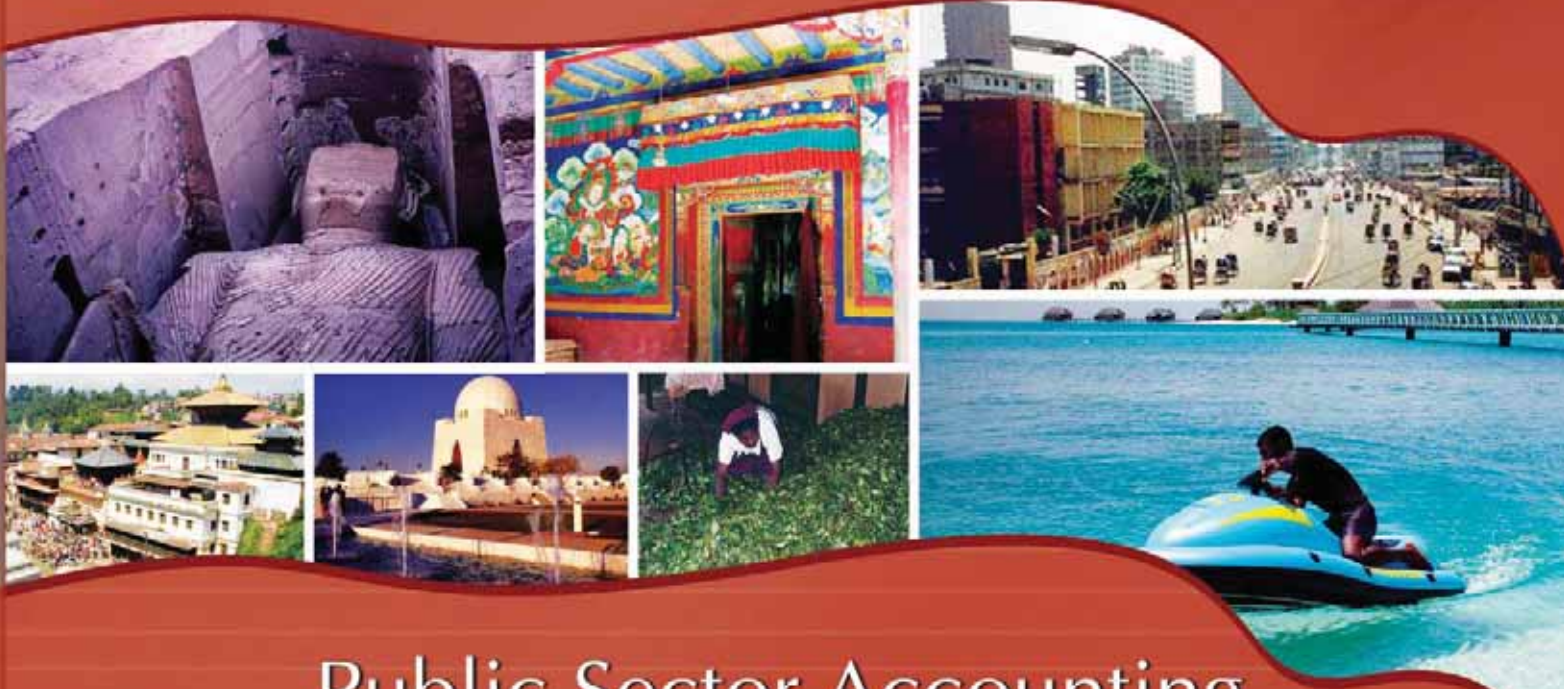


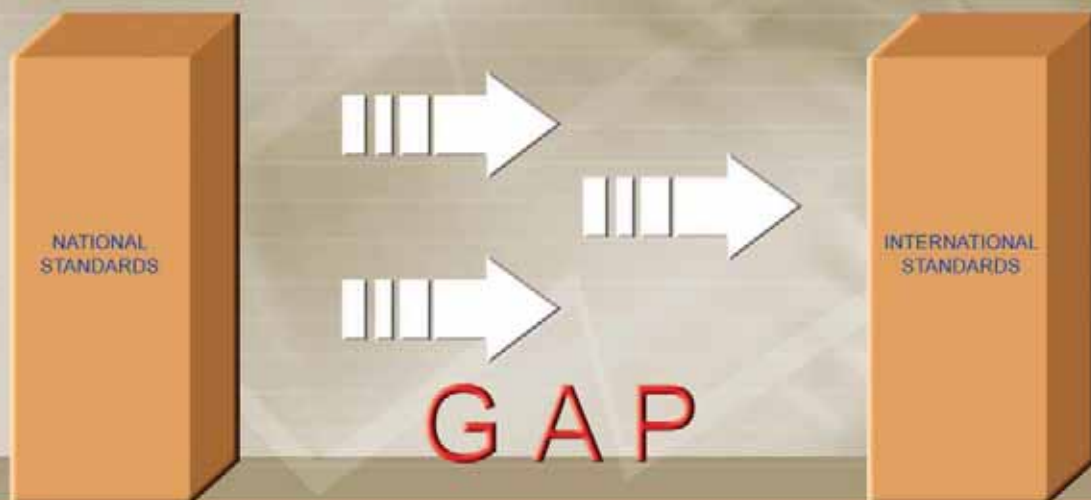


The World Bank



# Public Sector Accounting and Auditing in South Asia

## A Comparison to International Standards



Report No. : 54606-SAS

**PUBLIC SECTOR ACCOUNTING AND  
AUDITING IN SOUTH ASIA**  
**A Comparison to International  
Standards**



**The World Bank**

South Asia Region Financial Management Unit  
May 2010



# ABBREVIATIONS AND ACRONYMS

ACCA	Association of Certified Chartered Accountants, UK
ASOSAI	Asian Organization of Supreme Audit Institutions
CFO	Chief Financial Officer
CGA	Controller General of Accounts
CIPFA	Chartered Institute of Public Finance and Accountancy, UK
DFID	Department for International Development
ICA	Institute of Chartered Accountants
IES	International Education Standards for Professional Accountants
IFAC	International Federation of Accountants
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISSAI	International Standards of Supreme Audit Institutions
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PACT	Programme for Accountability & Transparency
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SAI	Supreme audit institution





# ACKNOWLEDGMENTS

This synthesis report of public sector accounting and auditing practices in South Asia represents the end product of a process that began in 2005, when the South Asia Region Financial Management unit of the World Bank recognized the need for comprehensive diagnostic assessments of government accounting and auditing practices to inform policies and chart paths to strengthen practices.

The first step in the process was to develop a framework consisting of the international standards against which to measure actual practices. Next, the Bank collaborated with government accounting and auditing authorities in Bangladesh, Pakistan, and Sri Lanka to pilot-test the framework and develop the first draft country reports. The drafts were circulated to government authorities in 2006 and discussed at stakeholder workshops in 2007, and the agreed actions were documented in the final reports. The framework was fine-tuned and applied in similar collaborative efforts with government officials in Afghanistan, Bhutan, Maldives, and Nepal. In 2008, the Government Accounting Standards Advisory Board in India applied the framework to assess the extent to which the Indian Government's accounting practices met international standards, representing the first time that the framework had been used in a government-led exercise.

This report synthesizes the eight individual country reports on public sector accounting and auditing in South Asia.

A team of advisers and development partner collaborators contributed greatly to the development and validation of the diagnostic framework, as well as during the drafting of the early country reports; their job titles and institutional affiliations are shown as of the time of their contributions.

