



EXPOSURE DRAFT - Comments to Practice Note to ISA 550

This document contains all comments received. These comments will be considered by the appointed experts before presenting a new version to FAS for final approval.

COMMENTS PROVIDED BY (NAME AND ORGANIZATION):	GENERAL COMMENTS:	SPECIFIC RESPONSE ON DETAILS OR ISSUES
Fiji – Office of the Auditor General, Eroni Vatuloka		With reference to issues raised in commenting letter <ol style="list-style-type: none"> 1. I do not think that the exemption from the definition will lead to greater risk. 2. I thought that P11 should be more specific and state <i>Directors, Ministers</i> and not just <i>those charged with the governance of public sector entities</i>. 3. n/a
Aurelija Brukstute NAO of Lithuania	I inform you that I do not have any comments on FAS draft practice notes.	
Roy Glass Director – Auditing Policy Office of the Auditor-General of New Zealand	The draft Practice Note appears to be OK	

<p>Ennio Colasanti Head International Relations Office Corte dei conti Italy</p>	<p>I have examined ISSAI 1200, 1210, 1240, 1250, 1500, 1550, 1560, 1570, 1580, and I agree with their applicability in the public sector environment (included a Court of Accounts system) and I think that the two documents (the ISA together with the Practice note) may constitute a good guidance for the public sector auditor.</p>	
<p>Dumitru Alamiie, Member of the Court Romanian Court of Accounts</p>	<p>the Romanian Court of Accounts to not have comments to the draft Practice Notes to ISAs exposed on the website</p>	
<p>Syafri Adnan Baharuddin Principal Auditor The Audit Board of The Republic of Indonesia</p>		<p>Questions :</p> <p>1. <i>Respondents are asked for their views on whether the exemption from the definition of related parties leads to areas of greater risk in the audit of public sector entities.</i></p> <p>The ISA 550 stated that entities that are under common control by a state (i.e. a national, regional or local government are not considered related unless they engage in significant transaction or share resources to a significant extent with one another.</p>

		<p>We believe that the exemption of the definition of related parties could be lead to areas of greater risk in the audit of public sector entities since some of entities are not engaged in significant transaction or share resources to a significant extent with one another but one entity could make influence to other entity how conduct their business or decide one entity to make irregular transaction to another entity. This may lead to risk that the transaction could breach the law and regulations.</p> <p>2. <i>Respondents are asked for their views on whether the guidance is appropriate to the audit of related party relationship in the public sector and there are no other factors that need to be reflected in the guidance.</i></p> <p>We believe that the guidance is appropriate to the audit of related party relationship in the public sector. To mitigate the risk arising from the exemption from definition of related parties in the public sector, the guidance have been described the responses to the risk.</p> <p>We therefore recommend clarifying paragraph 13 in this regard, as follows :</p> <p>“In the public sector, the audit mandate may should involve a responsibility to report on compliance with law and regulations, this may include a responsibility to obtain evidence that the relationships and transactions with related parties have been comply to law and</p>
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		regulations, authorized and approved.”
<p>Steven Cain Technical Manager, Financial Reporting and Auditing Standards CIPFA</p>	<p><i>Do you agree with the stated applicability for the ISAs in the public sector environment?</i> Yes, we agree with the stated applicability for each ISA.</p> <p><i>Do you agree with the stated additional guidance given in the Practice Notes? If not what additional areas/guidance do you think should be added?</i> The additional guidance seems sensible and clear. The guidance includes some matters which are not contained in UK guidance on similar matters. However, this probably reflects the specific circumstances in the UK public sector audit environment. We would expect that INTOSAI guidance to be helpful in jurisdictions with different legal systems or forms of government administration, or where the use of ISAs for public sector audit is less well established.</p>	<p>No specific comment on ISSAI 1550</p>

