAI may report to management and/or Parliament.

2.3.1 In the national context

Where a national SAI is auditing contributions to international institutions made by its government, the SAI should obtain audit assurance in respect of the payment made and ensure that the relevant national agency can gain assurance as to the utilisation of the contributions by the international institution for their intended purpose.

In the case of most international institutions the financial or other rules require the member states to appoint an external auditor with a clearly defined mandate.

Members of the institution are expected to draw assurance from the duly appointed external auditor's work and, if necessary, raise any criticism of that work in the appropriate governing body meeting. National SAIs will not normally have direct access to the records of the institution or to the working papers of the external auditor.

In order to form a view on the adequacy of the arrangements in place at an international institution the SAI could, as part of the annual audit or a special audit, collect information on contributions paid to international institutions. The next step could be to study the accountability systems, including the external audit arrangements of the institution, the reporting requirements established between the international institution and its members, financial statements, annual reports and audit reports issued, and the use of this information by the relevant national ministry or agency.

An assessment of this information against the INTOSAI "Principles for best audit arrangements for international institutions" will enable the SAI to identify international institutions with weak and/or unsatisfactory accountability. These contributions may be considered high-risk areas in the audit and, if applicable, reported on by the SAI.

Example of an audit programme

In the audit of the financial transactions and the financial statement:

- identify memberships of international institutions through the payment of membership fee or contribution;
- assess the materiality of the amount or the importance of the institution;
- collect information on the auditing arrangements of the institution and compare this with INTOSAI best practise;
- collect the last audit report(s) and other papers or reports from the external auditor;
- collect minutes from the governing body and/or financial committee meeting where the audit reports were considered;
- collect evidence of how the report has been handled by the (your) national representative; and
- assess whether the management of the contribution is in line with the national regulations and whether you have sufficient evidence for your audit conclusions.

If your conclusions are negative, try to raise the issue through the normal national channels.

The aim of INTOSAI and its members is to increase accountability in international institutions through improved audits. To achieve this, the "Principles for best audit arrangements for international institutions" must be made known to the national ministries or agencies of the national representatives.

Normally, SAIs will be in a position to give advice to the relevant national institutions on “good practice” within the area of accountability. This could be done as a separate action, or possibly with better effect, in combination with an audit as described above.

2.3.2 As auditor of an international institution

The individual SAI, as external auditor of an international institution, has an important role in assessing the existing audit arrangements, and it will fall within the mandate to point to possible weaknesses in the accountability arrangements, including the audit arrangements, and if appropriate report to the governing body on deficiencies. See also 4.8 in this paper.

If the audit responsibility is with one single SAI at a time, it may be difficult for the auditor alone to influence the governing body and the management to make changes in the audit arrangements. If the auditor fails to gain support for change in the audit set-up, there are several options to seek support, such as United Nations (UN) Panel of External Auditors, former auditors of the international institution and INTOSAI. In such cases due consideration should be given to confidentiality of information.

2.4 The role of groups of SAIs

Changing existing audit arrangements in an international institution without being the auditor and without support will be difficult. As included in the example of an audit programme and the paragraph above, contacting other SAIs sharing your concerns could be a way forward. If more SAIs can join in a co-ordinated action in influencing national authorities and the international institutions, improving the auditing arrangements should be possible.

Forums of auditors engaged in international audit for continuous exchange of information are important. Examples of such existing forums are the UN Panel of External Auditors and the group of external auditors to international institutions with their headquarters in Europe (EXAWINT). The UN Panel has been formally established by the UN to provide advice on matters affecting the audit of UN institutions e.g. on the applicability and development of UN Accounting Standards. EXAWINT is an informal group meeting to exchange experiences without any formal responsibilities in relation to the international institutions audited by its members. These forums, however, are restricted to auditors who are actually involved in such audits. INTOSAI sees a need for forums also open to representatives from SAIs outside these groups, but with an interest in such audits. Interested SAIs should consult each other with the intention of establishing such forums, for example in the form of international seminars or conferences.

Some SAIs have extensive experience from being external auditors to various international institutions. Sharing their experience could contribute greatly to the

benefit of the entire SAI community. This would also be needed to meet the goal of having more international institutions audited by SAIs to common high standards. Sharing of experience may take the form of partnerships between SAIs and active participation in any forum for exchange of information as mentioned above.

