

Annex - B

ACCOUNTING AND AUDITING STANDARDS

This section contains a summary of the frameworks that have been used for the public sector accounting and auditing assessment.

These have been compiled by the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC) and the International Organization of Supreme Audit Institutions (INTOSAI), which are cooperating in setting international standards for accounting and auditing.

The IASB is an independent, privately funded accounting standard-setter based in London, UK. The Board members come from nine countries and have a variety of functional backgrounds. In the public interest, IASB is committed to developing a set of high quality, understandable, and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world. The IASB issued International Accounting Standards (IAS) from 1973 to 2000. Since 2000, they have issued International Financial Reporting Standards (IFRS).

IFAC has its headquarters in New York, USA and is comprised of 163 member bodies, mainly the national professional accountancy bodies of most countries around the world. The IFAC Board established the International Public Sector Accounting Standards Board (IPSASB) to develop high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. These are the International Public Sector Accounting Standards (IPSAS). The full text of Standards and Exposure Drafts currently on issue is available at <http://www.ifac.org/publicsector>. The first 20 IPSAS are based on IAS to the extent appropriate for the public sector. IFAC also has established the International Auditing and Assurance Standards Board (IAASB) to prepare and promulgate International Standards on Auditing (ISA) and is now working in cooperation with INTOSAI on preparing public sector guidance on the use of ISA.

INTOSAI includes the Auditors General from almost all national government audit departments around the world and has its Secretariat in the Vienna offices of the Auditor General of Austria. Its Auditing Standards Committee, chaired by the Auditor General of Sweden, produces the INTOSAI Code of Ethics and Auditing Standards, a set of standards at a higher and more generic level than the IFAC-issued ISA. The Auditing Standards Committee is working with the IAASB to prepare practice notes explaining the application of each ISA in the public sector.¹⁴

The various standards are listed on the following pages.

¹⁴ Working Group on Financial Audit Guidelines, INTOSAI Auditing Standards Committee, Swedish National Audit Office, 2004.



International Public Sector Accounting and Education Standards

International Public Sector Accounting Standards

- IPSAS 1, *Presentation of Financial Statements*
 - IPSAS 2, *Cash Flow Statements*
 - IPSAS 3, *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*
 - IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*
 - IPSAS 5, *Borrowing Costs*
 - IPSAS 6, *Consolidated Financial Statements and Accounting for Controlled Entities*
 - IPSAS 7, *Accounting for Investments in Associates*
 - IPSAS 8, *Financial Reporting of 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 Assets*
 - IPSAS 20, *Related Party Disclosures*
 - IPSAS 21, *Impairment of Non-cash Generating Assets*
- Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*

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*



International Financial Reporting Standards and International Accounting Standards

IFRS 1,	<i>First-time Adoption of International Financial Reporting Standards</i>
IFRS 2,	<i>Share-based Payment</i>
IFRS 3,	<i>Business Combinations</i>
IFRS 4,	<i>Insurance Contracts</i>
IFRS 5,	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
IAS 1,	<i>Presentation of Financial Statements</i>
IAS 2,	<i>Inventories</i>
IAS 7,	<i>Cash Flow Statements</i>
IAS 8,	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 10,	<i>Events after the Balance Sheet Date</i>
IAS 11,	<i>Construction Contracts</i>
IAS 12,	<i>Income Taxes</i>
IAS 14,	<i>Segment Reporting</i>
IAS 16,	<i>Property, Plant and Equipment</i>
IAS 17,	<i>Leases</i>
IAS 18,	<i>Revenue</i>
IAS 19,	<i>Employee Benefits</i>
IAS 20,	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
IAS 21,	<i>The Effects of Changes in Foreign Exchange Rates</i>
IAS 23,	<i>Borrowing Costs</i>
IAS 24,	<i>Related Party Disclosures</i>
IAS 26,	<i>Accounting and Reporting by Retirement Benefit Plans</i>
IAS 27,	<i>Consolidated and Separate Financial Statements</i>
IAS 28,	<i>Investments in Associates</i>
IAS 29,	<i>Financial Reporting in Hyperinflationary Economies</i>
IAS 30,	<i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i>
IAS 31,	<i>Interests in Joint Ventures</i>
IAS 32,	<i>Financial Instruments: Disclosure and Presentation see also: See also Financial Instruments - other issues</i>
IAS 33,	<i>Earnings per Share</i>

IAS 34,	<i>Interim Financial Reporting</i>
IAS 36,	<i>Impairment of Assets</i>
IAS 37,	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
IAS 38,	<i>Intangible Assets</i>
IAS 39,	<i>Financial Instruments: Recognition and Measurement see also: See also Financial Instruments - other issues</i>
IAS 40,	<i>Investment Property</i>
IAS 41,	<i>Agriculture</i>

INTOSAI Code of Ethics and Auditing Standards

Code of ethics

Integrity. Auditors have a duty to adhere to high standards of behaviour (e.g. honesty and candidness) in the course of their work and in their relationships with the staff of audited entities.

