



Compiled experts comments – ED comments on Practice Note for ISA 510

All members of INTOSAI were asked to give comments on the Exposure Draft of Practice Note to ISA 510 preferably in the format of the following questions:

1. Do you agree with the stated applicability for the ISA in the Public Sector environment?
2. Do you agree with the stated additional guidance given in the Practice Note?
3. If not what other areas/guidance do you think should be added?
4. In your opinion will the drafted guidance together with the respective ISA provide relevant guidance for the public sector auditor?

Comments provided by	General comments	Specific comments on stated questions	Expert comments and suggested actions
Denmark (Mr Rolf Elm-Larsen)	1. Thank you for the opportunity to comment on the seven new Exposure Drafts of Practice Notes (PN) to International Standards of Auditing (ISA) which have been developed by FAS. Rigsrevisionen considers it an important step forward in the development of public auditing standards that practice notes have now been worked out for these seven audit areas. We are confident that they will contribute to raise the quality of public sector auditing in the future. The purpose of the following comments to the Exposure Drafts is therefore exclusively to make the standards more useful for the public sector auditors as this is the only way in which the Practice Notes can be disseminated.	<i>ISSAI 1510 Initial Audit Engagements – Opening Balances</i> The applicability of ISA 510 in public sector auditing is defined in P3 and P4. These sections are listing a number of circumstances in which the audit is not considered an “Initial Audit Engagements” and where ISA 510 should not be applied. They also outline circumstances in which ISA 510 should be applied. P4 is referring to an example where new entities are created by legislation or regulation appropriating the assets and liabilities of predecessor entities and where the audit may therefore be considered an “Initial Audit”. Rigsrevisionen is of the opinion that the clarity and thereby applicability of P3 and P4	Noted. Clarification included in P3 and P4.

	<p>General comments <i>Reference to INTOSAI's standards</i> 2. In the opinion of Rigsrevisionen, reference should be made from the PNs to INTOSAI's Fundamental Auditing Principles and in 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> 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 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><i>Applicability of the ISA in the Public Sector Audit</i> 4. The seven new exposure drafts of PNs all state that the ISAs are applicable to auditors of public sector entities in their role as</p>	<p>could be enhanced if the instances in which the audit in the public sector is considered an "Initial Audit Engagement" were defined. Rigsrevisio-nen would like to make the following suggestion: "Initial Audit Engagement: 1. New entities created by legislation or regulation carrying forward prior balances of predecessor public sector entities (current P4). 2. New public sector entities where the framework requires carry forward of prior balances (last sentence of the current P3).</p> <p>Non Initial Audit Engagement: 1. Newly formed public sector entities without a prior period financial statement. 8/10 2. Public sector entities that are being reorganized by "adding or deleting other entities", unless "the public sector auditors need to determine whether the reorganization is accounted for in accordance with the applicable financial reporting framework.""</p>	
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	<p>auditors of the financial statements. A precondition for the relevance of an ISA in public sector auditing is the presentation of relevant examples which demonstrate that the particular ISA is applicable in a public sector context. FAS and its expert panel should present practical examples from the public sector, before stating that a particular ISA is applicable in a public sector context.</p> <p><i>Differences in structure and content</i></p> <p>5. An analysis of six PNs in the ISSAI 1500 series (501,505,510,520,530 and 540) shows significant differences in structure and content, despite the fact that they are all in principle addressing the same part of the audit process, namely the audit evidence. Aligning the structure of the PNs will improve the clarity of the text and at the same time make it easier for public sector auditors to find answers to their questions concerning audit evidence.</p> <p>General comments to PN to ISAs 501, 505, 510, 520, 530, 540</p> <p>It is emphasized in ISAs 501, 505, and 530 that these must be applied in accordance with the requirements of ISA 500. However, it does not appear from the exposure drafts of ISAs 510, 520, and 540 that they should be understood and applied in accordance with ISSAI 1500. Adding that information would increase their utility value considerably.</p> <p>The exposed PNs concerning audit evidence are structured differently. Yet, some of the PNs do share some features. Thus the audit procedure is broadly outlined in PNs 1500 and 1510, and very explicitly and detailed de-</p>		
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	<p>scribed in PN 1540. Three PNs (1520, 1530, and 1540) are referring to the specific nature of the audit procedures. Two of the PNs include a section on "overall considerations". Only one of the PNs is referring to the objective of the PN. Finally, one PN (1510) is referring to audit conclusion and reporting. It should be noted that only two of the PNs (1520 (P3) and 1530 (P4) mention that the objectives of public sector audit are broader and different from the 5/10 objectives of audits performed in the private business sector. Most of the other PNs include this section on objectives, but PN 1500, 1505, 1510, and 1540 do not. Is there any particular reason for this omission? The fact that the PNs are not structured in the same way makes it unnecessarily complicated for the auditor to find the answers he/she is looking for.</p>		
<p>Lithuania (Ms Aurelija Brukštutė)</p>		<ol style="list-style-type: none"> 1. Yes. 2. Yes. 3. – 4. Yes. 	<p>Noted.</p>
<p>Hungary (Ms Zsofia Hangyal)</p>		<ol style="list-style-type: none"> 1. Yes, we agree with the stated applicability of the PN in the public sector environment. 2. Yes, we agree. 3. – 4. In our opinion the drafted guidance and the respective ISA provide relevant guidance for the public sector auditor. <p>Specific comments We agree that the audit of a reorganised public sector entity is not an initial audit. When auditing the successor entity the experiences gained during the audit of the predecessor should be considered.</p>	<p>No action required.</p>