3 Preparing SAIs to be the external auditor

3.1 Introduction

From the list of international institutions compiled by the working group it would appear that a relatively small number of SAIs undertake the audits of those international institutions who currently have SAIs as their auditors, and have a lot of experience of doing so. Those SAIs with experience of undertaking this work are likely to continue to do so. However, there would be obvious benefits to the SAI community if the number of SAIs taking on audit assignments in international institutions could be increased.

There may be significant benefits for an SAI undertaking the audit of an international institution. These include:

- professional development for the SAI and its employees through exposure to the international environment;
- professional development through working jointly with other SAIs (board of auditors, partnerships with other SAIs etc);
- challenges for staff members from the SAI; and
- getting more insight into institutions receiving contributions from the national budget.

There are also likely to be a number of challenges:

- the need to ensure that the international audit work does not affect national priorities;
- the need for additional training and development of the staff undertaking this work; and
- the need to modify work planning arrangements to accommodate the needs and timetables for an international audit for example the presentation of audit reports and findings.

3.2 The legal/constitutional competence of the SAI

An SAI that is considering taking on the role of an external auditor of an international institution must ensure that such a role is within its mandate. Some SAIs may not have the mandate to take on audits of international institutions. Some SAIs may be constrained by their legislation from receiving payment for this kind of work.

The working group have noted that some SAIs are of the opinion that they are able to audit international institutions provided it is not specifically excluded by their legislation. It may also be argued that, based on INTOSAI's "Lima declaration", the audit of international institutions should fall under the mandate of an SAI.

3.3 Preparing the SAI

To increase the number of audits of international institutions performed by SAIs on a permanent basis, the SAI community must be able to deliver a high quality audit. Given this, there should also be equal opportunities for all SAIs of the member states of an international institution to act as external auditor. SAIs interested in undertaking this work may have to review their skills and capacity to do this work and consider any legal and wider staffing issues arising from participating in such audits.

3.3.1 Policy issues

There are a number of areas where care should be taken to ensure that the SAI will be able to deliver the audit services required. SAIs with experience in auditing international institutions will probably have been through most if not all of these issues, but may find the following guidance useful to refine their policies and strategies.

It is important that

- the SAI's work as auditor for international institutions is based on a firm policy decision and commitment by the leadership of the SAI;
- a legal framework for such assignments is established, clarifying the responsibility of the SAI and of the staff engaged in the audit;
- the SAI formally adopts and implements relevant standards and ensures that it possesses the professional skills to undertake the audit of international institutions; and
- the SAI ensures that it has adequate resources, both financial and personnel to undertake the audit to the appropriate professional standards.

These points are commented on below.

3.3.2 Policy decisions

The SAI needs a firm commitment to undertake international audits. This also needs to include other stakeholders such as budget authorities. The SAI will need allocations for such assignments in the strategic and annual plans and budgets. Some SAIs may not, due to financial restraints, be able to take on such audits, if not fully recompensed. As part of the planning, a desired volume of involvement and the spectrum of auditing should be determined, and the resources for training and preparing staff made available.

It is recommended that the SAI should take full responsibility for the audit even if it has proposed individuals as auditors. The *Principles for best audit arrangements for international institutions* do not encourage audit arrangements where individuals rather than the SAI are appointed as auditors. However, the working group is aware

that such audit arrangements currently exist. In such circumstances the SAI should give clear instructions to the appointed staff, and establish a quality assurance system to ensure adherence to the instructions given.

3.3.3 Legal framework

The legal implications arising from the appointment of an SAI as the external auditor of an international institution might be different from those related to national work. SAIs considering taking on international audit assignments will want to consider carefully the legal implications and consequences that could arise from such assignments.

Liabilities for breach of duty

The working group is not aware of any cases where an SAI or its staff members acting as external auditors of an international institution have been taken to court. There has, however, been an increase in litigation against private sector auditing firms. SAIs should be aware of, but not put off by, this issue when considering whether to undertake such audits.