## Advisers

*Simon Bradley, Manager, Loans Department, World Bank*

*David Goldsworthy, Operations Manager, International Technical Cooperation Program, UK National Audit Office*

*Noel Hepworth, Chartered Institute of Public Finance and Accountancy, London*

*Abdul Mudabbir Khan, Fiscal Affairs Department, International Monetary Fund*

*Ian Mackintosh, Chairman, UK Accounting Standards Board*

*N.R. Rayulu, Additional Comptroller & Auditor General (International Relations), Office of the CAG of India; Nominee of the Asian Organization of Supreme Audit Institutions*

*Paul Sutcliffe, Technical Director, International Public Sector Accounting Standards Board, International Federation of Accountants*



## Development partner collaborators

David Biggs, Financial Management Advisor, UK Department for International Development

David Gray, Governance Advisor, UK Department for International Development

Kathleen Mktan, Director, Capacity Development and Governance Division, Asian Development Bank

The task teams from the World Bank that worked with the South Asian governments included financial management specialists from World Bank Country Offices in South Asia, along with the following core team members working under the overall direction of South Asia Region Financial Management Manager Robert Saum:

P.K. Subramanian, Lead Financial Management Specialist

Ronald Points, Lead Consultant, Accounting

Michael Jacobs, Lead Consultant, Auditing

The government accounting and auditing officials who collaborated with the World Bank task teams are named in the individual country reports. This synthesis report was drafted by Leslie Kojima and Michael Jacobs under the overall direction of Jennifer Thomson. It has benefitted from comments by P.K. Subramanian and Ronald Points, as well as by various government accounting and auditing officials in South Asia. Peer reviewers were Professor Dr. Andreas Bergmann, Director, ZHAW School of Management and Law; Ian Macintosh, Chairman, UK Accounting Standards Board; and Dr. Jesse Hughes, Professor Emeritus of Accounting, Old Dominion University. Patricia Rogers, Operations Policy and Country Services, provided editorial support.



# CONTENTS

Abbreviations and Acronyms.....	iii
Acknowledgements.....	v
I. Introduction.....	1
II. Summary of Key Findings.....	1
III. Background.....	5
IV. Public Sector Accounting.....	7
A. Public Sector Accounting Standards.....	7
B. Government Financial Statements.....	8
C. Code of Ethics.....	10
D. International Education Standards.....	11
V. Public Sector Auditing.....	13
A. Auditor's Independence.....	14
B. Publication of Audit Reports.....	15
C. Public Sector Auditing Standards.....	16
D. Code of Ethics.....	16
E. Qualifications and Skills of Auditors.....	17
F. Audit Methods and Technologies.....	18
G. Quality Assurance.....	18
H. Action on Audit Recommendations.....	19
VI. The Way Forward.....	21
A. Accounting.....	21
B. Auditing.....	22
Annex 1: International Public Sector Accounting Standards.....	25
Annex 2: International Education Standards.....	27
Annex 3: International Standards of Supreme Audit Institutions.....	28





# 1

## INTRODUCTION

1. This report aims to support regional collaboration and renewed collective efforts to strengthen financial management and oversight practices in South Asia. It compares the public sector accounting and auditing practices in eight South Asian countries to international standards. It is intended to inform public sector accounting and auditing authorities—primarily Ministries of Finance, Accountants General, and Auditors General—and support their efforts to provide senior policy makers and the general public in their countries with credible, relevant, and useful financial information about the collection, management, and use of public resources.
2. This report is based on detailed “gap analysis” assessments that were prepared in recent years in Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka,<sup>1</sup> providing comparisons of public sector accounting and auditing practices in those countries to international standards. This report is a synthesis of the gap analysis reports.

---

<sup>1</sup> To find the detailed gap analysis assessments for all countries except India, go to the World Bank external website ([www.worldbank.org](http://www.worldbank.org)) and search the Publications page for “public sector accounting and auditing : a comparison to international standards” together with the name of the country. India’s analysis of public sector accounting can be found on the website of the Government Accounting Standards Advisory Board at [www.gasab.gov.in](http://www.gasab.gov.in).





# 2

## SUMMARY OF KEY FINDINGS

3. **Accounting.** At the beginning of the period of the detailed country assessments, only one country reported using the format of the cash-basis International Public Sector Accounting Standards (IPSAS)—the set of international standards that applies to public sector entities that follow a cash basis of accounting—to a substantial degree. By February 2010 several others had moved to this stage. However, no country in South Asia is in full compliance with the cash-basis IPSAS. More specifically, no government in South Asia prepares consolidated financial statements showing cash receipts and payments for all public monies controlled by the government. Instead, only the accounts of central government ministries, departments, and agencies are presented. While this information is critical to ensure that amounts have been raised and spent in accordance with the budgets passed by parliaments, such a presentation excludes the public resources that are controlled by governments through public undertakings or state-owned enterprises, which in South Asia are quite large relative to the amounts channelled through core government departments. Most governments in South Asia are concerned about moving to accrual-basis IPSAS, which indeed would provide more meaningful and relevant financial reports. However, that is a longer-term initiative. The “economic entity” issue is one that could be addressed immediately, and that could result in significantly more comprehensive and meaningful financial reports by South Asian governments. In addition, although some countries are moving towards greater professionalization of their accounting staff through qualifications that comply with International Education Standards for professional accountants, in general much remains to be done to upgrade the capacity of public sector accountants in South Asia.

4. **Auditing.** Every country in South Asia has an audit office or supreme audit institution (SAI) that is a member of INTOSAI, the International Association of Supreme Audit Institutions, and all SAIs in South Asia have adopted the INTOSAI auditing standards. None of the SAIs in South Asia, however, has the degree of independence that INTOSAI prescribes. In particular, none of the SAIs in the region is independent of the government that it is required to audit, in respect of personnel policies and funding arrangements. In many countries, the legislation supporting the independence of the audit office and providing it with the mandate and powers of a modern SAI is dated; and in some countries the SAI is still responsible for some accounting functions. These are fundamental, structural issues that need to be addressed. In addition, most SAIs in South Asia are unable to fully meet international auditing standards in practice, because many staff do not have the tools or the skills to efficiently carry out effective audits. Some SAIs are still carrying out detailed compliance tests of transactions, although there has been a move toward performance audits and higher-level risk-based assessments of important financial management systems and financial statements. SAIs still generally lack skills in forensic audit, however, and tend to be behind their government accounting counterparts in the use of technology. There appears to be significant scope for enhancing quality and efficiency in audit by using computerized audit working papers and computerized audit techniques.





# 3

## BACKGROUND

5. The Financial Management unit of the World Bank's South Asia Region has developed a framework for assessing public sector accounting and auditing practices that is based on IPSAS<sup>2</sup> and the International Standards of Supreme Audit Institutions (ISSAI).<sup>3</sup> The framework examines performance against each of the relevant standards and assesses the value-added that could be gained by adopting the specific concepts and practices embodied in each standard. The results of the assessments in each country in South Asia were reported during 2007 and 2008.<sup>4</sup>

6. **Country Assessments.** The purpose of the country assessments was to help inform initiatives for more effective public financial management (PFM) through better-quality accounting and external audit processes, and to provide greater stimulus for more cost-effective outcomes of government spending. More specific objectives were to (a) provide the country's accounting and audit authorities and other interested stakeholders with a common, firmly based knowledge of how local practices compare with international standards of financial reporting and auditing; (b) assess the variances from those standards; (c) chart paths for moving closer to international standards; and (d) provide a continuing basis for measuring improvements. These specific objectives were achieved for individual countries through preparation of country reports during 2007. Country workshops considered the assessment results and prepared action programs for inclusion in the final reports, which were posted on the Bank website ([www.worldbank.org](http://www.worldbank.org)). For the preparation of this regional synthesis report, between December 2009 and March 2010 the Financial Management unit conducted a summary update in the individual countries to assess progress and base regional lessons on up-to-date information.

