



## Compiled experts comments – ED comments on Practice Note for ISA 540

All members of INTOSAI were asked to give comments on the Exposure Draft of Practice Note to ISA 540 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
Indonesia (Mr Syafri Adnan Baharuuddin)		<ol style="list-style-type: none"> <li>1. Yes, we agree with the stated applicability for the ISAs in the public sector environment.</li> <li>2. Yes, we agree with the stated additional guidance given in the Practice Notes, but we noted several points as follows: <ul style="list-style-type: none"> <li>- P5 states that some accounting estimates of public sector entities will have a high level of estimation uncertainty due to the nature of government operations. We suggest that this Practice Note provide the solution for it in order to mitigate the risk.</li> </ul> </li> <li>3. See 2 above.</li> <li>4. Yes, we think the drafted guidance together with the respective ISA will</li> </ol>	No action required.

		provide relevant guidance for the public sector auditor when performing financial audits.	
Denmark (Mr Rolf Elm-Larsen)	<p>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.</p> <p><b>General comments</b> <i>Reference to INTOSAI's 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 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>ISSAI 1540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates and related Disclosures.</i></p> <p>In the section on the nature of accounting estimates, the PN is listing a number of areas where the auditor audits accounting estimates in the public sector (P4). In P5 it is asserted that accounting estimates made in the public sector are more uncertain. The reasons for this assumption are not being stated, but reference is made to paragraph A11 of the ISA that says that public sector entities may have holdings of specialized assets that are difficult to measure at fair value. 10/10</p> <p>The PN does not emphasize the significance of the fact that public sector entities are not operating on market conditions, and that the structure and content of the financial accounts is closely related to political preferences and decisions. For this reason alone, accounting estimates made in the public sector are different than those made in the private sector where business considerations are decisive. Add to this the fact that in the public sector, the financial accounts are not meant to reflect a measurement of the fair value of assets and liabilities with a view to future earnings. The objective of public entity accounts is first and foremost to control the use of public funds. There-fore, the nature of accounting estimates in the public sector is different from the private sector. This should appear clearly</p>	No action required.

	<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 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></p> <p>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 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</p>	<p>from the PN in the section on "Nature of Accounting Estimates".</p>	
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	<p>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><b>General comments to PN to ISAs 501, 505, 510, 520, 530, 540</b></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 described 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?</p> <p>The fact that the PNs are not structured in the same way makes it unnecessarily complicated</p>		
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	for the auditor to find the answers he/she is looking for.		
Lithuania (Ms Aurelija Brukštutė)		<ol style="list-style-type: none"> <li>1. Yes.</li> <li>2. Yes.</li> <li>3. –</li> <li>4. Yes.</li> </ol>	Noted.
Hungary (Ms Zsofia Hangyal)		<ol style="list-style-type: none"> <li>1. Yes, we agree with the stated applicability of the PN in the public sector environment.</li> <li>2. Yes, we agree.</li> <li>3. –</li> <li>4. In our opinion the drafted guidance and the respective ISA provide relevant guidance for the public sector auditor.</li> </ol> <p><b>Specific comments</b> Despite the fact that A6 of the ISA contains 'depreciation', we propose to include depreciation assessed by the property managers in the ISSAI. In our opinion when auditing public funds accounting estimates on depreciation are of great significance. We propose to include 'depreciation' under P4 and P10. Corrective comment on the text of the ISSAI: Under P6 line four correctly is: 'in accordance'.</p>	<p>Noted.</p> <p>No action required.</p> <p>Accepted, included in P6.</p>
Latvia (Ms Jolanta Adata)	<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</p>	<ol style="list-style-type: none"> <li>1. We agree with the stated additional guidance on standards given in the Practice Notes.</li> <li>2. –</li> <li>3. –</li> <li>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.</li> </ol>	Noted

	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.		
Philippines (Ms Lus L. Tolentino /Other experts within SAI)	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.	<ol style="list-style-type: none"> <li>1. Yes.</li> <li>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.</li> <li>3. See below for specific comments.</li> <li>4. Yes/To some extent.</li> </ol> <p><b>Specific comments</b> <i>Addition to P6</i> In some environments, public sector auditors may be confronted with a situation where agencies are required by regulators to observe a financial reporting framework which is different from that which the auditor is required to form his judgment on the financial statements. In this case, the public sector auditors should ensure that the valuation method used is in accordance with the applicable financial reporting framework and is not misleading.</p> <p><i>p9</i> If the public sector auditor is allowed to benchmark the guidance in other frameworks, how do the opinion and the scope of audit to be worded? In accordance with two frameworks?</p>	No action required.

		<p><i>Addition to P14</i></p> <p>In some environments, public sector auditors may recommend for the filing of appropriate charges. Thus, I would like to add a phrase to this sentence below. Please refer to phrase in bold letters.</p> <p>“Such responsibilities often include identifying the individual(s) responsible for such actions”  <b>and to recommend the filing of the appropriate civil and criminal charges against them.</b></p>	
Tunisia (Mr Trabelsi Mohamed)		<ol style="list-style-type: none"> <li>1. –</li> <li>2. –</li> <li>3. –</li> <li>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.</li> </ol>	Noted.
Italy (Mr Ennio Colasanti)		<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"> <li>1. The above-mentioned ISAs are applicable in the public sector environment.</li> <li>2. –</li> <li>3. –</li> <li>4. The additional guidance given in the relative Practice notes well underline specific aspects of the public sector environment.</li> </ol> <p>There are not specific features concerning the audit of public financial statements in a <b>Court of Accounts</b> system that need additional specific guidance.</p>	Noted.



		decommissioning liability or site remediation and restoration costs; <ul style="list-style-type: none"> <li>- Litigations and claims; and</li> <li>- Transfer programs to another level of government.</li> </ul>	No action required. No action required.
Sweden (Ms Karin Holmerin)		<ol style="list-style-type: none"> <li>1. Yes, we do.</li> <li>2. Yes, we do.</li> <li>3. –</li> <li>4. Yes, we believe it will.</li> </ol>	Noted.
Republic of Trinidad and Tobago (Mr Majeed Ali)		<p><b>Specific comments:</b></p> <p>P1: Agreed.          P2: Agreed.          P3: Agreed.          P4-P6: Agreed.          P7: Agreed.          P8: Agreed.          P9: Agreed.          P10: Agreed.          P11: Agreed.          P12: Agreed.          P13-14: Agreed.</p> <p>In my opinion, the drafted guidance together with the respective ISA provides relevant guidance for the public sector auditor when performing financial audits.</p>	Noted.
Finland (Ms Johanna Kormu)		I have no comments to the PN draft.	Noted.