In some countries national legislation concerning the SAI may provide the SAI and its staff with immunity from legal processes of any kind arising from their official duties. Depending on the legislation this could also cover the audit work for an international institution

The SAI's responsibility as an employer for auditors involved in audits

Normally the SAI's employees involved in audits abroad are still regarded as being fully employed by the SAI while staying abroad, and the employee receives full benefits from the SAI on such assignments. However under certain circumstances, especially for long-term engagements, the SAI's responsibility could be unclear.

In most cases the SAI will be responsible and liable as the employer of its appointed staff on international auditing assignments. Staff undertaking international audit work may be working full or part time in other countries. The SAI will therefore have to consider what additional terms and conditions of employment will apply during the assignment. The SAI will also have to consider other aspects such as the security of staff and arrangements for coping with emergencies. It would usually be appropriate to reflect these additional issues in an agreement or contract between the SAI and the concerned staff, as well as the duties and responsibilities of each party.

Example of matters that could be included in an agreement or contract with a staff member undertaking an international audit.

- a job description/reference to the assignment;
- the duty of the performing auditor to carry out the work according to set standards and with due care etc;
- responsibility issues;
- reporting requirements to the SAI (including quality assurance requirements); and
- benefits due to the personnel (salary, per diem, insurance, cost refund, etc.).

3.3.4 Professional standards and skills

SAIs should formally adopt and implement relevant standards related to international work. International institutions may require audits to be conducted in accordance with the INTOSAI and/or the IFAC Auditing Standards.

References to the standards and additional comments on the application of these in an international context are considered in chapter 4 of this paper.

SAIs new to the audit of international institutions could consider starting with the audit of smaller institutions. These SAIs could also work together with more experienced SAIs. The latter should consider whether they would be prepared to take on this role.

Generally speaking, the qualifications and skills needed by the staff involved in the audit of an international institution are the same as for any other audit of comparable size and complexity. Additional factors to consider in selecting staff for such appointments could be:

- language skills required;
- the ability to work alone, abroad and in different cultural environments; and
- knowledge and experience of working to international auditing standards where required.

It must also be considered how to prepare the necessary number of qualified staff. Some SAIs organise workshops for their staff on international audit assignments. For SAIs with little or no experience in auditing international institutions it is recommended to seek assistance from more experienced SAIs. In arranging workshops, consideration can also be given to involving the international institution. On joint audit assignments delegates from the partner SAIs could also be invited.

Typical points for preparatory workshops:

Functional to the audit

- strategic planning (organisational structure of the international institution [governing bodies; secretariat]; main findings from previous audits; changes to or implementation of new systems; accounting processes; indicators of fraud and error; other risk indicators identified, closing of accounts; focus areas and related audit objectives; review of financial statements; need for specialists, reliance on internal audit);
- detail planning and execution (audit working paper requirements; preparation of electronic audit files); and
- reporting (reporting structure at the international institution; deadlines; report writing and e-mail etiquette; report files).

Operational to the audit

- review of previous audit and suggested improvements;
- results of international institution and stakeholder satisfaction surveys and suggested improvements;
- results of quality review and suggested improvements;
- performance appraisals;
- challenges typical to the international environment; and
- team building exercises and focus on strengths.

3.3.5 Adequate resources

Before taking on audits of international institutions the SAI must ensure that it has adequate resources, both financial and human resources to undertake the audit to appropriate professional standards.

Whether the audits are small or large, the SAI must ensure that sufficient qualified personnel will be available at relevant periods, even if these might often coincide with peak periods for national audit. Often SAI staff will also need to attend meetings before or after the audit for example to present the findings to the governing body.

An SAI with limited experience of international audits or with limited resources to undertake such work could still take part by entering into a partnership with one or more SAIs, preferably with more experience, so that the joined resources are adequate. An SAI's interest in such partnerships could be made known through its international contacts with other SAIs either in relation to a specific audit or more generally.

INTOSAI is of the opinion that the principle of full cost coverage should be respected by SAIs competing for assignments. The situation today, however, is that not all international institutions cover the total cost. Salaries are the element most often not covered. Considerable effort will have to be made by the combined SAI community to correct this situation. Certain preparatory costs are unlikely to be covered by the international institution. Training in general will normally have to be covered by the SAI as part of general development and competence building within the SAI. However, training relating to a specific assignment should usually be budgeted for within the audit fee. Where costs are not fully covered, SAIs should keep records of actual cost, in order to disclose these in its audit report in line with the *Principles for best audit arrangements of international institutions*.