---

<sup>2</sup> IPSAS, formulated by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC), set out recognition, measurement, presentation, and disclosure requirements dealing with transactions and events in general purpose financial statements. The IPSAS are designed to apply to the general purpose financial statements of all public sector entities. Public sector entities include national governments, regional governments, local governments and their component entities (for example, departments, agencies, boards, commissions). The IPSAS do not apply to government business enterprises, which apply International Financial Reporting Standards.

<sup>3</sup> The International Standards of Supreme Audit Institutions is a framework of professional standards prescribed by INTOSAI and relevant to the needs of its members. The framework comprises all documents endorsed by INTOSAI's governing body, and is intended to guide the professional standards used by SAIs around the world.

<sup>4</sup> Financial Management Unit, South Asia Region, World Bank. 2007. *Public Sector Accounting and Auditing: A Comparison to International Standards Country Report separate reports for Afghanistan (October 2007); Bangladesh (March 2007); Bhutan (May 2007); Maldives (June 2007); Nepal (May 2007); Pakistan (May 2007); and Sri Lanka (March 2007); and Government Accounting Standards Advisory Board, 2008. A Study on Gap Analysis of Indian Government Accounting with International Standards. New Delhi: Office of the Comptroller and Auditor General of India.*



7. **Accounting and Audit: Relationship to PFM.** Various assessments of PFM have identified accounting and auditing reform as an important component of PFM performance. For example, a 2009 review of the application of the Public Expenditure and Financial Accountability (PEFA) measurement framework in 56 developing countries, including some South Asia countries, reported the seventh-worst performance on the financial statement reporting indicator and the third-worst performance on the external audit indicator, of the 28 indicators comprising the framework.<sup>5</sup> More generally, the study found deteriorating PFM performance as countries moved further down the various phases of the budget cycle—from budget formulation to budget execution to financial reporting and finally to external scrutiny. The paper considered some issues that may have contributed to the relative differences in performance—that PFM reform programs have focused more on “upstream” budget formulation; that reforms in budget execution, often linked to the implementation of integrated financial management systems, take longer to implement and are often fraught with failures; or that downstream systems are likely to encounter stronger political and bureaucratic resistance. This calls into question the ultimate usefulness of having well-formulated and comprehensive budgets, when they are executed with inadequate controls, insufficient reporting, and limited scrutiny by parliaments and audit institutions. PFM systems, like any other system, can be only as strong as the weakest link. Given the interconnected nature of the PFM system, it is crucially important to address any gaps in applying the international accounting and auditing standards.

---

<sup>5</sup> De Renzio, P. 2009. *Taking Stock: What do PEFA Assessments tell us about PFM systems across countries?* Working Paper 302, London: Overseas Development Institute. The Public Expenditure and Financial Accountability (PEFA) initiative is a partnership of the World Bank, the European Commission, the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary Fund.

# 4

## PUBLIC SECTOR ACCOUNTING

8. High-quality financial reporting in the public sector is the basis for accountability and transparency in PFM.<sup>6</sup> The institutional framework for public sector accounting should include adherence to international accounting standards and use of qualified accounting staff to provide the timely, relevant, and reliable financial information that is needed to support fiscal and budget management, decision-making, and reporting processes. If financial statements are to be useful and contribute to transparency, they must be understandable to the reader and must deal with transactions, assets, and liabilities in a transparent and consistent manner. This is the purpose of financial reporting standards. Some countries have their own public sector financial reporting standards, set by government or by another authorized body. To be generally acceptable, such national standards should be aligned with the IPSAS (see Annex 1).

9. **Major Findings.** The following major findings emerged from the individual country assessments of public sector accounting practices in South Asia:

- All the South Asia countries are moving towards adopting the cash-basis IPSAS for government accounting and reporting within the next few years. At present, however, no country in South Asia is fully compliant with the cash-basis IPSAS, particularly in relation to consolidate financial reporting which is an area requiring further consideration and study for practical application.
- All the South Asia countries have expressed a desire to move in the direction of accrual accounting in the long term, and some countries are already moving toward the accrual based IPSAS.
- Most of the South Asian countries have a code of conduct for public servants, but none specifically relate to public sector accountants or reflects the IFAC Code aspects of professional competence and adherence to technical standards.
- All the South Asia countries are interested in using the International Federation of Accountants (IFAC) International Educational Standards as criteria for public sector accountants and most are moving towards enhancing their training for public sector accounting personnel.

### A. Public Sector Accounting Standards

10. The International Public Sector Accounting Standards Board (IPSASB) cooperates with national standard-setters in preparing and issuing standards with a view to sharing resources, minimizing duplication of effort, and reaching consensus on and convergence in standards at an early stage in their development. It also promotes the endorsement of IPSAS by national standard-setters.

<sup>6</sup> PFM includes all phases of the budget cycle: the preparation of the budget, expenditure and revenue management, internal control and audit, procurement, monitoring and reporting, and external audit.



11. In setting international standards, the IPSASB starts from the relevant International Accounting Standards or International Financial Reporting Standards, adapting them for use in the public sector and then addressing topics of specific relevance for the public sector.<sup>7</sup> The IPSAS establish an authoritative set of independent international financial reporting standards for governments and others in public sector organisations. Accounts under IPSAS are much less voluminous than those under previous accounting systems: they dispense with presenting nonessential details, and contain the balance sheet, profit and loss account, cash flow account, proof of capital resources, and key risk information for cash flow and contingent liabilities. Using IPSAS gives government financial reporting greater significance through comparability with internationally recognized regulations, simplifies assessment of the efficiency of public institutions, raises the quality of financial management, and simplifies communication with the general public by giving a true and fair view of the assets, finances, revenues and expenditures of government. Also, it improves the efficient control and monitoring of public administration by improving the quality of financial information. Application of IPSAS will support developments in public sector reporting directed at improved decision making, financial management and accountability and will be an integral element of reforms directed at promoting social and economic development.

12. Government accounting and reporting requirements are usually prescribed by law or regulations, which may specify the use of international reporting standards; alternatively, there may be an approved body for setting standards.

13. **South Asia Practice.** In one South Asian country the finance law specifies international accounting standards for public sector accounting and reporting, but in most of the other countries the Auditor General or the Controller General of Accounts (CGA) is authorized to set the accounting standards for the general government sector.

**Accounting Recommendation 1.** *It would be desirable for all governments in South Asia to adopt IPSAS for government accounting, and for prevailing finance laws and regulations to specify the adoption of IPSAS as part of the framework for public sector accounting and financial reporting.*

## B. Government Financial Statements

14. The IPSAS are financial reporting standards for application by governments. They deal with financial reporting under both the accrual basis and the cash basis of accounting.<sup>8</sup> The accounts of state-owned enterprises generally follow International Financial Reporting Standards. As noted below, however, national financial statements of governments in South Asia generally do not include these accounts, or the accounts of public enterprises and statutory boards. The IPSASB encourages governments and public sector entities to progress to the accrual basis of accounting and to harmonize national requirements with IPSAS. However, most governments use the cash basis (or a near-cash or modified-cash basis) of accounting. The cash-basis IPSAS comprises two parts:<sup>9</sup>

<sup>7</sup> Bergmann, A. 2009. *Public Sector Financial Management*. FT Prentice Hall

<sup>8</sup> *Accrual accounting provides information on the full costs of operations, the full range of assets and liabilities, and comprehensive financial information about government; however, implementation is largely dependent on implementing an accrual accounting system.*

<sup>9</sup> *At the time of this report, the IPSASB was reviewing the cash-basis IPSAS to identify major technical issues in implementing it and determine whether the IPSAS should be modified or supported with additional guidance on its application, and whether additional reporting requirements should be added to the IPSAS. The task force undertaking this review intends to submit its report for IPSASB consideration during 2010. It appears likely that while some technical difficulties in implementing the cash-basis IPSAS may be*

- Part 1 establishes requirements for the disclosure of information in financial statements and supporting notes, and deals with a number of specific reporting issues. Governments and other public sector entities that prepare and present their financial statements in accordance with the cash-basis IPSAS must comply with Part 1 requirements, although the IPSAS include transitional provisions that provide relief from some of the requirements for an initial period.
- Part 2 supports jurisdictions that are enhancing the transparency of their financial reports by identifying additional disclosures to supplement the information presented in their cash-basis financial statements. To allow enhancements in financial reporting to develop in response to the particular circumstances and capacities of each jurisdiction, the additional disclosures are encouraged rather than required.

