

Restructuring and Expanding Government Auditing Standards – INTOSAI Perspective

Address by Karin Holmerin, Audit Director, Swedish National Audit Office, at the XVI Annual Conference on New Developments in Government Financial Management for Government Financial Managers in Miami.

First of all I would like to thank you for your kind invitation to participate in this conference and for the honour of addressing this distinguished gathering of researchers, experts and practitioners in the field of Government Financial Management. I am here, in the first place, as the representative of the Chair of INTOSAI's Auditing Standards Committee. My Auditor General has been chairman of the committee since 1995 and my role has been to practically work on the continuing development of the Auditing Standards and Code of Ethics.

1. Background

1.1 *The INTOSAI Auditing Standards Committee and its work*

The INTOSAI Auditing Standards Committee (which I shall refer to merely as the *Committee*) was established in 1984 to present plans and recommendations for an INTOSAI auditing standards project. Initially the Committee had 11 members and was led by *Saudi Arabia*. From 1989 to 1995 the Committee was led by *Australia* and from 1995 onwards it has been led by *Sweden*. As in all INTOSAI committees there is the ambition that the members of the Committee shall reflect, as far as possible, the diversity of the organisation, that is to say the different countries and the different methods of organising the audit, in order to encompass the wealth of experience that INTOSAI represents.

Over the years the composition of the Committee has changed somewhat - but in a way that guarantees both renewal and continuity. Certain SAIs have been members of the Committee since it started its work, and there are others that participated in their first Committee meeting in March this year. The Committee now has members from all parts of the world and from regional organisations, which are associated with INTOSAI. The members are: Antigua and Barbuda, Argentina, Australia, Austria, Brazil, Cameroon, Canada, Costa Rica, Denmark, Egypt, Japan, Lithuania, Namibia, Norway, the Philippines, Portugal, Samoa, Saudi Arabia, Slovakia, Sweden, Tonga, Uruguay, Ukraine, the United Kingdom and the United States

1.2 *A historical perspective on the background and development of INTOSAI Auditing Standards*

The Governing Board approved the Committee's working plan at a meeting in Sydney in 1985. The Committee formed four study groups whose tasks were to focus on:

- General Postulates in Government Auditing
- General Standards in Government Auditing
- Field Standards in Government Auditing
- Reporting Standards in Government Auditing

The four groups wrote, discussed and revised texts that finally became a final exposure draft which was then circulated to all INTOSAI members for their comments. This demonstrates the great effort that was made to obtain support for the proposal and the willingness to make adjustments in order to obtain global acceptance. The Committee made the necessary changes to the document as a result of comments received from INTOSAI members and the Auditing Standards were approved at the Congress in Berlin in 1989.

In 1989 the Governing Board gave the Auditing Standards Committee the mandate to revise the Standards in order to recognise the particular needs of countries whose SAIs are constituted as courts of accounts. The Committee presented the new version at the INTOSAI Congress in Washington in 1992. The document was slightly amended again in 1995 in order to make it more explicit.

At the Congress in Montevideo in 1998 the Committee was given the task of restructuring the Standards in order to improve clarity and facilitate future changes. This work ended up in the version we have today, which was presented at the INTOSAI Congress in Seoul in 2001.

At the Congress in Cairo in 1995 the Committee was given the task of drawing up a Code of Ethics for INTOSAI. All the members of the Committee participated actively in this work and contributions were also received from many other members of INTOSAI. In 1998 the Auditing Standards Committee submitted a proposal for an INTOSAI Code of Ethics, which was approved by the INTOSAI Congress in Montevideo.

Although the term “standards” was used throughout the document, it was understood that the term was synonymous with the term “guidelines” which retains the authority for compliance within the domain of each Supreme Audit Institution. While the application of the Standards is not mandatory, they reflect a “best practices” consensus among SAIs.

Both the Governing Board of INTOSAI and the Committee are committed to keeping the Standards as a “living” document. As such the Standards should reflect, as far as possible, current trends, issues and concerns in auditing methods and practice.