3.4 SAIs' awareness of audit opportunities

At the XVII INCOSAI in Seoul some SAIs were concerned that they were not being made aware of the opportunities to be appointed and undertake audits of international institutions. There have been cases where national internal audit bodies have been appointed as external auditors after being proposed by national representatives without having consulted the SAI. In other cases SAIs have been recommended for appointment by their government without being informed.

The following practical steps could be taken by an individual SAI to avoid such situations arising in future:

- establish a complete list of all the international institutions of which the nation is a member;
- contact the national administration officials on the institutions governing body to identify the timing of future appointments as external auditor and the nature of the process to select the external auditor;
- make the national representative aware of the SAI's desire to be considered for future appointments; and
- active follow-up of the opportunities as they arise.

As a further means of keeping SAIs informed of opportunities to undertake international audits, the list of international institutions created by the working group could be enhanced and regularly updated to provide details of forthcoming appointments. These could be publicised through the INTOSAI web-site.

3.5 Considering a specific assignment

The decision whether to accept or bid for an assignment as external auditor to an international institution is something for each SAI to consider carefully.

There are no standard arrangements for the selection of a new external auditor of an international institution. Often it will be left to the institution's executive staff to design and implement a selection process on behalf of the governing body. In some institutions there may be a process of inviting SAIs to undertake the audit in a specific order on rotation. In other institutions there may be a formal request for proposals (bids) from all the SAIs of member states to undertake the audit.

Increasingly, when bids are sought for the audit, the institutions may want to conduct the selection in ways that mirror its normal procurement process. This may result in SAIs being asked to provide detailed technical supporting documentation as well as separately cost proposals.

Before deciding to accept a nomination or to bid for an audit assignment, the SAI should:

- consider whether it has the capacity and technical skills to undertake the audit, taking into account the likely timing of the audit, the number and qualifications of staff required and the language skills needed. Information concerning the institution useful for this consideration, like annual reports, budgets, previous audit reports, etc. should be available through the national representative to the institution;
- identify the likely cost of the audit and ascertain whether these costs will be fully met by the institution. It will usually only be possible to prepare a detailed cost estimate by developing an outline plan of how the audit would be conducted if the SAI was nominated or selected. Such plans would need to consider as a minimum the range of audit work required, (i.e. whether the audit will encompass both regularity and performance audit work) the locations the auditor will need to visit (i.e. headquarter and regional offices) and any additional visits needed to present audit plans and reports; and
- consider whether it would be appropriate to undertake the audit in partnership with other SAIs. A positive attitude to bring other, less experienced SAIs along on audits is advocated and the SAI should through its international contacts let other SAIs know of their willingness to do so. Such arrangements should be explicitly mentioned in the bid documentation when a new assignment is taken on.

Where an SAI is required to present a formal bid for the audit, the information required may be specified in detail by the institution issuing the request for proposals. If so, the SAI will need to ensure that it provides all the information sought and complies with any specific conditions. For example there may be a stipulation that the costing proposals are separated from the technical proposals.

Clearly, it is for each SAI to decide how best to present its proposals to undertake the audit. However, the box below provides examples of the sort of documentation

typically included in bid documents, which may be of interest for SAIs who have not previously prepared such bids.

Examples of documentation:

