

---

**Intergovernmental Working Group of Experts on  
International  
Standards of Accounting and Reporting  
(ISAR)**

**32nd SESSION**

4 - 6 November 2015

Room XVIII, Palais des Nations, Geneva

Wednesday, 4 November 2015

Afternoon Session

**Key foundations of high-quality reporting: International  
audit and assurance requirements and good practices in their  
implementation**

Presented by

Verena Farré Capdevila

Head

Department of Audit of Financial Statements/Report on the Federal  
Financial Statement, Austrian Court of Audit

*This material has been reproduced in the language and form as it was provided.  
The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.*

---

# **Key foundations of high quality reporting**

**UNCTAD's Intergovernmental Working Group of  
Experts on International Standards of Accounting  
and Reporting (ISAR)**

**Geneva, November, 4th 2015**

# Importance of Supreme Audit Institutions

## UN recognices the important role of independent Supreme Audit Institutions for promoting

- Transparency
- Accountability
- Efficiency and effectiveness
- Ownership

# Obstacles for Supreme Audit Institutions

## Practical obstacles for Supreme Audit Institutions

- **Lack of independence**
  - lack of legal, financial and/or organizational independence of SAIs from governments
- **Limited audit mandate**
  - lack of comprehensive mandate to audit government performance (**performance audits** are revealing information on efficiency, effectiveness and economy of all areas of government action)
  - **Financial audits** alone do not provide sufficient information for findings on the effectiveness, efficiency and economy of used government actions and public resources)
- **Shortcoming of public accounting rules**

# Shortcoming of Public Accounting Rules

Lack of possibilities to provide a formal audit opinion on government accounts because of **shortcomings of rules for accounting, reporting and monitoring of public and state budgets**

## Examples:

- Lack of informative value and comparability of the accounting systems
- No harmonized valuation of assets
- No harmonized definition of financial debt
- No or fragmentary recognition of financial commitments pertaining to future years
- No accounting for financing instruments because of cash accounting
- A combination of gaps and inconsistencies in fiscal transparency standards
- Delays and discrepancies in countries' adherence to those standards
- Lack of effective multilateral monitoring of compliance with those standards

# True and fair view of public finances

- A true and fair view of public finances is key to provide transparency for citizens, sustainability of budgets and support accountability of decision makers.
- SAIs can provide a transparent, true and fair view of the financial situation of the state by performing audits of the financial statements only if they are based on adequate public accounting systems.
- True and fair view is ...
  - key for citizens: We need to know, where we stand.
  - a precondition for sustainability of public finances: We need to know, what to do.
  - fostering accountability of decision makers: Supports them to do the necessary things.
  - core task for SAIs: We provide a realistic picture of and recommendations to improve public finances.

# Improvement of public accounting systems

- **The improvement of public accounting systems in terms of a comparable overall assessment of the perspective on liquidity, resources and assets will lead to a comprehensive picture of public finances depicting the**
  - perspective on liquidity
  - use and inflow of resources and
  - assets and liabilities.
- **To deliver a comprehensive picture of public finances the following three tools are crucial:**
  - **Cash flow statement** which provides the perspective on liquidity.
  - **Operating statement** which shows the use and inflow of resources.
  - **Balance sheet** which compares assets and liabilities.



# True and fair view of public finances: The example of Austria

- **In Austria true and fair view is a constitutional principle as of 2013 at the central government level.**
- **Therefore, Austria's annual budgets now contain a cash flow and an operating statement. The annual financial statements comprise all three tools.**
- **Since its introduction in Austria, accrual accounting has greatly enhanced the value of financial statements, including disclosure of key risks to fiscal sustainability.**

# Preconditions for providing a true and fair view via the audits of Supreme Audit Institutions

The

- **Independence of Supreme Audit Institutions,**
- **capacity building of Supreme Audit Institutions and**
- **the improvement of accounting systems**

are necessary to overcome the obstacles and to improve

- **transparency,**
- **accountability and**
- **the true and fair view of the state budgets**
- **comparability of the financial statements ->> ISSAIs.**

# Fundamental Principles for Auditing Financial Statements in Compliance with the ISSAIs

## International Standards of Supreme Audit Institutions - ISSAI

- INTOSAI guidelines for auditing financial statements of public entities
- The ISSAI framework comprises four levels
  - Founding principles (ISSAI 1)
  - Prerequisites for the functioning of SAIs (ISSAI 10-40)
  - Fundamental auditing principles (ISSAI 100-400)
  - Auditing guidelines (ISSAI 1000-5800)
- Corresponding implementation of the ISAs for the public sector

# Why is the implementation of ISSAIs necessary?

- The goal of each audit is to confirm the correctness of financial statements in a traceable way and with sufficient certainty
- The ISSAI framework provides uniform standards for all stages of the auditing process
- As the ISSAIs draw on the ISAs, they are accepted at the international level
- The application of ISSAIs therefore guarantees that financial statements are uniform, comparable and of high quality

Report  
ISSAI 1700

Auditing financial statements  
audit planning – audit procedures – report  
ISSAI 1200 - 1810

Quality control - ISSAI 1220

ISSAI 1000

ISSAI 200, 400

# ISSAI 200

- Comprises the principles for auditing annual financial statements
- Provides a reference framework and the basis for the ISSAIs at level 4 to be applied in the audit process
- The objective is to ascertain with sufficient certainty that the financial statements do not contain any significant misstatements (audit certificate)
- Specific guidelines in ISSAI 1000