2. INTOSAI Auditing Standards as part of a framework

I think that it is important here to point out that the INTOSAI's Auditing Standards is not a "stand alone" product. It is part of a framework, which has emerged over the years. With the INTOSAI Code of Ethics in place, the INTOSAI has a complete set of standards, which promotes the independence of SAIs and their activities. The various documents may be regarded as a comprehensive framework, which has the following elements:

- *The Lima Declaration*
- *The Code of Ethics*
- *The Auditing Standards*
- *Implementing Guidelines*

The **Lima Declaration** of Guidelines on Auditing Precepts, that was adopted by acclamation more than two decades ago at the INTOSAI Congress in Lima in 1977, constitutes the foundation with its comprehensive precepts on auditing in the public sector.

The main purpose of the *Lima Declaration* was to call for independent government auditing. A Supreme Audit Institution that cannot live up to the requirement in respect of independence does not come up to requisite standards. It is not surprising, therefore, that the issue of the independence of Supreme Audit Institutions continues to be a theme which is repeatedly discussed within the INTOSAI community. However, the demands of the *Lima Declaration* are not met by a SAI merely achieving

independence; this independence must also be enshrined in law. However, this requires the existence of institutions of law and order, and these are only to be found in democracies based on the rule of law.

The rule of law and democracy therefore constitute essential premises for truly independent government auditing and are the pillars on which the *Declaration of Lima* is founded. The precepts contained in the *Declaration* represent timeless and essential values, which have maintained their topicality since the time when they were first adopted. In the SAI community the *Lima Declaration* is regarded as the Magna Charta of government auditing.

The **Code of Ethics** represents the next level with its statement of values and principles, which guide the daily work of auditors. With the Lima Declaration as its foundation, the INTOSAI *Code of Ethics* should be seen as a necessary complement, reinforcing the INTOSAI Auditing Standards. One of the principles outlined in the *Code of Ethics* is the auditor's obligation to apply generally accepted auditing standards.

The *Code of Ethics* is a significant step forward in the process of harmonising ethical concepts within INTOSAI. It comprises the basic postulates of ethics only, since national differences of culture, language and legal and social systems create the need to adapt the postulates to the environment of the specific country. Therefore, this Code should be seen as a foundation for national

codes of ethics, which shall be developed by each Supreme Audit Institution.

At the next level the **Auditing Standards** contain the postulates and principles for carrying out the audit work.

At the fourth level, the **Implementation Guidelines** shall provide practical assistance to SAIs for the implementation of the Standards in their own countries. A Guideline on Performance auditing has been developed by the Committee and will shortly be sent out to the INTOSAI Community for comments. It will then be presented at the INTOSAI Congress in Budapest in 2004. A Guideline on Financial Auditing remains to be developed.

In this context it is also appropriate to mention that INTOSAI's other committees have produced guidelines that are of a general interest for auditors; on internal controls, illustrative models of financial statements, best practices for the audits of privatisation, and guidelines for joint audits of environmental issues. There are also certain products from the EDP committee, even if they do not have the character of standards, which contain valuable information for the auditing process.

3. Harmonization of Auditing Standards

3.1 Relation between INTOSAI Auditing Standards and IFAC standards up until 2001

I will say a few words about the relation between INTOSAI auditing standards and IFAC standards. During the development of the INTOSAI Auditing Standards there was no formal cooperation between INTOSAI and IFAC. This has not been the case until today, either. However, there is and has been an interdependence in the professional field. For instance, when INTOSAI developed its Code of Ethics the Code of Ethics developed by IFAC exerted a natural influence, as well as the Codes of Ethics produced by different SAIs around the world.

3.2 Discussions with the World Bank and IFAC

In the spring of 2001 the World Bank contacted the General Accounting Office of the United States (GAO) the Committee chair and the International Federation of Accountants (IFAC) in order to initiate a dialogue on harmonization of international standards for auditing.

Background

The World Bank took the initiative partly as a result of the restructuring going on in IFAC. The Public Sector Committee of IFAC has up until now issued public sector perspectives on international auditing standards issued by IFAC. This task of the Public Sector Committee was discontinued and it is unclear how the public sector perspective will be reflected in the future.

IFAC is in the process of creating International Auditing and Assurance Standards Board (IAASB). The purpose of the board is, among other things, to increase the transparency into the work of the organization. The board will work to create internationally accepted auditing standards that meet up to the needs of a truly international market.

Some nations have already harmonized their public and private sector audit standard setting processes by creating one standard setting body with representation from both sectors.