- an executive summary of the key reasons for selecting the SAI for the audit;
- details of national legislation ensuring independence of the SAI;
- the curriculum vitae of the audit staff who are proposed for the audit;
- the additional professional skills available for the audit;
- details of the national and international activities of the SAI, with an indication of the range of audits completed and the audit specialities that could be of benefit to the institution in question or adapted to its needs;
- a copy of the last annual report of the SAI;
- a description of the audit approach, the number and level of staff to be involved in the audit;
- the audit team's composition as to the variety of skills to carry out the financial and/or performance audit;
- indication of the nature, extent and timing of requests for information, including access to audit working papers of the outgoing auditor. This should be in accordance with recognized international auditing standards. Furthermore an assurance of the auditor's co-operation, on completion of an appointment, in responding to similar requests for information by an incoming auditor;
- proficiency in the official languages of the organisation. In case of several official languages of the institution, an indication of the level of proficiency in at least one of them will normally be required;
- estimates of the total number of auditor's workdays/weeks/months, which would be devoted annually for the regularity and/or performance audit;
- proposed audit fee with an indication of whether it includes both salaries, subsistence allowances and travel costs; and
- the willingness of the candidate as a potential auditor to provide any further information or clarification that may be required during the selection process.
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Normally the conditions for the audit assignment will be a consequence of the financial rules and regulations of the international institution and the bid from an SAI to take on the audit. It is recommended that SAIs issue an engagement letter on the lines specified in the International Auditing Standards.

4 Practical advice and guidance on the audit

4.1 Introduction

All audits of international institutions should be carried out in accordance with generally accepted auditing standards. The most relevant standards for financial audit are the INTOSAI Auditing Standards and the IFAC International Standards on Auditing (ISA).

The INTOSAI Code of Ethics and Auditing Standards can be found on the website of INTOSAI, <http://www.intosai.org>. The website of the International Federation of Accountants (IFAC) is <http://www.ifac.org>. The International Standards on Auditing are being updated on an ongoing basis and it is therefore important for the SAI and the auditor to keep track of relevant changes.

Auditing Standards for performance audits are being presented for approval by INTOSAI at the XVIII INCOSAI in Budapest in 2004.

As auditing standards are well known to SAIs this document only refers to the relevant paragraphs in the standards, and in addition highlights those aspects that may differ most from the traditional work of an SAI and its staff.

It may be relevant to reiterate the importance of independence of the auditor, in this context the independence from the SAI's national background. In general, financial rules and regulations of international institutions are compromises between best practice in several nations. The auditor should keep in mind that what is national best practice is not necessarily in line with the rules and regulations for the specific international institution.

This section assumes that the audit assignment has been accepted by the SAI and personnel have been appointed for the task so that the work may begin.

If the task as auditor is shared with other SAIs/auditors who are already in place, the starting up work may be easier, as they will have most of the background information. This may be the case in the board of auditors situation.

4.2 Planning

INTOSAI Auditing Standards, paragraph 3.1, Planning
IFAC International Standards on Auditing, the ISAs 300-320

The planning phase may be the most challenging for an SAI taking on the audit of an international institution. Most audit assignments in their own country will have a known history and will be carried out in a familiar environment. This will not

normally be the case when taking on a new audit of an international institution and it may be necessary to allow for extra time and resources in the first year.

Aspects of the planning phase that require careful consideration include:

Knowledge of the institution

Certain background information concerning the international institution should have been collected during the appointment process. Other information may not be readily available until the formal hand-over of the audit has taken place.

Key planning information to be collected should include:

- founding documents;
- financial rules and regulations;
- budgets and financial statements for previous years;
- governing body reports and minutes; and
- audit reports.

Normally such basic documents will be found on the website of the international institution, but if not they should be obtained direct from the institution.

Audit history

Previous audit reports may indicate issues that warrant follow-up in the current year, and may also provide additional insight into the international institution from an auditor's perspective.

Not all matters arising during the audit will necessarily be reflected in the formal audit report. Possible sources of information on such matters as well as other sources of useful planning information are:

- handover discussions with the previous auditor;
- management letters;
- internal audit reports; and
- meetings with key staff involved in the audit work, e.g. the finance director and/or general manager(s).

Hand-over arrangements

The new auditor should arrange a formal handover with the previous auditor. This may be less important where the audit is conducted by a Board of Auditors and where remaining members of the Board have background knowledge of the institution. The previous auditor will have gathered general knowledge of the institution, its customs and practices, which will not necessarily be documented. A meeting with the previous auditor will therefore usually be appropriate.

The UN Panel of External Auditors has established additional guidance for hand-over arrangements (see box below). The working group considers that these guidelines should apply equally to other international audits. Where private sector

accountants have previously undertaken the audit of an international institution the handover should be undertaken in accordance with the relevant auditing standards.