15. **South Asia Practice.** At the beginning of the period of the country assessments, only one country reported using the cash-basis IPSAS to a substantial degree for government financial reporting, and as of February 2010 several others had moved to this stage. However, some elements of the IPSAS cash-basis requirements, especially in consolidation of the financial transactions of controlled entities are not being following.

16. *Statement of Cash Receipts and Payments:* The cash-basis IPSAS requires the preparation of a statement of cash receipts and payments within three to six months after the end of the fiscal year. At the beginning of the period of the assessment only one South Asian country reported the statement of cash receipts and payments in the format of the cash-basis IPSAS with the statement of Cash receipts and Payment in IPSAS format; but as of February 2010 several countries had reached this stage.

17. *Accounting Policies and Explanatory Notes:* The cash-basis IPSAS requires various note disclosures, including information about the basis of preparation of the financial statement and the specific accounting policies. At the beginning of the period of the assessment only one South Asian country reported accounting policies and explanatory notes as required by the cash-basis IPSAS; but as of February 2010 several countries had reached this stage.

18. *Comparison of Budget and Actual Amounts:* The cash-basis IPSAS requires that entities that make their approved budget(s) publicly available include in their financial statements a comparison of budget amounts and the actual amounts spent, along with an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this standard helps ensure that public sector entities meet their accountability obligations. It also enhances the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results. Thus the starting point for financial reporting should be for each ministry, department, and agency to produce timely and understandable financial statements showing the extent to which the government's budget, agreed by parliament, was actually implemented as planned. This report, together with the Auditor General's report, allows citizens to hold their government to account. Most South Asian countries have been preparing budget realization statements—that is, a budget out-turn report for each ministry,

---

*acknowledged, the requirements of the IPSAS themselves will be confirmed as necessary for providing meaningful financial reports under a cash basis of accounting; indeed, some of the Part 2 optional disclosures may become mandatory.*



department, or agency that is funded from the government's budget<sup>10</sup>—in compliance with the cash-basis IPSAS.

19. *Consolidated Financial Statements*: The cash-basis IPSAS requires that a government prepare consolidated financial statements that encompass core government ministries, departments and agencies as well as the entities it “controls”—that is, entities whose financial and operating policies the government can govern or direct for achievement of government objectives. The statement of cash receipts and payments prepared by a government should therefore consolidate the cash receipts, cash payments, and cash balances of all the entities it controls. At the beginning of the period of the assessment, no South Asian country issued a consolidated financial statement which consolidates all controlled entities as required by the cash-basis IPSAS, and as of February 20 no such consolidated financial statements are envisaged. Instead, the accounts of central government ministries, departments and agencies are presented—this information is critical to ensure that public monies have been raised and spent in accordance with the budgets passed by parliaments. However, this presentation excludes the public resources that are controlled through public undertakings or state-owned enterprises, which are quite large in most South Asian countries relative to the amounts controlled through central government. Further, because of the nature of the chart of accounts coding structure in most South Asian governments, it is extremely difficult to compile financial information at the national level in any format other than on the basis of budget, or to compile consolidated financial data for a financial reporting entity that includes controlled entities (for example, government companies, corporations, state operating entities, commercial entities, autonomous bodies and boards) that might be considered part of a single government economic entity (financial reporting entity).

**Accounting Recommendation 2.** *It would be desirable for Governments in South Asia to consider and study the relevance and applicability of IPSAS 6 on “Consolidated Financial Statements and Accounting for Controlled Entities” in defining the reporting entity as part of reforms to develop more comprehensive government financial reporting.*

## C. Code of Ethics

20. The IFAC-issued Code of Ethics for Professional Accountants notes that a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. The Code contains fundamental principles of integrity, objectivity, competence, confidentiality, and behaviour for accountants that provide a useful basis for a public sector code. Within the public sector, accountants can be placed in positions where political, bureaucratic, or familial parties may exercise undue influence over decisions that they are required to make—for example, in approving expenditure decisions—and officers need to be protected against such undue influence. A formal Code of Ethics provides protective cover and an environment in which responsible authorities may address threats to professional conduct and support arrangements to ensure that the code is applied and breaches acted upon. The IFAC Code of Ethics identifies typical threats that may arise and the appropriate safeguards.

21. **South Asia Practice.** Most of the South Asian countries have a code of conduct for public servants, but none specifically relate to public sector accountants or reflects the IFAC Code aspects of professional

<sup>10</sup> Parry, M. And Wynne, A. 2009. “The Cash Basis IPSAS: An Alternative View,” *International Journal of Government Financial Management* Vol2

competence and adherence to technical standards. In some countries, because the accounting staff are under the management of the Auditor General, the INTOSAI code of ethics is applied.

**Accounting Recommendation 3.** *It would be desirable for Governments in South Asia to adopt the Code of Ethics for Professional Accountants and to require public sector accounting staff to adhere to the Code.*

## D. International Education Standards

22. IFAC's International Accounting Education Standards Board has developed a framework for International Education Standards for Professional Accountants (IES)—see Annex 2—which establishes the essential elements of education that professional accountants need. These standards are based on the educational concepts to support competence—that is, the ability to perform a work role to a defined standard with reference to working environments. To demonstrate competence in a role, a professional accountant must have the necessary professional knowledge, professional skills, and professional values, ethics, and attitudes. Competence can be achieved through a number of different forms of learning and development, all of which are addressed by the IES. Governments may apply these standards or their own standards—often set by a statutory board or by the Ministry of Finance—for public sector accountants. It is important to have a formal arrangement to facilitate and oversee the adoption of international standards.

23. **South Asia Practice.** Some countries in South Asia were moving toward greater professionalization of their accounting staff through IES-compliant qualifications. Most of the South Asian countries had training programs that were to some extent in accord with the IES, but none had formally adopted the IES as a benchmark. The qualifications specified in recruitment and advancement criteria for public sector accountants varied greatly. In most cases substantial numbers of staff recruited did not have adequate accountancy qualifications and in these cases internal government training was provided by Public Service Training Institutes.

**Accounting Recommendation 4.** *It would be desirable for Governments in South Asia to consider formally adopting the IES as a benchmark for training for public sector accountants, to integrate the IES into recruitment and advancement criteria for accounting personnel, and to use the IES as a basis for defining the training and accreditation courses to be supplied to public sector accountants.*





# 5

## PUBLIC SECTOR AUDITING

24. Effective scrutiny by the legislature to ensure accountability for effective implementation of fiscal and expenditure policies needs comprehensive and competent external audits that are underpinned by international standards on auditing. The environment for an effective SAI requires a comprehensive approach to PFM. SAIs are not stand-alone institutions; they are part of a PFM architecture that includes budgeting, accounting, internal control,<sup>11</sup> external audit and legislative oversight, and government response. Improving the way the SAI functions is integral to improving the overall PFM system. A strong demand for good public sector external auditing is necessary for the SAI to be effective. This means that the executive branch and the legislature must accept and respond to external scrutiny of the management of funds and ensure that reform action is taken; it also requires public presentation of the audit reports to ensure public support for effective action. All of these requirements are covered by the International Standards of Supreme Audit Institutions (ISSAI) (see Annex 3). The ISSAI include Practice Notes that explain how to apply each standard in a financial audit in the public sector.