<p>Latvia (Ms Jolanta Adata)</p>	<p>We would like to inform you that the State Audit Office of the Republic of Latvia has carefully reviewed attached documents and we have no fundamental comments on them.</p> <p>Nevertheless we have additional suggestion on supplemental information to be included into ISA's. The legal practice in Latvia is that the separate ministry annual reports are consolidated into one united annual report. The State Audit Office of the Republic of Latvia has to audit the consolidated report but the ISA's do not provide information on how to perform audit in this situation. Therefore we would like to suggest to supplement standards with an explanation and examples on practices from the other countries on audit of consolidate reports.</p>	<ol style="list-style-type: none"> 1. We agree with the stated additional guidance on standards given in the Practice Notes. 2. – 3. – 4. In our opinion we consider that the drafted guidance together with the respective ISA does provide relevant guidance for the public sector auditor when performing financial audits. 	<p>Noted.</p>
<p>Philippines (Ms Lus L. Tolentino /Other experts within SAI)</p>	<p>Received comments from the Philippines related to editorial changes etc in final clarified versions of the ISAs will be taken care of by FAS Secretariat.</p>	<ol style="list-style-type: none"> 1. Yes. 2. See below for specific comments/ To some extent the additional guidance may not make the application of ISAs in the public sector clearer or more understandable in view of constraints of both materials and explanation. 3. See below for specific comments. 4. Yes/To some extent. <p>Specific comments P2 The criteria of the ISA in determining an initial audit engagement is either</p> <ul style="list-style-type: none"> - FS not audited - FS audited by predecessor auditor regardless of the nature of the entity whether newly formed/ restructured/ reorganized. 	<p>No action required.</p>

		<p><i>P3</i> In the public sector, the predecessor auditor and the current auditor belong to the same organization, thus, the last sentence below of P3 referring to paragraph 10 of the ISA, needs to be clarified. “Where the framework requires carry forward of prior balances and these were audited by other auditors, public sector auditors consider the guidance in the ISA.”</p> <p><i>P4</i> Does this cover only comparative financial statements. ISA 710 (Comparatives) discusses two types of comparative information. One is Comparative FS and the other is corresponding figures. Let us make this clear what we are referring to in this additional guidance in P4.</p>	<p>Changes included in P3.</p> <p>No action required.</p>
<p>Tunisia (Mr Trabelsi Mohamed)</p>		<ol style="list-style-type: none"> 1. – 2. – 3. – 4. In my opinion, the drafted guidance together with the respective ISA will provide relevant guidance for the public sector auditor when performing financial audits. <p>Specific comments I propose to add Specific Considerations for Public Sector Auditors with a Judicial Role when the prior period’s financial statements which were audited by a predecessor auditor contained irregularities.</p>	<p>Will be considered to be included. <i>Comment from Mr Claudio Souza Castello Branco: Considering the comments from Tunisia I would like to suggest to include a paragraph P9 in the Audit Conclusions and</i></p>

			<p><i>Reporting on PN of ISA 510: Audit Conclusions and Reporting</i></p> <p><i>P8. When a predecessor auditor's report on the prior period's financial statements includes a modification that remains relevant and material to the current period's financial statements as referred to in paragraph 13 of the ISA, the modification may have implications for the public sector auditors' responsibilities for reporting on internal control or non-compliance with authorities.</i></p> <p><i>P9. When the modification referred in the paragraph P8. above considered irregularities, such as fraud and corruption, it may have additional implications for the public sector auditors' responsibilities, usually established by law, regulation or other authority for the public sector auditors with a judicial role, to report or communicate on the irregularities to those</i></p>
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<p>Italy (Mr Ennio Colasanti)</p>		<p>I have examined the draft Practice notes to ISAs 402, 501, 505, 510, 520, 530, 540 and, also considering that they comply with the audit procedure of the Italian Corte dei conti, in my opinion:</p> <ol style="list-style-type: none"> 1. The above-mentioned ISAs are applicable in the public sector environment. 2. – 3. – 4. The additional guidance given in the relative Practice notes well underline specific aspects of the public sector environment. <p>There are not specific features concerning the audit of public financial statements in a Court of Accounts system that need additional specific guidance.</p>	<p>Noted.</p>
<p>Canada (Mr Stuart Barr)</p>		<ol style="list-style-type: none"> 1. We agree ISA 510 is applicable to the public sector. 2. We agree with the guidance provided in the Practice Note; however, we suggest the following additional underlined wording to clarify the first sentence of P3: 	<p>Clarification included in P3.</p>

		<p><u>An audit of the first year of operations of a newly formed entity is not usually an initial audit engagement, as defined in the ISA, since it does not have prior period financial statements or an opening balance sheet.</u></p> <p>3. -</p> <p>4. In our opinion, the Practice Note together with the respective ISA provides relevant guidance to the public sector auditor.</p>	
Sweden (Ms Karin Holmerin)		<p>1. Yes, we do.</p> <p>2. Yes, we do.</p> <p>3. -</p> <p>4. Yes, we believe it will.</p>	Noted.
Republic of Trinidad and Tobago (Mr Majeed Ali)		<p>1. Stated applicability for the ISAs in the public sector environment: P2 and P3: Agreed P4: More information is needed for clarity.</p> <p>2. Stated additional guidance given in the Practice note: A1: Agreed A2: Should be concise and be easily understandable.</p> <p>3. -</p> <p>4. Drafted guidance together with the ISA will provide relevant guidance for the public sector auditor when performing financial audits with the exception of P4 and A2.</p>	<p>Accepted, will be considered.</p> <p>No action required.</p>
Finland (Ms Johanna Kormu)		I have no comments to the PN draft.	Noted.