UN Panel of External Auditors – guidance for hand-over arrangements:

“In the event of an audit assignment being transferred from one External Auditor to another, ensuring a smooth hand over is the joint responsibility of the predecessor and successor auditors. Once officially appointed, the successor auditor initiates contact with the predecessor auditor to organize hand-over arrangements. The Organization is kept informed of these arrangements.

The predecessor auditor shares information with the successor auditor, at least on the following:

- audit approach and strategy;
- audit areas covered during past financial periods and programme of work for the current financial period;
- important decisions taken on audit matters;
- communications to audit committees, or other committees with equivalent authority, regarding fraud and illegal acts by the Organization, if any;
- disagreements with the Organization as to accounting principles, auditing procedures and other significant matters, if any; and
- unresolved audit matters and any other matters that could have an important impact on future audits, if any.

A formal hand-over is organized between the predecessor and the successor auditors at a time mutually agreed. As audit background information, the successor auditor is provided with the following documents, at least:

- management letters and, if applicable, audit observations issued and replies received thereto;
- lists recapitulating audit areas covered and field offices visited, if any; and
- relevant documentation on unresolved audit matters or matters that could have an important impact on future audits, if any.

The predecessor auditor is also encouraged to provide access to working papers for specific requests.

A formal record of the hand-over is prepared and kept on file by both the predecessor and successor auditors. It lists notably the documents handed over and the key information provided orally.”

Preparation of an audit plan and time schedule

In line with best practice, the auditor will need to prepare an audit plan and time schedule. These should be discussed and agreed with management of the international institution, as appropriate.

Because there is limited information available before taking over the audit SAIs should be flexible in allocating resources for the first audit to cater for unforeseen activities. This is because the detailed planning work and findings during the first audit may disclose the need for additional work.

Assessment of risk and materiality

The auditor must assess risk and materiality in line with the standards based on the nature of the institution being audited.

The process of assessing risk will not normally be very different from national audit assignments. There may, however, be additional risks to consider, such as the non-payment of member state contributions, foreign currency exposure, pension and other staff liabilities.

In determining materiality SAIs will need to consider whether there are any particular factors to take into account. As with government accounts there may be few, external or third party, users of the information contained in the financial statements. However, member states should be regarded as external users, and there may also be situations where an international institution raises loans. SAIs should therefore consider whether issues other than relative monetary values would be material to the governing bodies and the member states. For example in some international institutions, member states in arrears with their contributions may be unable to vote at governing body meetings. In this situation a misstatement of a relatively small proportion of the institutions' income could be considered to be material. In determining materiality, SAIs will want to consider the purpose and objectives of the international institution and pay particular attention to the governing body's consideration of the institution's work plan and budget. Such a review may also suggest the need for special performance audits.

Communication with the audited institution

It is essential for the auditor to be, and be seen to be, independent from the institution and especially its management. However, to facilitate the audit and the acceptance of the audit findings and recommendations it is important to establish effective communication with both the administration and the governing body of the international institution.

The final communication, the audit report, will always be in writing. The auditor is solely responsible for the content of the audit report. Before issuing the report, the auditor should submit the report to the management for comments.

It will often be easier for the administration/management to accept and implement the audit findings and recommendations if the issues in the report have been discussed in advance. Some of these discussions may be of a more informal character.

Additional audits

The planning work may indicate areas for performance audits to be considered for the current or later years' audits. Such audits may call for extra resources that may have to be agreed with the governing body as part of the budget preparations for the international institution.

4.3 Assessment of internal control

INTOSAI Auditing Standards, paragraph 3.3, Study and Evaluation of Internal Control
IFAC International Standards on Auditing, the ISAs 400-402, and

4.4 Audit evidence

INTOSAI Auditing Standards, paragraph 3.5, Audit Evidence
IFAC International Standards on Auditing, the ISAs 500-580

There are no particular issues arising on the application of these standards to international audits: the work will be comparable with that required for national audits. Also for performance audit, the fieldwork should be much the same.

4.5 Analysis of financial statements

INTOSAI Auditing Standards, paragraph 3.6, Analysis of Financial Statements
IFAC International Standards on Auditing, the ISAs 700-720

The format and contents of the financial statements will often be different from the national accounts, and will be dependent on:

- the nature and purpose of the organisation;
- whether the accounts are prepared on an accruals basis;
- the accounting standards used; and
- historical decisions such as specific requests for additional information from the governing body.

