



## Comments on Practice Note for ISA 402

All members of INTOSAI were asked to give comments on the Exposure Draft of Practice Note to ISA 402 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.	<p><b>Specific comments</b> <i>ISSAI 1402 Relating to an Entity Using a Service Organization</i></p> <p>The ISA describes the work that the auditor must perform when part of the entity's financial reporting is handled by an external service organization. Al-though it does not appear explicitly from the ISA, it must be assumed that the service is provided to the entity on general market conditions.</p> <p>In the public sector, the distribution of work between public entities in the financial area is often both horizontal and vertical. This means that entities are assuming the role of service organizations to each other for practical</p>	<p>We don't agree that bureaucracy will be increased as a result of ISSAI 1402. The adoption requires organizations to consider the nature of the relationship with the service organization.</p> <p>No action required</p>

	<p><b>General comments</b>  <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</p>	<p>reasons.  Many public tasks are also performed by entities on different levels. For in-stance, public entities authorized by the respective member states are disbursing the EU agricultural support and regional support and are thereby acting as service organizations. These entities are subject to special audit regulations that are generally based on the principle of "Single "Audit". This principle has its origin in the US where the federal audit institutions build on the work performed by national and local audit authorities. The principle is also 4/10 known from a number of European countries including the Netherlands and Denmark (the Single Audit System).  Bureaucracy in public administration will increase if the principles of ISA 402 are to be applied consistently in the public sector. A fair and pragmatic solution could be to make the ISA applicable only when a public entity decides to outsource part of its financial reporting to a service organization on general market conditions.</p> <p>Sections P3 and P5 are largely identical and could be merged into a single section.</p>	<p>Style and format issue. No action required</p>
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	<p>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 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.</p> <p>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>		
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>	
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></p> <p>In our opinion Property Management</p>	Not a good example as it

		Organisations should also be mentioned among the Service Organisations in the Appendix of the PN, since it is very frequent that the tasks of property management are transferred to specific organisations.	is not a "financial service". No action required
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 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"> <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>	No action required
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> P1 a. Should not be included here but separate PN should be issued covering all ISAs.</p>	Style

		<p><i>P1. g - Appendix; P2</i>  I think this PN is also applicable to an environment where the government implements a program that would involve two or more government agencies, one of which is the lead agency; and the others, each with defined roles; and with each agency servicing the other.</p> <p><i>P4 &amp; P7</i>  Overall considerations and objectives. Granting that the coverage and objectives as regards the financial audit in public sector may be broader than set out in para. 7 of ISA 402, the audit objectives and the coverage would not entail application of auditing standards that are contrary to the requirements of ISA. If it is, then the audit will not be described as an audit in accordance with ISA. Compliance with authorities, in public sector audits, may not fall under financial audit. It is different from the financial audit where an opinion is not rendered based on the fairness in presentation of the financial statements but on the extent of compliance with authorities, an assurance that is different from financial audit. Moreover, if public sector auditors are required to report on the effectiveness of internal control, there is no need to provide additional guidance because ISA 402 does provide guidance on the matter. It is very clear also in ISA 700 as far as the independent auditor's report is concerned.</p> <p><i>P8</i>  In the public sector service organization and sub-service organization may also extend to</p>	<p>Believe this is covered by 3<sup>rd</sup> set of examples.</p> <p>That is why we are not precise and say it often happens. No change contemplated</p> <p>We believe this guidance is useful and should stay in the PN.</p>
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		organizations that provide services integral to the user entity's ability to achieve its program objectives, such as the determination of eligibility.	This is already included in the PN guidance.
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> <p><b>Specific comments</b> When Publics Service Organizations doesn't have service auditor, obtaining an understanding of the services provided by a Public Service Organization by user auditor can realized by using reports of others publics auditors (minister of finance , departmental auditors) of service organization. In this case user auditor should coordinate his mission with others publics auditors.</p>	This is not specific to ISA 402 and does not need to be included.
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>	<p>P.15 covers this. No action required</p>
<p>Canada (Mr Stuart Barr)</p>		<ol style="list-style-type: none"> <li>1. We agree ISA 402 is applicable to the public sector.</li> <li>2. We agree with the guidance provided in the Practice Note.</li> <li>3. -</li> <li>4. In our opinion, the Practice Note together with the respective ISA provides relevant guidance to the public sector auditor.</li> </ol> <p><b>Specific comments</b> We consider the examples provided in the Practice Note to be useful and suggest the following additional examples:</p> <ul style="list-style-type: none"> <li>- To the examples of activities performed by service organizations in a public sector context – <b>Management of capital assets by another organization on behalf of the government</b>; and</li> <li>- To the examples of situations where service organizations may have certain responsibilities to ensure compliance with authorities – Administration or collection of taxes, fees or other payments on behalf of a government by another government or private entity where the organization administering or collecting these payments must respect the legislation of the responsible government.</li> </ul>	<p><b>Agree. Add to first set of examples in the Appendix.</b></p> <p><b>Management of capital assets by another organization on behalf of the government</b></p> <p>Agree. Add to second set of examples.</p> <p><b>Administration or collection of taxes or other fees by a government or private entity on behalf of another government where the organization</b></p>

			<b>administering or collecting these payments must respect the legislation of the government.</b>
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>	No action required
Finland (Ms Johanna Kormu)		I have no comments to the PN draft.	