25. **Major Findings.** The following major findings emerged from the individual country assessments of public sector auditing practices in South Asia:

- The SAIs have already adopted the INTOSAI Auditing Standards and plan to modify their audit methodology to be consistent with the ISSAI. However:
  - SAIs do not yet have laws that enable them to fully meet the independence standards set by the INTOSAI standards; and
  - In most countries, public reporting of audits needs to be much more timely and comprehensive.
- Most SAIs have adopted the INTOSAI Code of Ethics,
- The SAIs in South Asia are moving towards implementing professional training and qualifications for auditors in accord with international standards.
- Most SAIs have scope to enhance the scope of audit methodologies for more comprehensive public sector auditing and to enhance the quality of implementation of methodologies.
- In most countries, there is generally substantial difficulty in obtaining adequate implementation of audit recommendations, and the systems of response by departmental audit committees and of enquiry by the parliamentary oversight committees generally require strengthening.

---

<sup>11</sup> Internal control includes systems of internal audit. The professional practice of internal auditing is beyond the scope of this series of studies, which is focused on external auditing practices.



26. **Institutional Strengthening.** Institutional strengthening programs prepared by South Asia governments (and often supported by development partners) have:

- Used available model laws to help propose suitable national audit laws.
- Provided substantial capacity building through accounting and audit system improvement programs.
- Proposed more rigorous staff appointment, training, and advancement arrangements, expressing an appreciation and desire for adherence to IES for auditors.
- Provided manuals and training for broader audit themes.
- Initiated support to Public Accounts Committees (PACs) in examining audit reports.

Programs for change and improvement need professionally qualified staff and good quality expertise to meet the increasing demands for certification of annual government financial statements at national, departmental, and provincial levels.

### A. Auditor's Independence

27. The INTOSAI Lima Declaration on Audit Precepts identifies the specific objectives of auditing as the proper and effective use of public funds; the development of sound financial management; the proper execution of administrative activities; and the communication of information to public authorities and the general public through the publication of objective reports. Public authorities and the general public believe in those objective reports primarily because they perceive that the SAI is independent of the accounts that the SAI is required to audit and report on. This perception is very important. To be credible, it is not enough for an auditor to be independent in fact; auditors must also be independent in appearance. IFAC explains the concept in this way:

Independence in appearance—the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.<sup>12</sup>

28. *Principles of SAI Independence:* ISSAI 10, “Mexico Declaration on Independence,” refers to the following principles of SAI independence:

- The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto provisions for applying this framework.
- The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties.
- A sufficiently broad mandate and full discretion in the discharge of SAI functions.
- Unrestricted access to information.
- The right and obligation to report on the SAI's work.

<sup>12</sup> IFAC (International Federation of Accountants). 2010. *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, 2010 Edition, New York: IFAC, p. 21.

- The freedom to decide the content and timing of audit reports and to publish and disseminate them.
- The existence of effective follow-up mechanisms on SAI recommendations.
- Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

29. In addition, the INTOSAI Lima Declaration on Audit Precepts states that the establishment of SAIs shall be laid down in the Constitution and details set out in legislation. ISSAI 20, “Principles of Transparency and Accountability,” has as Principle I that SAIs perform their duties under a legal framework that provides for accountability and transparency. Important questions of mandate are:

- Does the constitution provide for the SAI?
- Is there an audit law?
- Does the SAI have authority to conduct a full range of audits— including regularity, financial, and performance audits—for all government-owned or -controlled entities?
- Does the legislation set out civil or criminal liability in the event of noncompliance with the auditing requirements?
- Does the legislation set out administrative sanction mechanisms for enforcing auditing requirements?

The UNDP has developed generic model audit laws<sup>13</sup> that incorporate all of the above considerations.

30. **South Asia Practice.** No South Asian country meets all of the INTOSAI independence requirements. In some countries the Auditor General is responsible for some elements of the accounting functions as well as the audit functions. This may mean responsibility for the accounting and audit personnel, for prescribing the format of the accounts or compiling the final accounts, or for carrying out the accounting work. The mixture of accounting and auditing responsibilities is a basic conflict of interest and can result in delays, duplications of effort, reconciliation problems, and poor accounting service to managers; it can also reduce the effectiveness of both functions because it restricts the opportunities to specialize. All South Asia countries have resolved to separate the accounting and auditing functions, but constraints such as institutional arrangements, staffing arrangements and capacity issues need to be resolved.

**Audit Recommendation 1.** *It would be desirable for Governments in South Asia to consider upgrading their audit legislation to ensure the independence of the SAI in line with the INTOSAI Auditing Standards, particularly in respect of personnel policies, funding arrangements, reporting processes, and offense clauses.*

## B. Publication of Audit Reports

31. Whether and when the Auditor General’s reports are made public affects whether the audits are effective in dealing with instances of noncompliance with laws and regulations. If audit reports are not published, there is little opportunity for the public to become aware of audit issues, and little incentive for the Executive to respond effectively.

<sup>13</sup> UNDP Programme for Accountability and Transparency. Undated. *Generic Audit Models. See especially Generic Model I—Hierarchic.* New York: UNDP.

32. **South Asia Practice.** Most countries do not have adequate audit laws clarifying the need for timely publishing of audit reports. Publication of audit reports is sometimes left to the Public Accounts Committee (PAC). Publication is sometimes delayed for many months. Some countries use the SAI's websites to publish their audit reports. Performance in this area has been improving, and legislative reform has enhanced the SAI's ability to report promptly. Some South Asian countries have recently improved the public availability of their audit reports, while others have had well-written laws (which address this issue) waiting to be presented to their legislatures for some time.

**Audit Recommendation 2.** *It would be desirable for audit report dissemination arrangements to be clearly laid out in legislation and for SAIs to continue strengthen their capacity for timely publishing of audit reports.*

### C. Public Sector Auditing Standards

33. INTOSAI includes the national audit institutions of almost all countries from around the world. Its Auditing Standards Committee produces the INTOSAI Code of Ethics and Auditing Standards which, together with the Lima Declaration on Auditing Precepts and with the Auditing Guidelines, are known as the International Standards of Supreme Audit Institutions (ISSAI) Framework that is applicable for all SAIs. IFAC also has established the International Auditing and Assurance Standards Board (IAASB) to prepare and promulgate International Standards on Auditing (ISA) for private sector auditors, and it works with INTOSAI on preparing public sector guidance on the use of ISA. The INTOSAI Auditing Standards are at a higher and more generic level than the IFAC-issued ISA. SAIs are encouraged to adopt the ISSAI and ISA.

34. Auditing standards are often set by a statutory board or by the Auditor General. It is important to have a formal arrangement to facilitate and oversee the adoption of international standards. The issue is whether the government has adopted the ISSAI or an equivalent set of national standards for the audit of the public sector. The analysis of audit standards gaps in the Region shows that most countries do not have audit standard-setting processes in place for the public sector.

35. **South Asia Practice.** Most South Asian countries had adopted the INTOSAI Auditing Standards at the beginning of the study. Two countries have adopted both the INTOSIA and IFAC audit standards for public sector auditing. However, during 2008-2010, INTOSAI extended its framework of standards, and SAIs need to similarly extend their adoption of INTOSAI standards. To do this effectively, SAIs need to incorporate into audit manuals and working paper systems the processes contained in the ISSAIs. The INTOSAI and ASOSAI conferencing resources are available to assist with the implementation of the proposals of the Working Groups on Financial Audit Guidelines and on Compliance Audit Guidelines.