	<p><i>In your opinion, will the drafted guidance together with the respective ISA provide relevant guidance for the public sector auditor?</i></p> <p>Yes</p>	
<p>Karin Holmerin, Swedish National Audit Office</p>	<p>General comments</p> <ol style="list-style-type: none"> 1. Do you agree with the stated applicability for the ISAs in the public sector environment? <p>Yes, we do.</p> <ol style="list-style-type: none"> 2. Do you agree with the stated additional guidance given in the Practice Notes? If not what additional areas/guidance do you think should be added? <p>Yes we do.</p> <ol style="list-style-type: none"> 3. In your opinion, will the drafted guidance together with the respective ISA provide relevant guidance for the public sector auditor? <p>Yes, we believe it will.</p>	<p>Specific comments</p> <ol style="list-style-type: none"> 1. The PN includes commentary on the definition of related parties. Especially entities that are under common control by the state are not considered related, unless they engage in significant transactions or share resources to a significant extent with one another. The FAS invites public sector auditors to consider whether this exemption from the definition of related parties leads to areas of greater risk in their audit of public sector entities and provides an illustration of this risk. Commentators with a view of this are invited to provide comments. <p>We agree with the definition of related parties in the PN and do not see any problem with this.</p> <ol style="list-style-type: none"> 2. This guidance in the PN aligns with the guidance already provided by the PNs on ISA 315 and ISA 330. Commentators are specifically asked to consider whether the guidance is appropriate to the audit of

		<p>related party relationships in the public sector and there are no other factors that need to be reflected in the guidance. We do not see any other factors that need to be reflected.</p>
<p>Stuart Barr Assistant Auditor General Vérificateur général adjoint Office of the Auditor General of Canada</p>	<p><u>General Comment</u></p> <ul style="list-style-type: none"> • We agree that ISA 550 is applicable to the public sector. • We agree with the stated additional guidance given in the Practice Note. • In our opinion, the Practice Note together with the respective ISA provides relevant guidance to the public sector auditor. 	<p><u>Specific Comments</u></p> <ul style="list-style-type: none"> • We agree with the fact that the Practice Note invites public sector auditors to consider whether the exemption from the definition of related parties of entities under common control by the state leads to areas of greater risk in their audit of public sector entities. In our view, public sector related parties transactions represent a risk of material misstatement or fraud even when the monetary value of transactions are not significant. • In our view, the guidance provided in the Practice Note is appropriate to the audit of related party relationships in the public sector. You may want to consider including guidance in paragraph P7 related to other organizations that the entity may control through its ability to govern the financial and operating policies of these organizations with expected benefits or the risk of loss to the government from the other organization's activities. As such, there is a risk that

		<p>government entities may structure their operations in a way to avoid accounting for other organizations they control.</p> <ul style="list-style-type: none"> • We are not Court of Accounts auditors, therefore we have no comment.
<p>Jan Prosecký Financial Audit Methodology Department Supreme Audit Office in the Czech Republic</p>	<p>General comments:</p> <ul style="list-style-type: none"> • We agree with the stated applicability for ISA 550 in the public sector environment. • We agree with the stated additional guidance given in Practice Note to ISA 550. • We think that the drafted guidance to ISA 550 together with ISA 550 provide relevant guidance for the public sector auditor. 	<p>Specific comments:</p> <ul style="list-style-type: none"> • We do not have any comments. • We do not have any comments.
<p>Rolf Elm Larsen Danish National Audit Office</p>	<p><i>Reference to INTOSAI standards</i></p> <p>2. In the opinion of Rigsrevisionen, reference should be made from the PNs to INTOSAI's Fundamental Auditing Principles and in</p>	<p>ISA 550 is about the audit of entities under common ownership. There are also in the public sector examples of entities under common ownership, but in the public sector, prices are generally determined on the basis of political and not commercial considerations. The PN does not seem to take this aspect into consideration in its</p>