World Bank invitation

The World Bank initiated the contacts between IFAC and INTOSAI – through the Committees for Accounting and Auditing Standards – in order to explore whether international standards setting for auditing would benefit from harmonization between public and private sectors.

The World Bank's ambition is to increase their reliance on SAIs in recipient countries to audit World Bank funds transferred to the national Government. In order to be able to do this, they need generally accepted standards to refer to in guaranteeing the quality of the audit.

The World Bank's focus on governance, and on empowerment, transparency and accountability has had increased significance in the past five years. The World Bank is very aware of the importance of Supreme Audit Institutions and the necessity to empower them to do their job. This leads to a very strong

emphasis from the World Bank on the process of building and developing institutions.

Initial discussions

A teleconference was held on 22 January between the World Bank, IFAC, and the GAO and the Committee chair representing INTOSAI interests. The purpose of the conference was to discuss how to bring the public perspective to international auditing standards, and how to possibly create a synergy between the work of IFAC and INTOSAI.

The discussions were very general, focusing more on how to structure to process and create a forum for future discussion, than on how to actually solve the numerous problems anticipated in the process of creating international harmonization of public sector auditing standards.

Next steps

It was decided that the participants in the teleconference (the World Bank, IFAC, the GAO and the Committee chair) would write a concept paper giving the background to the process, an overview of the issues to address as well as the characteristics deemed necessary in harmonized audit standards. The concept paper would then be discussed and the future process agreed on at a meeting to be held in Washington, DC on April 29.

The Committee has formed a working group to continue the practical work that will come from the discussions with the World Bank and IFAC on harmonization.

4. A look into the future

In connection with the INTOSAI Congress in Seoul, the Committee was given a number of new assignments. By describing these assignments I think I can provide a fair picture of the scope of the Committee's work and of INTOSAI's perspective where the breadth of its development work is concerned.

- The Committee has established a subcommittee on the Independence of SAIs to fulfill the assignments resulting from the work by the Task Force on Independence. The sub-committee has the objective to contribute to strengthening SAI independence by:
 - Exploring ways of promoting SAI independence at international, regional and local levels, including the development of an awareness and communications program on SAI independence, by means of studies, publications and seminars.
 - Gathering information on the status of SAI independence through periodic confidential surveys and developing draft guidance on SAI independence for the use of SAIs.
 - Exploring and proposing ways and means of establishing contacts with external organizations for the purpose of strengthening SAI independence.

- The Committee shall closely follow the developments of IFAC's Auditing Standards in order to keep the INTOSAI community updated and informed. This has developed into the discussions on harmonization of Auditing Standards.
- The Committee shall continue the work on the implementation guidelines for Performance Audit, with the aim that the guidelines be completed and approved by the INTOSAI Congress in Budapest in 2004.
- The Committee shall decide how best to respond to the need for Guidelines for Financial Audit, given the varying auditing mandates and systems among INTOSAI members. This will have to be reflected in the discussions on harmonization.
- Before the 2004 INTOSAI Congress, a survey shall be conducted among the INTOSAI members to determine the expectations and the possible need for developments of the INTOSAI Auditing Standards.
- The Committee will try to find a way to replace the now outdated and dysfunctional Auditing Standards bibliography with a web based solution for sharing auditing standards documents between SAIs.

In other words the Committee has an extensive programme, which shall be implemented prior to INTOSAI's next congress in Budapest in 2004.

5. **Where can you obtain more information?**

I would also like to inform you about where you can obtain more information. On INTOSAI's web site <http://www.intosai.org> you will find more information about INTOSAI. There you will also find the INTOSAI products I have mentioned: the Lima Declaration, the Code of Ethics and the Auditing Standards. They are available in five languages: English, German, French, Spanish and Arabic, which are INTOSAI's official languages. However, the Arabic version is not available on the web site but can be ordered from the INTOSAI secretariat. I would also like to inform you about INTOSAI's journal: The International Journal on Government Auditing, which is highly readable and which provides regular information about developments in the field in INTOSAI. You can subscribe to the Journal via the GAO in Washington. The President for the Journal is Gloria Jarmon and the Editor is Don Drach.

And this brings my address to an end. Thank you very much ladies and gentlemen.