**Audit Recommendation 3.** *It would be desirable for SAIs in South Asia to adopt the International Standards of Supreme Audit Institutions (ISSAIs) and to establish arrangements to review and adopt the ISSAI on a continuous basis.*

### D. Code of Ethics

36. The INTOSAI Code of Ethics—covering integrity, independence and objectivity, confidentiality, and competence—is intended to constitute a foundation for national codes of ethics for public sector auditors. It can be adopted directly or adapted, but it must be adapted in a manner that is consistent with the

INTOSAI Code. Given the independence, powers, and responsibilities of the public sector auditor, there are high ethical demands on SAIs and the staff they employ or engage for audit work. A code of ethics is a comprehensive statement of the values and principles that should guide the daily work of auditors. A code of ethics for auditors in the public sector should consider the ethical requirements of civil servants in general and the particular requirements of auditors, including their professional obligations. Each SAI has the responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the national code of ethics and act accordingly; and each SAI should be able to demonstrate that its auditors comply with its code and that action is taken against any breaches.

37. **South Asia Practice.** Most South Asian countries have adopted the INTOSAI Code of Ethics, but some use other codes which are not specifically tailored to professional auditors.

**Audit Recommendation 4.** *It would be desirable for all SAIs in South Asia to adopt the INTOSAI Code of Ethics.*

## E. Qualifications and Skills of Auditors

38. Improved compliance with international standards requires properly trained accounting and auditing staff. Qualified accountants are needed to sign audit opinions and auditors must have adequate professional expertise and technical knowledge to carry out audits. It would be desirable for auditors of SAIs to be members of their national professional accountancy and/or auditing bodies so as to help ensure continuing professional development. The framework for International Education Standards for Professional Accountants (IES) issued by IFAC's International Accounting Education Standards Board (see Annex 2) establishes the essential elements of education that professional accountants need. Education and training syllabus should cover all areas recommended by the IES. There should be adequate professional criteria for recruitment and promotion of auditors (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.4).

39. **South Asia Practice.** No South Asian countries has education and training of auditors which accords with the INTOSAI standards and the IES developed by IFAC's Education Committee. Most auditors need more professional training to effectively carry out their audit roles. Most SAIs' recruitment criteria for financial auditors do not give sufficient attention to accounting qualifications, resulting in increased pressure on government training institutions to provide specialist knowledge and on SAIs to provide extensive on-the-job training. Changing the skills levels required at entry increases expertise, particularly at the base auditor level. In most South Asian SAIs few of their accounting and auditing staff are members of the national Institute of Chartered Accountants or equivalent body. SAI in South Asia are moving towards implementing professional training and qualifications for auditors in accord with international standards.

**Audit Recommendation 5.** *It would be desirable for SAIs to support the development of public sector accounting and training courses and opportunities; to consider formally adopting the IES as a benchmark for training public sector accountants and to use the IES as a basis for defining the training and accreditation courses to be supplied to public sector accountants; to consider introducing the requirement for accounting qualifications in recruitment of financial auditors, and to encourage staff to acquire membership of a professional accountancy and/or auditing body for auditors.*



## F. Audit Methods and Technologies

40. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytic review methods, statistical sampling, and audit of automated information systems. Important issues are the audit manual and IT support for audit work.

41. **South Asia Practice.** No South Asian SAIs considers that they are adequately served by the available resources. Audit methods are largely attuned to budget compliance checks; audits focus on examining transactions for discrepancies and regulatory breaches, but not in a sufficiently systematic way. Auditors have been oriented to identify deficient transactions rather than verify the systems of control. The testing needs to be more systems- and risk-based, and test checks need to be statistically reliable. Although practices vary among SAIs, in general audit planning is not sufficiently tailored to the audit client; working paper systems are insufficient to support proper supervision; forensic audit training is needed to categorize breaches as either a mistaken violation or a deliberate and intentional act to take undue benefit; major changes to audit methods are needed to support certification audit; and more technology is needed for the audit process, especially automated working paper system software. There appears to be significant scope for enhancing audit quality and efficiency through the use of computerized audit working papers and computerized audit techniques.

**Audit Recommendation 6.** *It would be desirable for SAIs in South Asia to continue to upgrade their audit methodologies, particularly in the use of forensic audit and computer audit techniques, and in planning, documentation and reporting practice to meet the INTOSAI Auditing Standards.*

## G. Quality Assurance

42. SAIs should have quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to audit personnel in a manner that provides reasonable assurance that policies and procedures are understood and implemented. Quality control procedures should cover direction and delegation, supervision, review practices. ISSAI 40, "Audit Quality Control," provides guidance on the following important areas:

- Quality control policies and procedures are in place.
- Appropriate principles of natural justice<sup>14</sup> are followed in respect of finalizing report findings.
- Key aspects of the SAI's system of quality control and of individual engagements are monitored, using personnel not involved in these engagements.
- Results of quality control reviews are reported to the head of the SAI.
- Another SAI conducts an independent review of the quality control system.

43. **South Asia Practice.** Most SAIs in South Asia need to improve their systems to meet the ISSAI audit quality control standards. Improved guidance and computerization and improved supervision and independent quality review processes are common areas identified for improvement in most SAIs. Where quality assurance program exist, enhanced implementation is generally required.

<sup>14</sup> This involves applying the principle of contradiction, which involves checking facts with the audited entity and incorporating responses from responsible officials as appropriate.

**Audit Recommendation 7.** *It would be desirable for SAIs in South Asia to review its quality assurance systems and practices and implement enhancements to move to full compliance with international standards. SAIs may consider the use of peer review by another SAI to conduct an independent review of their quality control systems*

## H. Action on Audit Recommendations

44. The Lima Declaration (ISSAI 1) covers enforcement of SAI findings: the audited organizations are to comment on the SAI's findings within a period of time established generally by law, or specifically by the SAI, and to indicate the measures taken in response to the audit findings. If the SAI's findings are not delivered as legally valid and enforceable judgments, the SAI should have the power to approach the authority that is responsible for taking the necessary measures and require it to accept responsibility.

45. **South Asia Practice.** Most South Asian SAIs have backlogs of unresolved audit objections arising from compliance audits. This is partly due to a lack of serious and timely management attention to audit findings, coupled sometimes with ineffective legislative scrutiny of audit reports. However, at least some of the problem lies in the nature of the audit observations themselves; to some extent, improved audit methodologies and better report writing could reduce the backlogs. Reports could be improved in terms of communicating clear objectives, addressing more relevant problems, making more effective recommendations, and carrying out more extensive audit work to clarify issues and resolve differences during the audit processes. ISSAI standards on compliance audit (ISSAI 4100), audit evidence (ISSAI 1500, 1501), audit sampling (ISSAI 1530), and documentation (ISSAI 1230) provide guidance. Some South Asian PACs have accelerated their review of audit findings and departmental responses, but it is challenging to catch up—mostly because departmental audit committee processes have not been effective, and general reforms need to include the roles of internal audit and the audit committees in resolving external audit objections. There are no agreed standards for PACs to use yet, but regional consultations help in this regard.

**Audit Recommendation 8.** *It would be desirable for SAIs in South Asia to implement improved audit methodology and report writing, along with reform of the fundamental processes for scrutiny, to help reduce backlogs of unresolved audit objections and findings from audits.*





# 6

## THE WAY FORWARD

### A. Accounting

46. A 2009 review of literature on experience with PFM reform found an emphasis on the importance of timely, consistent, and comprehensive reports, and of the introduction of international public sector standards to improve consistency and comparability.<sup>15</sup> The academic debate on the advantages and disadvantages of accrual accounting (and budgeting) continues. OECD experience shows that the move from cash to accrual accounting needs careful planning, and should be part of wider public sector reforms. Most South Asian countries are proceeding slowly with accrual accounting reforms. A survey of INTOSAI countries conducted in June 2009 by the INTOSAI Subcommittee on Accounting and Reporting found that 46 percent of respondents were using IPSAS public sector accounting standards and that 58 percent of the countries using the cash-basis IPSAS intended to move to IPSAS accrual standards.<sup>16</sup>

47. **Recommendations.** This paper has identified a number of specific recommendations for improving South Asian countries' public sector accounting .

