ISSAI 1200

The International Standards of Supreme Audit Institutions, ISSAIs, are issued by the International Organization of Supreme Audit Institutions, INTOSAI. For more information visit *www.issai.org*

INTOSAI

Practice Note to ISA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

INTOSAI Professional Standards Committee

PSC-Secretariat

Rigsrevisionen • Store Kongensgade 45 • 1264 Copenhagen K • Denmark

Tel.:+45 3392 8400 • Fax:+45 3311 0415 •E-mail: info@rigsrevisionen.dk

I N T O S A I

EXPERIENTIA MUTUA

OMNIBUS PRODEST

INTOSAI General Secretariat - RECHNUNGSHOF
(Austrian Court of Audit)
DAMPFSCHIFFSTRASSE 2
A-1033 VIENNA
AUSTRIA
Tel.: ++43 (1) 711 71 • Fax: ++43 (1) 718 09 69

E-MAIL: intosai@rechnungshof.gv.at;
WORLD WIDE WEB: http://www.intosai.org

This Practice Note in combination with the International Standard on Auditing (ISA) 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing" issued by the International Federation of Accountants (IFAC) constitute ISSAI 1200

Practice Note[1] to International Standard on Auditing (ISA) 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

Background

This Practice Note provides supplementary guidance on ISA 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing. It is read together with the ISA. ISA 200 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 200 deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with ISAs. Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the ISAs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the ISAs. The independent auditor is referred to as "the auditor" hereafter.

Content of the Practice Note

P1. The Practice Note provides additional guidance for public sector auditors related to:
(a) Scope of the ISA.
(b) An Audit of Financial Statements.
(c) Overall Objectives of the Auditor.
(d) Definitions.
(e) Ethical Requirements Relating to an Audit of Financial Statements.
(f) Conduct of an Audit in Accordance with ISAs.
(g) Sufficient and Appropriate Audit Evidence and Audit Risk.

1 All Practice Notes are considered together with ISSAI 1000 "General Introduction to the INTOSAI Financial Audit Guidelines."

Applicability of the ISA in Public Sector Auditing

P2. ISA 200 is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

P3. ISA 200 contains application and other explanatory material with considerations specific to audits in the public sector in paragraphs A11 and A57 of the ISA.

Scope of the ISA

P4. The ISAs are written in the context of an audit of financial statements. In the INTOSAI context an audit of financial statements[2] may be a part of a broader regularity (financial) audit. In accordance with ISSAI 100[3], paragraph 39, a regularity (financial) audit embraces:
(a) Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
(b) Attestation of financial accountability of the government administration as a whole;
(c) Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
(d) Audit of internal control and internal audit functions;
(e) Audit of the probity and propriety of administrative decisions taken within the audited entity; and
(f) Reporting of any other matters arising from or relating to the audit that the Supreme Audit Institution considers should be disclosed.

P5. The terms 'regularity audit' and 'financial audit' are often used interchangeably. Such audits consist of an audit of financial statements, plus some or all of the elements set out in a) to f) above, depending on the mandate of the Supreme Audit Institution. The Practice Notes in the INTOSAI Financial Audit Guidelines (ISSAI 1000-2999) provide additional guidance to public sector auditors when applying the ISAs in an audit of financial statements. When performing the broader 'regularity' or 'financial' audit in the public sector, more comprehensive guidance may be found in the ISSAI framework which, for example, includes the INTOSAI Compliance Audit Guidelines (ISSAI 4000[4] and 4200[5]).

P6. Regularity (financial) audits are performed in a variety of environments. In financial reporting environments moving towards internationally recognized practices, the full application of ISSAIs 1000-2999 by public sector auditors will assist in providing additional structure to transforming the environment in which the audit takes place, towards internationally recognized practice.

---

2 ISA 200 paragraph A1: The auditor's opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements. The auditor's opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. In some jurisdictions, however, applicable law or regulation may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the ISAs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.

3 ISSAI 100, "INTOSAI Auditing Standards – Basic Principles."

P7. In the public sector, reference to relevant auditing standards can be made in one of the following ways depending on the standards applied:
(a) In accordance with the ISAs; which means full compliance with all relevant ISAs and if relevant, with the additional guidance set out in the INTOSAI Practice Notes to the ISAs;
(b) In accordance with the INTOSAI Fundamental Auditing Principles, but not full compliance with the ISAs which are presently included as part of the INTOSAI Financial Audit Guidelines (ISSAIs 1000-2999);or
(c) In accordance with other national and relevant Auditing Standards.

