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Mr. Khalid Hamid
Project Group Lead
Forum for INTOSAI Professional Pronouncements

GAO's Response to the International Organization of Supreme Audit Institutions' (INTOSAI) March 2019 Request for Comments on ISSAI 200 (Revised), *Financial Audit Principles*

Dear Mr. Hamid,

This letter provides GAO's response to the questions in the Explanatory Memorandum, International Standards of Supreme Audit Institutions (ISSAI) 200 (revised), *Financial Audit Principles*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the INTOSAI efforts to streamline and strengthen the standard on financial audit principles to ensure that it is robust, principle-based, and consistent with the corresponding performance and compliance audit principle documents. We would appreciate further discussion and consultation should the Exposure Draft ISSAI 200 not be adjusted to reflect our comments.

Thank you for the opportunity to comment on these important issues. If you have any technical questions, please contact James Dalkin at (202) 512-3133 or dalkinj@gao.gov or James-Christian Blockwood at (202) 512-2639 or BlockwoodJC@gao.gov.

Sincerely yours,

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Enclosure

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Enclosure: Responses to Questions to Consider re: Exposure Draft (ED) ISSAI 200

1. Whether the proposed revised ISSAI 200 meets the purpose of providing a more robust and principle-based standard for financial audit than the current ISSAI 200?

We believe that the proposed revised International Standards of Supreme Audit Institutions (ISSAI) 200 provides a more robust and principle-based standard for financial audit than the current ISSAI 200.

2. Whether there are any key principles that should be added to, further elaborated on or could be deleted from, the proposed document? If yes, please explain why.

We do not believe that there are any key principles that should be added to or further elaborated on or that could be deleted from the proposed document. We do have some suggestions for small additions, deletions, and clarifications, which are noted in our responses to other questions and our subsequent technical observations.

3. The proposed revised ISSAI 200 aims to improve the wording used in the ISSAI 100, rather than taking over the current sub-optimal formulation (e.g., authority, subject matter and subject matter information, definition and objective of financial audit). This could be used to trigger an improvement in the overall quality of the framework.

a) Definition of Financial Audit:

ED ISSAI 200 paragraph 7 proposes a revised definition of financial audit:

“Financial audit involves determining, through the collection of audit evidence, whether an entity’s financial information as presented in its financial statements is complete, accurate and, where applicable, fairly presented in accordance with the financial reporting and regulatory framework applicable. In the case of compliance frameworks the auditor assesses the extent to which compliance is achieved.”

The definition of financial audit in ISSAI 100 paragraph 22 is:

“Financial audit focuses on determining whether an entity’s financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.”

3(a)(i) Do you agree with the proposed revised definition of financial audit in ED ISSAI 200? If no, please explain why.

We strongly disagree with the proposed revised definition and objectives of financial audit in ED ISSAI 200 for the following reasons:

1. The definition is inconsistent with the definition and objectives of financial audit elsewhere in the ISSAIs (e.g., ISSAI 100 and ISSAI 1200) and other recognized standards, such as the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) and the Statements on Auditing Standards issued by the American Institute of Certified Public Accountants (AICPA). We believe that these inconsistencies could result in confusion or difficulties for

Supreme Audit Institutions (SAI) that have to blend the ISSAI requirements with other standards.

2. We believe that the definition implies a degree of specificity and assurance that is not intended in a financial audit. As written, the definition implies that auditors will determine whether the financial statement information is accurate and complete. Instead, and as noted in paragraph 8 of ED ISSAI 200, financial audits involve providing reasonable assurance that information is presented fairly, in all material respects.
3. The definition limits financial audits to audits of financial statements. The current definition of financial audit in ISSAI 100, paragraph 22, permits financial audits of topics broader than financial statements. Similarly, the 2018 revision of *Government Auditing Standards*¹ defines financial audit in paragraph 1.17 as follows: “Financial audits provide independent assessments of whether entities’ reported financial information (e.g., financial condition, results, and use of resources) is presented fairly, in all material respects, in accordance with recognized criteria.” Further, paragraph 1.17b of *Government Auditing Standards* describes additional types of financial audits other than financial statement audits, including audits of a single financial statement or specified elements, accounts, or line items of a financial statement.

SAIs may be expected or asked by the legislature to opine on specific elements or line items of a ministry’s or department’s financial statement, especially when that element or the programs that constitute the majority of the line item are discovered to have significant challenges or weaknesses. We believe that the proposed definition in ED ISSAI 200 would inadvertently exclude those types of financial audits.

We suggest that INTOSAI consider retaining the definition of financial audit in ISSAI 100, paragraph 22, or minimizing the changes from that definition for the reasons stated above.

3(a)(ii) Do you agree with the addition of the terms “complete” and “accurate” into the definition?

We do not agree with the addition of the terms complete and accurate to the definition of financial audit, as explained in our response to question 3(a)(i) above.

b) Definition of matter and subject matter information

ED ISSAI 200 paragraph 23 proposes a revised definition of subject matter and subject matter information for financial audit:

“The subject matter of a financial audit is the accounting data of an entity, which are presented in the form of financial statements (known as the subject matter information).”

