



Explanatory Memorandum – ISSAI 200 (Revised) - Financial Audit Principles

REQUEST FOR COMMENTS

This Exposure Draft ISSAI 200 (Revised) (ED ISSAI 200) - Financial Audit Principles, was developed by the INTOSAI Financial Audit and Accounting Sub-committee (FAAS).

Respondents are asked to submit their comments electronically by **June 25, 2019** to the email address ECA-Issai200@eca.europa.eu. Please submit comments to specific paragraphs of the standard using the file circulated at the same time as the exposure draft. General comments may be submitted using PDF or Word documents. All comments will be considered a matter of public record and may be posted on the FAAS website.

The FAAS will consider all comments received when preparing the final version of the text for submission to the Forum for INTOSAI Professional Pronouncements (FIPP) for approval.

The FIPP have approved this exposure draft on March 7, 2019 (cf. section 2.1 of the due process for the IFPP). The final pronouncement is expected to take effect from September 2019.

Respondents are encouraged to consider the effective date in their comments to the exposure draft.

Introduction

This memorandum provides background to, and an explanation of, the proposed changes to International Standard of Supreme Audit Institutions (ISSAI) 200 -Financial Audit Principles.

Background

ISSAI 200 (Revised) provides the principles for an audit of financial statements prepared in accordance with a financial reporting framework, and an overview of the nature, the elements and the principles of auditing financial statements by Supreme Audit Institutions (SAIs). In line with the past decision of INTOSAI, the principles are to be used as a basis for adopting or developing more detailed standards for financial audit, or they can be applied directly.

Revising ISSAI 200 is a high priority task arising from the 2017-2019 Strategic development plan for the INTOSAI framework of professional pronouncements.



The aim of the project was to streamline the document, make it principle-based (and therefore less detailed) and ensure it is robust enough to accommodate present and future changes in the International Standards on Auditing (ISAs) and the corresponding ISSAIs and to ensure that the objectives of the principles laid out in the document are aligned and coherent with the ISSAIs (2200 – 2810). The revision also aims to ensure that ISSAI 200 (Revised) is in line, and consistent with, the corresponding performance and compliance audit principle documents (ISSAI 300 and ISSAI 400), in particular in terms of structure, level of detail and, where applicable, basic concepts.

The current ISSAI 200 reprises the general audit principles (such as quality control, documentation etc). However, these apply to all types of audit and so are not specific to financial audit. Repeating the general audit principles would make sense, were the ISSAI 200 (Revised) intended as a standalone document. However, it is intended to be read in conjunction with ISSAI 100. FAAS therefore decided to shorten and rationalize ISSAI 200 by focusing on the general principles and issues unique to financial audit, or for which there is a specific financial audit perspective.

FAAS considers that ISSAI 200 (Revised) should be a concise document, focusing on principles rather than describing in detail how they should be implemented in practice. This is the purpose of the detailed level ISSAIs. The principles of financial audit included in ISSAI 200 (Revised) should be consistent with the objectives of financial audit set out in the individual ISAs. FAAS therefore built the document around the ISA objectives, complementing them by short additional explanations. In the FAAS view, this represents a sufficient level of detail bearing in mind the purpose of ISSAI 200 (Revised).

The fact that the general audit principles are set out in ISSAI 100, and financial audit principles and detailed requirements are addressed by the detailed level ISSAIs (ISAs), raises the question of whether an intermediate level standard such as ISSAI 200 (Revised) covering financial audit principles only serves a useful purpose. While we understand the idea of a certain symmetry in the overall ISSAI framework, it should be borne in mind that the performance and compliance audit principles documents are not supported by more detailed standards, unlike for financial audit.

FAAS took the opportunity to fundamentally rewrite and shorten ISSAI 200, covering both content (focusing on the essential) and style (aiming for greater clarity). We had a critical look at the way things had been done before, given that no drafting conventions exist for this level of the ISSAI framework. This could help set a template for changes to other documents.

In drawing up and presenting this document for public exposure, FAAS has followed all the relevant stages of the INTOSAI due process.