P8. In the public sector context, the Practice Notes use the term “public sector auditors” as equivalent to “the auditor” as used in the ISAs.

P9. Some ISAs contain considerations specific to audits of smaller entities. In audits of public sector entities and entities that receive government awards, these considerations are usually not applicable, even if the public sector entity has few employees, simple operations, or a relatively small budget. In those situations, the public sector entity may still have complicated transactions, such as transfers from other governments, as well as a need to comply with laws, regulations, policies and systems determined by a higher level of government and a need for accountability for use of taxpayer monies. Therefore public sector auditors carefully consider the relevance of such considerations. The Practice Notes may include additional guidance in this area when considered important to add guidance relevant for audits of smaller public sector entities.

An Audit of Financial Statements

P10. When considering paragraph 6 of the ISA, public sector auditors consider further guidance included in the Practice Note to ISA 320[6].

P11. Paragraph A7 of the ISA is one of many paragraphs that deal with fair presentation frameworks. The International Public Sector Accounting Standards (IPSAS), issued by the International Public Sector Accounting Standards Board is an example of a fair presentation framework designed for use in the public sector.

P12. Paragraph A8 of the ISA provides examples of financial statements and the content of a complete set of financial statements. A complete set of financial statements for a public sector entity prepared on an accrual basis of accounting may normally comprise:
- A statement of financial position;
- A statement of financial performance;
- A statement of changes in net assets/equity;
- A cash flow statement;
- A comparison of budget and actual amounts either as a separate additional financial statement or as a reconciliation; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

4 ISSAI 4000, “General Introduction to Guidelines on Compliance Audit.”
5 ISSAI 4200, “Compliance Audit Guidelines Related to Audit of Financial Statements.”
6 ISA 320, “Materiality in Planning and Performing an Audit.”

P13. In certain environments a complete set of financial statements may also include other reports such as reports on performance and appropriation reports.

P14. When considering paragraph A10 of the ISA, public sector auditors consider further guidance included in Practice Notes to ISA 210[7] and to ISA 580[8].

Overall Objectives of the Auditor

P15. Withdrawal from the engagement as described in paragraphs 12 and 24 of the ISA is normally not an option in a public sector audit. Where circumstances arise that normally will result in withdrawal from the engagement, the responsibilities of public sector auditors may include expanded or enhanced reporting, for example to the legislature.

Definitions

P16. When considering the definitions in paragraph 13 of the ISA public sector auditors take note of the following:

(a) Applicable Financial Reporting Framework – as is the case in the private sector, frameworks in the public sector may be either fair presentation or compliance frameworks; and

(b) Auditor – The terms “Engagement partner” and “Firm.” The term “Engagement partner” may, for example, refer to an Auditor General who has overall responsibility for public sector audits or another suitably qualified person delegated to or appointed on his/her behalf with responsibility for the specific engagement. The term “Firm” may normally be read as Supreme Audit Institution or equivalent at regional or local level.

Ethical Requirements Relating to an Audit of Financial Statements

P17. The INTOSAI Code of Ethics[9] is a relevant ethical code in so far as paragraph 14 of the ISA is concerned.

P18. Paragraph 15 of the ISA requires the auditor to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. The INTOSAI Fundamental Principles ISSAI 200[10] address the concept of due care and state: “…Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity.” The concept of professional skepticism enhances and broadens the concept of due care and is fundamental for planning and performance of the audit.

7 ISA 210, “Agreeing the Terms of Audit Engagements.”
8 ISA 580, “Written Representations.”
9 ISSAI 30, ”INTOSAI Code of Ethics.”
10 ISSAI 200, ”INTOSAI Auditing Standards - General Standards,” paragraph 2.

Conduct of an Audit in Accordance with ISAs

P19. When considering paragraphs 18 to 20 of the ISA on compliance with ISAs relevant to the audit, public sector auditors also consider that in applying the ISSAIs for regularity (financial) audit in the public sector, the ISAs and the Practice Notes together form guidance for public sector auditors. If reference is made in the auditor's report to the audit having been conducted in accordance with the ISAs, public sector auditors have to comply with all the ISAs relevant to the audit as set out in paragraphs 18-20 of the ISA.

Sufficient and Appropriate Audit Evidence and Audit Risk

P20. When considering sources of information as discussed in paragraph A28 of the ISA public sector auditors may also consider using information from previous performance audits and other audit activities relevant to the entity. They would do this only if the information is still relevant and reliable.