



Auditing Standards and Ethics – an INTOSAI Perspective

Address by Inga-Britt Ahlenius, Auditor General, Swedish National Audit Office, at the XVII 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 honor of addressing this distinguished gathering of researchers, experts and practitioners in the field of Government Financial Management. I am here, primarily, as the Chairman of INTOSAI's Auditing Standards Committee. The Swedish National Audit Office has chaired the committee since 1995, during which time we have, among other things, been responsible for developing an INTOSAI Code of Ethics for Public Sector Auditors, as well as for restructuring the INTOSAI Auditing Standards. However, some of the most interesting and challenging work is still ahead of us.

1 The role of INTOSAI

The role of INTOSAI is to promote the exchange of ideas and experiences in the field of government auditing among legislative auditors of national governments. These auditors are called Supreme Audit Institutions, or SAIs for short. SAIs must work within the legal mandates given to them by their respective legislatures. As such, they are independent of each other and also of professional organizations to which they may belong, such as INTOSAI. In keeping with the independence of its members, INTOSAI cannot require SAIs to carry out specific engagements or comply with particular standards or guidelines, whether national or international.

However, SAIs can, and frequently do, collaborate on issues of mutual professional interest, often facilitated by INTOSAI. For example, INTOSAI has created a number of standing committees and working groups, each of which is managed and staffed by SAIs themselves. These committees and groups study various aspects of legislative auditing, identify best or preferred practices, and share this information with the whole INTOSAI community. The INTOSAI Auditing Standards Committee (which I shall refer to merely as the Committee) is one such committee.



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1.1 Background

At the XVI INCOSAI in Montevideo in 1998 the INTOSAI Auditing Standards Committee (ASC) reported its progress since the previous congress in Cairo in 1995 and submitted the INTOSAI Code of Ethics to be endorsed by the Congress. The Congress concluded that INTOSAI now had a more complete set of standards and that the different documents, the Lima Declaration on the first level, the Code of Ethics on the second level and the Auditing Standards on the third level may be regarded as a comprehensive framework. However, the Congress also pointed out the need for the fourth level, guidance material to provide practical assistance to Supreme Audit Institutions in implementing the Standards in their individual constituents.

The Congress decided that the ASC should develop implementing guidelines to complete the INTOSAI set of standards and form the fourth level of the framework. In the recommendations from the Congress there is a certain point encouraging SAIs to take into account i.a. the importance of implementing generally accepted auditing standards.

The ASC has since then started the work with guidelines, starting with implementation guidelines for Performance Auditing, which expect to be completed by XVIII INCOSAI in Budapest 2004. When it comes to Financial Audit Guidelines, the Committee has considered different alternatives, but had at the time for the XVII INCOSAI in Seoul 2001 no proposal for an immediate solution. However at the Congress the Committee proposed that, until the next Congress, it should work on how to best respond to the need for guidelines for Financial Audit, given the varying auditing mandates and systems among INTOSAI members. Furthermore, the Committee should closely follow the developments of IFAC's International Standards for Auditing, in order to keep the INTOSAI Community updated and informed. The Congress endorsed the Committee's proposal

During the Committee meeting in Lisbon in March 2002, the Committee created an informal working group to support the Chair in the continued work on how best to respond to the need for guidelines for Financial Audit.

Following extensive discussions within the INTOSAI Auditing Standards Committee and with the INTOSAI Governing Board, the Auditing Standards Committee decided, with the support of the Governing Board, to initiate a very substantial cooperation with IFAC to contribute with the public sector perspective in the ongoing revision of old ISAs as well as the development of new ones.



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1.2 The INTOSAI Auditing Standards Committee and its work

The INTOSAI Auditing Standards Committee was established in 1984 to present plans and recommendations for an INTOSAI auditing standards project.

INTOSAI Auditing Standards Committee is now entering a new phase in the development of auditing standards. Mandated by the INTOSAI Governing Board, the Committee is going into practical cooperation with the International Federation of Accountants, the professional organizations for auditors and accountants in the private sector. The ambition is to work together in the review of current IFAC International Standards for Auditing (ISAs) and in the writing of new ISAs, in order to make the ISAs as applicable as possible in both the private and public sectors. If additional recommendations or guidelines regarding the application of an ISA in the public sector environment are necessary, these will be developed by the INTOSAI Auditing Standards Committee. The Committee will also develop any guidelines which are specific to the public sector, and not the primary responsibility of IFAC.

