

INTOSAI ED ISSAI 40 - Quality Control for SAIs

response to exposure draft

15 April 2010

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Contact: Una Foy
Assistant Director
Professional Standards and Central Government
CIPFA
3 Robert Street
London
WC2N 6RL
t: 020 7543 5647
e: una.foy@cipfa.org.uk
www.cipfa.org.uk

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INTOSAI Professional Standards Steering Committee
Project on Quality Control
Mr Greg Schollum
Assistant Auditor-General
(Accounting and Auditing Policy)
Office of the Auditor-General
New Zealand

By email to: greg.schollum@oag.govt.nz

15 April 2010

Dear Mr Schollum

**INTOSAI ISSAI 40 Quality Control for SAIs
Exposure Draft, 1 February – 15 April 2010**

CIPFA welcomes the opportunity to comment on this proposed International Standard of Supreme Audit Institutions (ISSAI) on quality control.

ISAs, ISQC1 and UK public sector audit

Audits of public sector financial statements in the United Kingdom are carried out in accordance with UK standards, which in turn are based on the suite of ISAs and ISQC1 developed by the International Auditing and Assurance Standards Board (IAASB). CIPFA has been reviewing IAASB consultations for several years, and we have responded to most of the exposure drafts in the Clarity Project. In so doing we paid specific attention to both the applicability of general guidance to the public sector, and to the Special Considerations in the audit of Public Sector Entities.

CIPFA's perspective in reviewing the exposure draft

Matters relating to standards on independent financial audit and related assurance are considered by CIPFA's Accounting and Auditing Standards Panel (AASP), whose membership includes finance practitioners and regulators from the UK public sector, and audit practitioners from the UK national audit agencies and private sector audit firms.

The Chair of the AASP panel is an Assistant Auditor General at the National Audit Office. The NAO is the principal state audit body in the United Kingdom and represents the United Kingdom at INTOSAI. The NAO has already had the opportunity to contribute to the drafting process through membership of the INTOSAI PSC Ad Hoc Group on Quality Control, and also has the opportunity to respond to the consultation in its capacity as an INTOSAI member. Given this we thought it would be potentially more valuable to offer views from the perspective of the other audit agencies in the UK. A short note explaining the roles of audit agencies in the United Kingdom is attached.

Comments on the ISSAI Exposure Draft

We have reviewed the draft ISSAI, and in our view it provides very useful supplementary guidance, which goes beyond the matters explicitly covered in ISQC1 to cover wider considerations which are relevant to public sector auditors, while remaining consistent with the ISQC on matters relating to financial audits. While drafted principally for SAIs which are public sector bodies, the explanations in the ISSAI should also be useful for private sector auditing and assurance firms undertaking public sector audits.

In our view, ED ISSAI 40 is straightforward and clear, and appropriately extends the ISQC1 framework to encompass

- The wider remit of many public sector auditors
- Special considerations relating to engagement (specifically, the inability of many SAIs to withdraw from certain statutory engagements)
- Other INTOSAI standards which may need to be considered

We did note some cases where it might be possible to improve the detailed wording of the exposure draft, but we have not provided detailed comments, mainly because we expect these points will be covered by other respondents, and also having regard to the risk that we might suggest 'improvements' which mainly reflected a United Kingdom perspective rather than an international one. We can provide information on these if this would be considered helpful.

I hope these comments help with the finalisation of this important guidance, and I look forward to seeing the completed standard.

Yours sincerely

Una Foy
Assistant Director
Professional Standards and Central Government
CIPFA
3 Robert Street
London
WC2N 6RL
t: 020 7543 5647
e: una.foy@cipfa.org.uk
www.cipfa.org.uk

PUBLIC SECTOR AUDIT IN THE UNITED KINGDOM

Public sector audits in the United Kingdom are subject to a variety of audit and related assurance regimes. Legislation provides for the statutory appointment of the auditor. Each statutory appointee is supported by a 'national audit agency' whose staff carry out some of the audit work. Audit work is also carried out by private audit sector firms.

The National Audit Office (NAO) is the principal state audit body and represents the United Kingdom in INTOSAI. The NAO supports the Comptroller and Auditor General, is responsible for the audit of central government expenditure, also retaining responsibility for some audit matters 'reserved' to the UK government after devolution.

Other bodies are responsible for other aspects of public spending in the UK, as follows:

- The Audit Commission is responsible for appointing the auditors for local authorities and health service bodies in England and for promoting value for money in these sectors.
- The Auditor General for Scotland, supported by Audit Scotland, is responsible for auditing the expenditure of the Scottish Parliament and Executive and reporting to that Parliament. Staff at Audit Scotland are also responsible for local authority audit in Scotland.
- The Auditor General for Wales, supported by the Wales Audit Office, is responsible for auditing the expenditure of the Welsh Assembly Government, its associated bodies and local health service bodies in Wales. He is also responsible for appointing the auditors to local government bodies in Wales.
- The Comptroller and Auditor General for Northern Ireland and the Northern Ireland Audit Office do a similar job in respect of the Northern Ireland Assembly.

Audit engagements in all these sectors are performed both by national audit agency staff and private sector audit firms.

The standards to be applied to public sector audits are a matter for the national audit agencies and certain regulators to determine. However, the heads of the agencies have chosen to adopt the UK Auditing Practices Board's (APB) engagement standards and quality control standards as the basis of their approach to the audit of financial statements. Since 2004 the APB has adopted ISAs (UK & Ireland) which are based on IAASB International Standards on Auditing, although they include some additional material.

The Auditing Practices Board publishes a number of practice notes to assist with the interpretation of ISAs (UK & Ireland) in particular contexts. One such Practice Note is Practice Note 10 'Audit of Financial Statements of Public Sector Bodies in the United Kingdom (Revised)'.