*Accounting Recommendation 1.* It would be desirable for all governments in South Asia to adopt IPSAS for government accounting, and for prevailing finance laws and regulations to specify the adoption of IPSAS as part of the framework for public sector accounting and financial reporting.

*Accounting Recommendation 2.* It would be desirable for Governments in South Asia to consider and study the relevance and applicability of IPSAS 6 on "Consolidated Financial Statements and Accounting for Controlled Entities" in defining the reporting entity as part of reforms to develop more comprehensive government financial reporting.

*Accounting Recommendation 3.* It would be desirable for Governments in South Asia to adopt the Code of Ethics for Professional Accountants and to require public sector accounting staff to adhere to the Code.

*Accounting Recommendation 4.* It would be desirable for Governments in South Asia to consider formally adopting the IES as a benchmark for training for public sector accountants, to integrate the IES into recruitment and advancement criteria for accounting personnel, and to use the IES as a basis for defining the training and accreditation courses to be supplied to public sector accountants..

<sup>15</sup> DFID (UK Department for International Development). 2009. *Review of Public Financial Management Reform Literature. Evaluation Report EV698.* London: DFID.

<sup>16</sup> Barr, S. 2009. *Survey on Financial Accounting and Reporting Standards, INTOSAI Subcommittee on Accounting and Reporting.* Brasilia: INTOSAI.



## B. Auditing

48. The 2009 review of literature on experience with PFM reform found that SAIs have a vital role in holding governments to account and ensuring transparency in government operations. Reviews suggest that key requirements for effective SAIs are (a) independence, (b) use of audit results to improve government, (c) requirements that audit staff have a minimum level of education, and (d) use of uniform audit standards. They further suggest that reforms have benefited from such peer learning practices as twinning arrangements, contact committees, and other regional affiliations.<sup>17</sup> INTOSAI has been prominent in supporting such opportunities for SAIs. Generally, audit reforms take a long time, although a number of quick wins have been identified: (a) reprioritizing resources, (b) improving publicity, (c) writing better recommendations, (d) making reports more user-friendly, (e) enhancing audit documentation; (f) developing an SAI “vision,” (g) improving communications with audited bodies, and (h) using pilot audits as learning experiences.<sup>18</sup> In September 2009 INTOSAI and the donor community agreed on a Memorandum of Understanding on cooperation on building SAIs’ capacity, especially in developing countries, to promote the effectiveness of SAIs’ work and strengthen their independence.

49. **Recommendations.** This paper has identified a number of specific recommendations for improving South Asian countries’ auditing systems and practice.

*Audit Recommendation 1.* It would be desirable for Governments in South Asia to consider upgrading their audit legislation to ensure the independence of the SAI in line with the INTOSAI Auditing Standards, particularly in respect of personnel policies, funding arrangements, reporting processes, and offense clauses.

*Audit Recommendation 2.* It would be desirable for audit report dissemination arrangements to be clearly laid out in legislation and for SAIs to continue strengthen their capacity timely publishing of audit reports.

*Audit Recommendation 3.* It would be desirable for SAIs in South Asia to adopt the International Standards of Supreme Audit Institutions (ISSAIs) and to establish arrangements to review and adopt the ISSAI on a continuous basis.

*Audit Recommendation 4.* It would be desirable for all SAIs in South Asia to adopt the INTOSAI Code of Ethics.

*Audit Recommendation 5.* It would be desirable for SAIs to support the development of public sector accounting and training courses and opportunities; to consider formally adopting the IES as a benchmark for training public sector accountants and to use the IES as a basis for defining the training and accreditation courses to be supplied to public sector accountants; to consider introducing the requirement for accounting qualifications in recruitment of financial auditors, and to encourage staff to acquire membership of a professional accountancy and/or auditing body for auditors.

*Audit Recommendation 6.* It would be desirable for SAIs in South Asia to continue to upgrade their audit methodologies, particularly in the use of forensic audit and computer audit techniques, and in planning, documentation and reporting practices to meet the INTOSAI Auditing Standards.

<sup>17</sup> Zacchea, N. 2001. *National Systems for Accountability, Transparency and Oversight of Economic Activities*.

<sup>18</sup> DFID (UK Department for International Development). 2005. *Working with Supreme Audit Institutions*. London: DFID.

*Audit Recommendation 7.* It would be desirable for SAIs in South Asia to review its quality assurance systems and practices and implement enhancements to move to full compliance with international standards. SAIs may consider the use of peer review by another SAI to conduct an independent review of their quality control systems

*Audit Recommendation 8.* It would be desirable for SAIs in South Asia to implement improved audit methodology and report writing, along with reform of the fundamental processes for scrutiny, to reduce help backlogs of unresolved audit objections arising from compliance audits.

50. **Priority Reforms.** In any country, the highest-priority reforms for enhanced public sector auditing are the following:

- (a) Provide an adequate audit law that meets the requirements of the INTOSAI independence standard ISSAI 10 and the UNDP PACT model law.
- (b) Ensure that the audit law and audit practices result in timely publication and promulgation of audit reports and that the SAI supports the PAC in its scrutiny processes.
- (c) Develop recruitment and training policies that result in a well-trained, qualified audit staff.
- (d) Adopt the ISSAI implementation guidelines on financial audit and compliance audit as the basis for the audit methodologies used by the SAI.





# ANNEXURES

## **Annex 1: International Public Sector Accounting Standards**

### **Preface to International Public Sector Accounting Standards**

IPSAS 1—Presentation of Financial Statements

IPSAS 2—Cash Flow Statements

IPSAS 3—Accounting Policies, Changes in Accounting Estimates and Errors

IPSAS 4—The Effects of Changes in Foreign Exchange Rates

IPSAS 5—Borrowing Costs

IPSAS 6—Consolidated and Separate Financial Statements

IPSAS 7—Investments in Associates

IPSAS 8—Interests in Joint Ventures

IPSAS 9—Revenue from Exchange Transactions

IPSAS 10—Financial Reporting in Hyperinflationary Economies

IPSAS 11—Construction Contracts

IPSAS 12—Inventories

IPSAS 13—Leases

IPSAS 14—Events After the Reporting Date

IPSAS 15—Financial Instruments: Disclosure and Presentation

IPSAS 16—Investment Property

IPSAS 17—Property, Plant and Equipment

IPSAS 18—Segment Reporting



IPSAS 19—Provisions, Contingent Liabilities and Contingent Assets

IPSAS 20—Related Party Disclosures

IPSAS 21—Impairment of Non-Cash Generating Assets

IPSAS 22— Disclosure of Information about the General Government Sector

IPSAS 23—Revenue from Non-Exchange Transactions (Taxes and Transfers)

IPSAS 24—Presentation of Budget Information in Financial Statements

IPSAS 25—Employee Benefits

IPSAS 26—Impairment of Cash-Generating Assets

IPSAS 27—Agriculture

IPSAS 28— Financial Instruments: Presentation

IPSAS 29— Financial Instruments: Recognition and Measurement

IPSAS 30—Financial Instruments: Disclosures

IPSAS 31—Intangible Assets

Cash Basis IPSAS—Financial Reporting Under the Cash Basis of Accounting

Guideline 2—Applicability of International Standards on Auditing to Audits of Financial Statements of Government Business Enterprises