For some international institutions the financial statements and attached documentation are quite extensive, due to special interests and demands by the governing body over the years.

The external auditor should comment on deviations from generally accepted accounting standards and on changes that could make the financial statements more readable.

4.6 Audit reporting

INTOSAI Auditing Standards, Chapter IV, Reporting Standards in Government Auditing

IFAC International Standards on Auditing, the ISAs 700-720

The audit report for an international institution will usually be addressed to the governing body. The financial rules and regulations may require the auditor to produce a “long form” report on specific issues. These may include the results of performance audits undertaken, cases of fraud or suspected fraud, and losses.

SAIs should take care to ensure that material included in any long-form report does not inadvertently cast doubt on the audit opinion provided on the financial statements. They will also want to consider how best to explain their audit findings to a governing body which may be composed of representatives who have a background in the technical purpose of the institution and may be unfamiliar with general administrative and corporate governance issues.

The document “Principles for best audit arrangements for international institutions” recommends that the auditor reports on the total cost of the audit so that any costs not covered by the international institution are disclosed.

4.7 Quality assurance

INTOSAI Auditing Standards paragraph 3.2, Supervision and Review

IFAC International Standards on Auditing, the ISA 220

SAIs should ensure that their audits of international institutions meet requisite quality assurance standards, i.e. that they are encompassed within their normal quality control procedures.

Where the audit is undertaken by a board of auditors, the board should establish, as appropriate, supplementary quality assurance arrangements to ensure that all the work is completed according to the standards laid down by the board as a whole.

4.8 Assessment of audit arrangements

Auditing arrangements for many international institutions will have been established at the time the institution was created, and may not have been reviewed or changed since then, even if the size and character of the international institution has changed dramatically.

Although the responsibility for establishing adequate audit arrangements rests with the international institution itself it is important that the external auditor regularly assesses the auditing arrangements against the recommended “Principles for best

audit arrangements for international institutions”. The auditor should bring any weaknesses to the attention of the governing bodies as appropriate.

Annex: INCOSAI decisions

The IX INCOSAI – Peru (1977) "Lima declaration" of Guidelines on Auditing Precepts

Section 25. Audit of international and supranational organisations

- “1. International and supranational organisations, whose expenditures are covered by member country contributions, shall require an external, independent audit similar to that of individual countries.
2. Although this audit shall be adapted to the structure and tasks of the respective organisation, it shall be conceived along lines similar to those of the supreme audits of member countries.
3. To ensure the independence of such an audit, the members of the external audit institution shall be appointed mainly from within the Supreme Audit Institutions.”

The Seoul Accords 2001

As part of the outcome of the XVII INCOSAI it was decided:

“Recognising the importance that SAIs place on establishing and maintaining adequate auditing of resources administered by international institutions, XVII INCOSAI agreed to continue the work of establishing guidelines on recommended auditing arrangements for international institutions, and supplementary guidance on the application of auditing standards to the audit of such institutions.

Also, recognising the work done by the UN Panel of External Auditors and others on these topics, the continued work should be done in close co-operation with these and other interested parties.

Based on the ideas in the principal paper, the views expressed in country papers and the discussion paper, and the outcome of the discussions during the XVII INCOSAI, it was agreed to establish an ad hoc working group of a limited number of interested SAIs, with a time-restricted mandate up to the next congress, to elaborate and propose supplementary guidance on the audit by SAIs of international institutions. The definition of these international institutions should be more precise and accompanied by examples. It was also agreed that the working group would begin its work by defining its mandate and a related work plan. These will be communicated to the Secretary General and the INTOSAI Governing Board.

The supplementary guidance that the ad hoc working group will propose, would cover issues such as audit mandate, audit arrangements, system of appointment, resources and application of auditing standards. In conducting this, it was concluded that the working group should not cover the established UN audit system.

It was also agreed by delegates that this ad hoc group should reaffirm the benefits of an external audit by SAIs or auditors seconded by SAIs of member states, and consider how best to promote the involvement of SAIs of developing nations in these audits.”