Taking account of the approval process planned in the project proposal, this ISSAI is planned to be effective immediately after the INTOSAI Governing Board approves the endorsement version. It will thereafter be submitted to the International Congress of Supreme Audit Institutions (INCOSAI) in September 2019 for final endorsement.



Questions to Consider

As part of the general invitation to comment, we would like to take the opportunity to ask respondents to reflect on the following questions, in addition to any general and detailed comments you may have on the document:

1. Whether the proposed revised ISSAI 200 meets the purpose of providing a more robust and principle-based standard for financial audit than the current ISSAI 200?
2. Whether there are any key principles that should be added to, further elaborated on or could be deleted from, the proposed document? If yes, please explain why.
3. The proposed revised ISSAI 200 aims to improve the wording used in the ISSAI 100, rather than taking over the current sub-optimal formulation (e.g., authority, subject matter and subject matter information, definition and objective of financial audit). This could be used to trigger an improvement in the overall quality of the framework.

a) Definition of Financial Audit:

ED ISSAI 200 paragraph 7 proposes a revised definition of financial audit:

“Financial audit involves determining, through the collection of audit evidence, whether an entity’s financial information as presented in its financial statements is complete, accurate and, where applicable, fairly presented in accordance with the financial reporting and regulatory framework applicable. In the case of compliance frameworks the auditor assesses the extent to which compliance is achieved.”

The definition of financial audit in ISSAI 100 paragraph 22 is:

“Financial audit focuses on determining whether an entity’s financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.”

3(a)(i) Do you agree with the proposed revised definition of financial audit in ED ISSAI 200? If no, please explain why.

3(a)(ii) Do you agree with the addition of the terms “complete” and “accurate” into the definition?



b) Definition of matter and subject matter information

ED ISSAI 200 paragraph 23 proposes a revised definition of subject matter and subject matter information for financial audit:

“The subject matter of a financial audit is the accounting data of an entity, which are presented in the form of financial statements (known as the subject matter information).”

The definition of subject matter and subject matter information in ISSAI 100 paragraph 30 is:

“*Financial audit*: The subject matter of a financial audit is the financial position, performance, cash flow or other elements which are recognised, measured and presented in financial statements. The subject matter information is the financial statements.”

3(b) Do you agree with the proposed revised definition for financial audit subject matter and subject matter information? If no, please explain why.

4. ED ISSAI 200 proposes slight changes to the attributes of an acceptable financial reporting framework in paragraph 16. The more significant change is to replace “reliable” by “accurate”, because “accurate is considered a clearer and less ambiguous term. This will result in a slight inconsistency with the attributes of an acceptable financial reporting framework in ISSAI 1210 (and ISA 210). The table below sets out the proposed attributes compared to the attributes in the existing ISSAI 200 and ISSAI 1210.

Proposed in ED ISSAI 200	Existing ISSAI 200	ISSAI 210 Appendix 2
Relevant	Relevance	Relevance
Complete	Completeness	Completeness
Accurate	Reliability	Reliability
Objective	Neutrality & Objectivity	Neutrality
Understandable	Understandability	Understandability

Do you agree with the proposed attributes and particularly replacing “reliable” by “accurate” in the attributes for an acceptable financial reporting framework? If no, please explain why.

5. The proposed revised ISSAI 200 takes into account the particularities of the public sector and does not use the term performance materiality in order to avoid confusion with the use of materiality in performance audit. Do you agree with this proposal?



6. We consider that there are no significant differences when applying the general principles of professional skepticism and professional judgement (as presented in ISSAI 100) in the context of financial audit as compared to compliance or performance audit. Therefore, in order to streamline the document, the proposed revised ISSAI 200 does not further detail these principles. Do you agree with this position?
7. Whether the proposed revision to ISSAI 200, along with ISSAI 100 provide a sufficient basis from which SAIs can develop their own standards, as a basis for the adoption of consistent national standards and/or as a basis for adoption of the INTOSAI standards for financial audit (ISSAI 2000 – 2899)?