IFAC Code of Ethics for Professional Accountants

## **Annex 2: International Education Standards**

IES 1 Entry requirements to a program of professional accounting education

IES 2 Content of professional accounting education programs

IES 3 Professional skills

IES 4 Professional values ethics and attitudes

IES 5 Practical experience requirements

IES 6 Assessment of professional capabilities and competence

IES 7 Continuing professional development

IES 8 Competence requirements for audit professionals



## Annex 3: International Standards of Supreme Audit Institutions

### Level 1: Founding Principles

ISSAI 1 The Lima Declaration

### Level 2: Codes for SAIs

- ISSAI 10 Mexico declaration on SAI independence
- ISSAI 11 Guidelines and good practices related to SAI independence
- ISSAI 20 Principles of Transparency and Accountability
- ISSAI 21 Principles of Transparency - Good Practices
- ISSAI 30 Code of Ethics
- ISSAI 40 Audit Quality Control

### Level 3: Fundamental Auditing Principles

- ISSAI 100 INTOSAI Auditing Standards - Basic Principles
- ISSAI 200 INTOSAI Auditing Standards - General Standards
- ISSAI 300 INTOSAI Auditing Standards - Field Standards
- ISSAI 400 INTOSAI Auditing Standards - Reporting Standards 2001

### Level 4: Auditing Guidelines - implementation guidelines

*ISSAI 1000-2999 implementation guidelines on financial audit:*

- ISSAI 1000 Implementation guidelines on Financial Audit - Introduction
- ISSAI 1001 Bridge between INTOSAI Auditing Standards and International Standards of Auditing
- ISSAI 1002 General Considerations when Applying International Standards of Auditing in Public Sector
- ISSAI 1003 Glossary to Financial Audit Guidelines
- ISSAI 1200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards of Auditing
- ISSAI 1210 Terms of an Engagement
- ISSAI 1220 Quality Control for Audits of Historical Financial Information
- ISSAI 1230 Audit Documentation
- ISSAI 1240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- ISSAI 1250 Consideration of Laws and Regulations in an Audit of Financial Statements
- ISSAI 1260 Communication with those Charged with Governance
- ISSAI 1265 Communicating Deficiencies in Internal Control to Those Charged with Governance
- ISSAI 1300 Planning an Audit of Financial Statements
- ISSAI 1315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment
- ISSAI 1320 Materiality in Planning and Performing an Audit
- ISSAI 1330 The Auditor's Responses to Assessed Risks

- ISSAI 1402 Audit Considerations Relating to Entities Using Service Organisations
- ISSAI 1450 Evaluation of Misstatements Identified during the Audit
- ISSAI 1500 Audit Evidence
- ISSAI 1501 Audit Evidence - Specific Considerations for Selected Items
- ISSAI 1505 External Confirmations
- ISSAI 1510 Initial Audit Engagements - Opening Balances
- ISSAI 1520 Analytical Procedures
- ISSAI 1530 Audit Sampling
- ISSAI 1540 Auditing Accounting Estimates, including Fair Value Accounting
- ISSAI 1550 Related Parties
- ISSAI 1560 Subsequent Events
- ISSAI 1570 Going Concern
- ISSAI 1580 Written Representations
- ISSAI 1600 Special Considerations - Audits of Group Financial Statements (incl. the Work of Component Auditors)
- ISSAI 1610 Using the Work of Internal Auditors
- ISSAI 1620 Using the Work of an Auditor's Expert
- ISSAI 1700 Forming an Opinion and Reporting on Financial Statements
- ISSAI 1705 Modifications to the Opinion in the Independent Auditor's Report
- ISSAI 1706 Emphasis of Matter Paragraphs and other Matter(s) Paragraphs in the Independent Auditor's Report
- ISSAI 1710 Comparative Information- Corresponding Figures and Comparative Financial Statements
- ISSAI 1720 The Auditor's Responsibilities relating to Other Information in Documents Containing Audited Financial Statements
- ISSAI 1800 Special Considerations—Audits of Special Purpose Financial Statements
- ISSAI 1805 Engagements to Report on Summary Financial Statements
- ISSAI 3000-3999 implementation guidelines on performance audit:*
- ISSAI 3000 Implementation guidelines for Performance Auditing
- ISSAI 4000-4999 implementation guidelines on compliance audit:*
- ISSAI 4000 General Introduction to Guidelines on Compliance Audit
- ISSAI 4100 Compliance Audit Guidelines for Audits Performed Separately from the Audit of Financial Statements
- ISSAI 4200 Compliance Audit Guidelines Related to Audit of Financial Statements
- ISSAI 5000-5099 guidelines on international institutions:*
- ISSAI 5000 Principles for best audit arrangements for international institutions
- ISSAI 5010 Audit of International Institutions - Guidance for Supreme Audit Institutions
- ISSAI 5100-5199 guidelines on environmental audit:*



ISSAI 5110 Guidance on Conducting Audits of Activities with an Environmental Perspective

ISSAI 5120 Environmental Audit and Regularity Auditing

ISSAI 5130 Sustainable Development: The Role of Supreme Audit Institutions

*ISSAI 5200-5299 guidelines on privatisation:*

ISSAI 5210 Guidelines on Best Practice for the Audit of Privatisations

ISSAI 5220 Guidelines on Best Practice for the Audit of Public/Private Finance and Concessions

ISSAI 5230 Guidelines on Best Practice for the Audit of Economic Regulation

ISSAI 5240 Guidelines on Best Practice for the Audit of Risk in Public/Private Partnerships

*ISSAI 5300-5399 guidelines on IT-audit:*

ISSAI 5310 Information System Security Review Methodology - A Guide for Reviewing Information System Security in Government Organisations

*ISSAI 5400-5499 guidelines on audit of public debt:*

ISSAI 5410 Guidance for Planning and Conducting an Audit of Internal controls of Public Debt

ISSAI 5420 Public Debt: Management and Fiscal Vulnerability: Potential Roles for SAIs

ISSAI 5421 Guidance on Definition and Disclosure of Public Debt

ISSAI 5422 An Exercise of Reference Terms to Carry Out Performance Audit of Public Debt

ISSAI 5430 Fiscal Exposures: Implications for Debt Management and the Role for SAIs

ISSAI 5440 Guidance for Conducting a Public Debt Audit - The Use of Substantive Tests in Financial Audits

*ISSAI 5500-5599 guidelines on audit of disaster-related aid:*

ISSAI 5500 Guidelines on audit of disaster-related aid

## **INTOSAI Guidance for Good Governance (INTOSAI GOV)**

*INTOSAI GOV 9100-9199 - internal control*

INTOSAI GOV 9100 Guidelines for Internal Control Standards for the Public Sector

INTOSAI GOV 9110 Guidance for Reporting on the Effectiveness of Internal Controls: SAI Experiences in Implementing and Evaluating Internal Controls

INTOSAI GOV 9120 Internal Control: Providing a Foundation for Accountability in Government

INTOSAI GOV 9130 Further information on Entity Risk Management

INTOSAI GOV 9140 Internal Auditor Independence in the Public Sector

INTOSAI GOV 9150 Co-operation and Co-ordination between Internal Auditors and SAIs in the Public Sector

*INTOSAI GOV 9200-9299 - accounting standards:*

INTOSAI GOV 9200 Accounting Standards Framework

INTOSAI GOV 9210 Accounting Standards Framework Implementation Guide: Departmental and Government-wide Reporting

INTOSAI GOV 9220 Accounting Standards Framework Implementation Guide for SAIs: Management Discussion and Analysis of Financial, Performance and Other Information





**The World Bank**