Independence, objectivity and impartiality. The independence of auditors should not be impaired by personal or external interests. There is a need for objectivity and impartiality in the work and the reports, which should be accurate and objective. Conclusions in opinions and reports should be based exclusively on evidence obtained and assembled in accordance with the SAI auditing standards.

Professional secrecy. Auditors should not disclose information obtained in the auditing process to third parties except for the purposes of meeting the SAI statutory responsibilities.

Competence. Auditors must not undertake work for which they are not competent to perform.

Basic postulates for the auditing standards

- (a) The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those organized as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality.
- (b) The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.
- (c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively.
- (d) Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.
- (e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets.

- (f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.
- (g) The existence of an adequate system of internal control minimizes the risk of errors and irregularities. It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision-making. The auditor should submit proposals and recommendations where controls are found to be inadequate or missing.
- (h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- (i) All audit activities should be within the SAI audit mandate.*
- (j) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- (k) SAIs should work toward improving techniques for auditing the validity of performance measures.
- (l) SAIs should avoid conflict of interest between the auditor and the audited entity.

* *The full scope of government auditing includes regularity and performance audit.*

Regularity audit embraces:

- i. Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- ii. Attestation of financial accountability of the government administration as a whole;
- iii. Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- iv. Audit of internal control and internal audit functions;
- v. Audit of the probity and propriety of administrative decisions taken within the audited entity; and
- vi. Reporting of any other matters arising from, or relating to, the audit that the SAI considers should be disclosed.

Performance audit is concerned with the audit of economy, efficiency and effectiveness, and embraces:

- vii. Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- viii. Audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- ix. Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

General auditing standards

The auditor and the SAI must be independent.

The auditor and the SAI must possess the required competence.

The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

The SAI should adopt policies and procedures to recruit personnel with suitable qualifications.

The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff.

The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits.

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI internal standards and procedures.

Field standards

- (a) The auditor should plan the audit in a manner that ensures that an audit of high quality is carried out in an economic, efficient, and effective way and in a timely manner.
- (b) The work of the audit staff at each level and audit phase should be properly supervised during the audit; the documented work should be reviewed by a senior member of the audit staff.
- (c) The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control.
- (d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

Reporting standards

- (a) At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.
- (b) It is for the Auditor General to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors



IFAC-issued International Standards on Auditing (ISA)

Introductory Matters

- 100 *Assurance Engagements*
- 110 *Glossary of Terms*
- 120 *Framework of ISAs*

Responsibilities

- 200 *Objective and General Principles Governing an Audit of Financial Statements*
- 210 *Terms of Audit Engagements*
- 220 *Quality Control for Audit Work*
- 230 *Documentation*
- 240 *The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*
- 240A *Fraud and Error*
- 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*
- 260 *Communications of Audit Matters with Those Charged with Governance*

Planning

- 300 *Planning*
- 310 *Knowledge of the Business*
- 320 *Audit Materiality*

Internal Control

- 400 *Risk Assessments and Internal Control*
- 401 *Auditing in a Computer Information Systems Environment*
- 402 *Audit Considerations Relating to Entities Using Service Organizations*

Audit Evidence

- 500 *Audit Evidence*
- 501 *Audit Evidence -- Additional Considerations for Specific Items*
- 505 *External Confirmations*
- 510 *Initial Engagements -- Opening Balances*
- 520 *Analytical Procedures*
- 530 *Audit Sampling*
- 540 *Audit of Accounting Estimates*
- 550 *Related Parties*
- 560 *Subsequent Events*
- 570 *Going Concern*
- 580 *Management Representations*

Using the Work of Others

- 600 *Using the Work of Another Auditor*
- 610 *Considering the Work of Internal Auditing*
- 620 *Using the Work of an Expert*

Audit Conclusions and Reporting

- 700 *The Auditor's Reports on Financial Statements*
- 710 *Comparatives*
- 720 *Other Information in Documents Containing Audited Financial Statements*

Specialized Areas

- 800 *The Auditor's Report on Special Purpose Audit Engagements*
- 810 *The Examination of Prospective Financial Information*

Related Services

- 910 *Engagements to Review Financial Statements*
- 920 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*
- 930 *Engagements to Compile Financial Information*