The definition of subject matter and subject matter information in ISSAI 100 paragraph 30 is:

“Financial audit: The subject matter of a financial audit is the financial position, performance, cash flow or other elements which are recognised, measured and

¹ GAO, *Government Auditing Standards: 2018 Revision*, GAO-18-568G (Washington, D.C.: July 2018).

presented in financial statements. The subject matter information is the financial statements.”

3(b) Do you agree with the proposed revised definition for financial audit subject matter and subject matter information? If no, please explain why.

We believe that the revised definitions of subject matter and subject matter information are largely acceptable. However, given that financial audits can be performed on financial information that is presented in forms other than financial statements, as noted in our response to question 3(a)(i), we would suggest that INTOSAI consider adding a modification as follows:

23. The subject matter of a financial audit is the accounting data of an entity, which are normally/usually presented in the form of financial statements (known as the subject matter information).

We would also suggest a similar modification to the first line of paragraph 21 of ED ISSAI 200.

4. ED ISSAI 200 proposes slight changes to the attributes of an acceptable financial reporting framework in paragraph 16. The more significant change is to replace “reliable” by “accurate”, because “accurate is considered a clearer and less ambiguous term. This will result in a slight inconsistency with the attributes of an acceptable financial reporting framework in ISSAI 1210 (and ISA 210). The table below sets out the proposed attributes compared to the attributes in the existing ISSAI 200 and ISSAI 1210.

| Proposed in ED ISSAI 200 | Existing ISSAI 200 | ISSAI 210 Appendix 2 |
|--------------------------|--------------------------|----------------------|
| Relevant | Relevance | Relevance |
| Complete | Completeness | Completeness |
| Accurate | Reliability | Reliability |
| Objective | Neutrality & Objectivity | Neutrality |
| Understandable | Understandability | Understandability |

Do you agree with the proposed attributes and particularly replacing “reliable” by “accurate” in the attributes for an acceptable financial reporting framework? If no, please explain why.

We do not agree with replacing “reliable” with “accurate” or with changing “neutrality & objectivity” to “objective” in the attributes for an acceptable financial reporting framework. For

both proposed changes, changing terminology from what is used in ISSAI 1210/ISA 210 could make it more difficult for inexperienced auditors and developing public sector audit organizations to implement ISSAI 200 and the level 4 audit guidelines.

In addition, we do not believe that “accurate” is clearer and less ambiguous than “reliable” if the intended definition is unchanged from the definition of “reliable” in ISSAI 1210/ISA 210, appendix 2, paragraph 3(c), and the existing ISSAI 200, paragraph 24. For example, part (i) of the definition states that “Where applicable, reflects the economic substance of events and transactions and not merely their legal form.” The term accurate could be used to describe the purely legal form of a type of transaction without reflecting the economic substance of the event.

Should INTOSAI determine to keep these changes in the ISSAIs, we encourage INTOSAI to consider providing definitions or cross-references to the definitions of the attributes of acceptable financial reporting frameworks.

5. The proposed revised ISSAI 200 takes into account the particularities of the public sector and does not use the term performance materiality in order to avoid confusion with the use of materiality in performance audit. Do you agree with this proposal?

We believe that the ED ISSAI 200 provides an appropriate discussion of materiality for the fundamental auditing principles. Thus, we do not object to the removal of “performance materiality” as the underlying concept is still presented and discussed.

6. We consider that there are no significant differences when applying the general principles of professional skepticism and professional judgement (as presented in ISSAI 100) in the context of financial audit as compared to compliance or performance audit. Therefore, in order to streamline the document, the proposed revised ISSAI 200 does not further detail these principles. Do you agree with this position?

We agree that there are no significant differences when applying the general principles of professional skepticism and professional judgment to financial audits, compliance audits, and performance audits. Therefore, we do not object to the removal of additional discussion of these principles from ED ISSAI 200.

7. Whether the proposed revision to ISSAI 200, along with ISSAI 100 provide a sufficient basis from which SAIs can develop their own standards, as a basis for the adoption of consistent national standards and/or as a basis for adoption of the INTOSAI standards for financial audit (ISSAI 2000 – 2899)?

If ED ISSAI 200 is appropriately adjusted to address our comments, we believe that the revised ISSAI 200, in conjunction with ISSAI 100, would provide a sufficient foundation from which SAIs can develop their own standards, adopt consistent national standards, or adopt INTOSAI standards for financial audit.

Additional Technical Comments and Observations

- Paragraph 3 [application material]: The ED ISSAI 200 contains what appears to be a placeholder that was not removed.
- Paragraph 5, final bullet: The final bullet point of paragraph 5 states “principles of financial auditing.” The related heading on page 8 of ED ISSAI 200 has been changed to “Financial Audit Principles.”

- Paragraph 18: The paragraph states that the auditor should consider explaining the impact of the financial reporting framework on the results *or assets and liabilities*. It is unclear why the focus is on assets and liabilities, as many other aspects of the financial statements could be affected. We suggest that INTOSAI delete the italicized phrase.
- Paragraph 56: The second sentence of this paragraph ends “and their impact on the financial statements, if corrected.” This duplicates the requirement in paragraph 57 for uncorrected misstatements.