## ISSAI 400

- Comprises the principles of compliance auditing
- The objective is to assess whether the audited entity complied with the applicable legislative provisions
- The audit result can be submitted as an audit report or an audit certificate
- Compliance audits and financial audits can be conducted jointly
- Specific guidelines in ISSAI 1000

## **Fundamental principles**

- The audit mandate predetermines the audit framework
- Appropriate quality control

## **Audit planning**

- Risk-oriented audit approach
- Assessment of the internal control system
- Determination of materiality levels

## **Audit procedures**

- Detected deficiencies usually also have implications on the assessment of the internal control system and on materiality levels
- Analytical audit procedures and sample-based audits

## **Documentation**

- Conclusions and recommendations have to draw on audit evidence

## **Audit opinion**

- The report / audit certificate contains the audit findings, conclusions and recommendations as well as the statements of the audited entities



# Implementation in Austria

- **Strong role of the ACA to safeguard sustainable finances**
- **ACA prepares the Report on the Federal Financial Statements (FFS) and submits it to the National Council**
- **This Report on the FFS**
  - is prepared based on the annual financial statements of the federal ministries and the audits carried out by the ACA
  - provides documentation on the financial management of the Federation
  - outlines the annual budgetary implementation with particular regard to serious deviations in comparison to the budget estimates
  - presents the assets, earnings and financial position of the Federation
  - gives information on federal debts and liabilities as well as on
  - the financial statements of the legal entities administered by the Federation
- **Since the Federal Budget Law Reform (1<sup>st</sup> phase in 2009, 2<sup>nd</sup> phase in 2013) Austria has applied accrual accounting that draws on the IPSAS**

# Implementation in Austria

- The audit mandate of the ACA is defined by law
- Statutory obligation to apply international audit standards
  - ➔ implementation of ISSAIs in the process of preparing audit concepts and working papers
- If deficiencies are detected, the ACA is entitled to require the competent budgetary bodies to take corrective actions
- Distinct audit result, which contains statements of all audited entities

# Implementation in Austria

## Participation in the accounting management

- ACA has a strong position in preparing budgetary management regulations
- The ACA is consulted by the Federal Ministry of Finance with regard to all regulations that concern budgetary management
- The Ordinance on Accounting is enacted by the ACA itself
- The new Ordinance on Accounting governs the
  - structure of financial statements
  - consolidation procedure of the financial statements
  - necessary explanatory notes
  - representation letters

# Quality control – ISSAI 1220

- It is necessary to ensure that all audit steps taken by the auditors are traceable and in compliance with the applied standards
- Appropriate measures for quality control are to be implemented
- Practices that put into doubt the independence of audit are to be prevented in any case
- The professional and personal suitability of the auditors must be guaranteed

# Auditing financial statements – ISSAI 1200-1810

- Documentation of the audit strategy and the audit plan – subsequent changes have to be justified and documented
- Transparency and accountability are key parameters for the audit planning process
- Audit goal: to confirm the correctness of financial statements in a traceable way and with sufficient certainty
- Findings from previous audits can and should be included
- Knowledge of the audited entity and its organisational structure is absolutely necessary for the assessment of the internal control system (findings obtained from performance audits)
- Determination of materiality levels (quantitative and qualitative) – continuous adaptation during the audit if deficiencies are detected

# Auditing financial statements – ISSAI 1200-1810

- The time schedule of the audit must be planned and adapted based on the audit findings
- If deficiencies are detected, the planned audit procedures have to be extended
- Analytical audit procedures
- Sample-based audits
- Detected deficiencies have to be assessed with regard to the correctness of the audited financial statements and documented accordingly in the audit result

# Auditing financial statements – ISSAI 1200-1810

- The audit documentation has to be prepared in such a way that it provides sufficient information on all significant audit facts to an expert third party
- Each conclusion, criticism and recommendation has to be evidenced in the audit documentation
- The audit documentation has to contain the relevant audit evidence
- Audit evidence obtained from previous audits (also performance audits) can be used but must be re-evaluated
- Audit evidence obtained from external third parties can also be used (e.g. reports on the internal control system)

# Implementation in Austria

- Functional audits
- Selection of audit areas / audit processes according to materiality criteria
- The goal is to cover budgeted expenditure as far as possible
- Audit and assessment of the internal control system in the audited entities (taking into account the audit findings obtained from performance audits)



# Implementation in Austria

- Sampling according to risk assessment and materiality
- Analytical audit procedures
- Documentation of the audit concept – disclosure of audit steps and the implementation of ISSAIs
- Working documents on all audit areas
- Collection of certificates issued by external parties (e.g. bank letters, balance confirmations, attorney letters)

# Implementation in Austria

- IT-based audit documentation – electronic working paper, central administration of documents
- All audited entities have the opportunity to issue a statement
- Distinct audit report (consisting of several reports)

# Report – ISSAI 1700

- The auditor is obliged to submit a report (audit opinion) on the audited financial statements
- The form of a possible certificate on the financial statements issued by the auditor is predetermined
- The audit opinion / audit certificate is based on the audit performed according to the ISSAIs
- More comprehensive statements, which are based on national legislative provisions or the audit mandate, may be necessary

# Implementation in Austria

- Opportunity to require the audited entities to carry out corrective actions in the framework of the audit
- The Report on the Federal Financial Statements and the audit reports on the financial statements are submitted to the National Council
- The President of the ACA is entitled to take the floor in the Budget Committee and in the plenary sessions
- The Federal Financial Statements are adopted by the National Council and have force of law
- The Report on the Federal Financial Statements is published by the ACA (available for everybody)



Der  
Rechnungshof

Unabhängig. Objektiv. Wirksam.

**Have a pleasant day!**