Auditing standards are an absolutely essential element, for auditors in both the private and public sectors, in building understanding of and confidence in the audit process. Auditing standards are also the most important tool an auditor has in assuring the quality of the audit work.

I believe that the cooperation between INTOSAI and IFAC can be of benefit to both organizations and to its members. INTOSAI will, among other things, benefit from the expertise of IFAC standard setters. IFAC will benefit from the fact that their Auditing Standard will be considered the International Standard on Auditing for the public sector as well.

1.3 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. The documents may be regarded as a comprehensive framework, which has the following elements:

- The Lima Declaration
- The Code of Ethics
- The Auditing Standards

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. A new and fourth level will now be added to



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these basic normative documents. This framework will remain as the basis for INTOSAI standards.

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. In this context, I think it is appropriate to mention a few words on the continued and ongoing work to develop the concept of SAI independence. At its 44th meeting 1998 in Montevideo, Uruguay, the INTOSAI Governing Board established a task force, chaired by the Auditor General of Canada, to examine the state of independence of member SAIs and to make recommendations on ways and means to bring about realistic improvements in a proactive and productive manner. This task force reported to the INTOSAI Congress in Seoul 2001 on the independence of SAIs. The Congress decided to transform the taskforce into a subcommittee under the ASC . The subcommittee has since then developed draft Application Provisions of Core Principles of SAI Independence, which currently are circulated to the INTOSAI community for comments. We regard this work as very important. The Lima declaration has not lost anything of its importance, but the issue of SAI independence needs to be explained and made operational in the many different constitutional environments where the SAIs are functioning.

The Lima declaration being the first level in this framework, 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 harmonizing 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, the 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.

And now, at the fourth level, the Implementation Guidelines shall provide practical assistance to SAIs for the implementation of the Standards in their



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own countries. A Guideline on Performance auditing has been developed by the Committee and is currently being edited as a result of comments received on an exposure draft to the INTOSAI Community. It will be presented at the INTOSAI Congress in Budapest in 2004.

2 Development of detailed auditing standards or guidelines for public sector financial auditors

2.1 *Roles and responsibilities*

The Auditing Standards Committee will, with the aid of experts from SAIs both inside and outside the committee, participate in the work being done by IFAC's International Auditing and Assurance Standards Board (IAASB) and its task forces. The aim of this participation is to ensure that the standards being developed there take into consideration, to the greatest degree possible, the specific conditions of public sector audits.

In order to perform this task, the Auditing Standards Committee has created a project structure consisting of a number of groups;

The basic foundation is the *INTOSAI Auditing Standards Committee*: The committee consists of 28 INTOSAI members from all over the world and has the ultimate responsibility for the project to INTOSAI and its Governing Board. The Swedish National Audit Office (RRV) chairs the committee.

The Auditing Standards Committee's Working group for Financial Auditing Guidelines is also led by the Swedish National Audit Office. Its other members are the SAIs in: Austria, Canada, Cameroon, Namibia, Norway, United Kingdom and the United States. The working group is responsible for producing any additional proposals for guidelines needed, on behalf of the Auditing Standards Committee.

The Reference Panel will consist of 25-30 experts from INTOSAI's member organisations and shall contribute professional expertise and work to develop the public sector perspective in IAASB Task Forces. IAASB is currently working through the standards and revising them. The members of the Reference panel will take part in this practical work by working in the IAASB Task Forces. The members of the Reference Panel will also assist the Working Group in producing guidelines. To provide support for the working group, the chairman of the working group has appointed a *Project Director* who, together with other members of staff, forms a *Project Secretariat*. This secretariat works on behalf of the chairman of the working group and is responsible for the practical coordination and preparation of the work in the working group and the reference panel.



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The working group, reference panel and project secretariat together constitute the structure which serves the ASC by producing guidelines for financial audit in accordance with the above description.

3 Future Work

The Auditing Standards Committee and IAASB will produce a joint statement on the details of cooperating. The statement will finally be approved by the IAASB at the board meeting in July and by the Committee at the committee meeting in Bratislava in September.

In the meantime the working group will comment on exposure drafts issued by the IAASB.

After the joint statement is approved the work of the members of the Reference Panel will commence.

The working group will develop a bridging document, connecting the structure of INTOSAI Auditing Standards with the structure of IFAC Standards on Auditing.

The progress will be reported by the chair of the Auditing Standards Committee at the next INCOSAI in Budapest in October 2004.