	<p>particular to the Lima Declaration. Despite the fact that the PNs and ISAs may be applied by SAIs in connection with the audit of financial statements, it is essential for the correct application of the standards in the public sector that they are understood and interpreted in compliance with the conceptual framework established by INTOSAI. All PNs should inherently state that PNs and ISAs must be understood in compliance with INTOSAI's general conceptual framework when applied in connection with the audit of public entities.</p> <p><i>References in PNs to ISAs</i></p> <p>3. The PNs do not distinguish clearly between guidance directed towards the content of the respective ISAs and guidance directed towards the explanations in the section "Application and Other Explanatory Material". The PNs will become more useful if they are directed towards the</p>	<p>instructions concerning the planning of the audit.</p>
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	<p>guidance in the main text instead of serving as supplementary explanations of the explanation of objectives and requirements contained in the ISAs. A direct reference to the objectives and requirements of the ISAs will make it easier to understand and apply the PN guidance.</p>	
<p>Tove Myklebust Norwegian National Audit Office</p>	<p><u>General comments</u> In all the Practice Notes it is stated in paragraph P2 that the ISA is applicable to auditors of public sector entities in their role as auditors of the financial statements. It is further stated in a footnote that all Practice Notes are considered together with "General Considerations in the Financial Audit Guidelines". It is unclear in which document the "General Considerations" may be found.</p> <p>In our view the various ISAs will be applicable to public sector auditors to a varying degree, as argued in the specific comments to the Practice Notes below.</p>	<p>We have no specific comments to the Practice Notes on related parties</p>

	<p>Therefore, we think it important to emphasize that the ISAs do not have a mandatory application but reflect a "best practice" consensus among SAIs, as described in the draft ISSAI 1000.</p> <p>The comments to the Practice Note to ISA 580 on written representations have relevance to several of the other Practice Notes, in which there is referred to the use of written representations.</p>	
<p>Andrew Baigent, UK NAO</p>		<p>1. The PN includes commentary on the definition of related parties. Especially entities that are under common control by the state are not considered related, unless they engage in significant transactions or share resources to a significant extent with one another. The PN invites public sector auditors to consider whether this exemption from the definition of related parties leads to areas of greater risk in their audit of public sector entities and provides an illustration of this risk. Commentators with a view of this are invited to provide comments.</p> <p><i>Comment:</i> The material contained in ISA 550 mirrors that</p>

		<p>contained in International Accounting Standard 24 (IAS 24). The IASB is currently consulting on amendments to IAS 24, specifically on parties related through common ownership by the state. Any practice note should not be inconsistent with this definition and amendment, if enacted. That said we agree with the proposal that public sector auditors should consider the wider definition of related parties when considering the effect on their audit opinion. In these circumstances current disclosure in the UK includes:</p> <ul style="list-style-type: none"> • the name of the parent department (if any); • a note on the main entities within government with which the entity has had dealings (no information needs to be given about these transactions); and <p>details of material transactions between the entity and individuals who are regarded as related parties.</p> <p>2. This guidance in the PN aligns with the guidance already provided by the PNs on ISA 315 and ISA 330. Commentators are specifically asked to consider whether the guidance is appropriate to the audit of related party relationships in the public sector and there are no other factors that need to be reflected in the guidance.</p>
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Kevin Caruana, Australian National Audit Office (ANAO)	We have not commented on PNs to ISAs 550 and 570 at this time	
Zsofia Hangyal Acting Head International Department State Audit Office of Hungary	The phrasing of the Practice Notes is in accordance with ISA 550, does not alter the regulation rather integrates it in the provisions to be observed in the course of public auditing. Having in mind that both ISA 550 and ISSAI 1550 take into consideration the deviations among the individual national regulations, the adaptation of the above mentioned standards does not interfere with the environment of the Hungarian regulations on the budget, financial management and financial reporting. The text of the guidelines explaining the concept of the concerned parties, in our opinion, is sound when considering the relations in the public sector. It	

	<p>reflects adequately those specific circumstances, which might succeed in the course of the financial management of public funds.</p> <p>We believe that the Draft Practice Notes handle the standards regulated by the guidelines related to ISA 315 and ISA 130 and is in conformity with them. In our opinion no further modifications or amendments are necessary.</p>	