

PERSPECTIVES IN THE APPLICATION OF THE INTERNATIONALE STANDARDS OF SUPREME AUDIT INTSTITUTIONS

Dana Simona Gherai, Ioan Gheorghe Tara, Diana Elisabeta Matica

Finance-Accounting Department, Faculty of Economic Sciences, University of Oradea, Oradea, Romania

dana.gherai@yahoo.com

ioantara@yahoo.com

dianabalaciu@yahoo.com

Abstract: *Administrative and financial activities of the public sector are governed by laws and regulations, so public external audit needs to verify that asset accounting and management are properly conducted in accordance with applicable laws and regulations. The public sector becomes the main beneficiary of the application of standards by the Supreme Audit Institutions. Institutions, through their activities, offer a certainty to the public sector that they carry out their activities in good condition and in an economical and efficient way. At the same time, audit activities also provide taxpayers with the good functioning of the public system, and the latter can provide greater confidence to the whole system. In our paper we have identify, for each EU Member State, the standards applied in the public financial audit system. According to the results, most member states apply the International Standards on Auditing or ISSAI, which underlines the desire for harmonization in the public sector. At the same time, the countries that have recently joined the European Union seem to be more interested in reforming the public sector and moreover, reforms in this sector are finalized more rapidly.*

Keywords: *Supreme Audit Institutions; International Audit Standards; INTOSAI.*

JEL classification: *M42.*

Introduction

It is known that audit, like accounting, is done according to international and national regulations accepted by each country. Entities in a state, irrespective of whether they are part of the private or public sector, essentially observe the same set of regulations, originally issued to the private sector and subsequently used in the public sector. Thus, were issued the International Auditing Standards - IAS for the private sector, developed by the International Federation of Accountants -IFAC and the International Standards of Supreme Audit Institutions -ISSAI, for the public sector, developed by INTOSAI.

International Standards of Supreme Audit Institutions are regulations issued by INTOSAI and aim to provide an updated framework that meets the needs of its members (Ispir, 2008). In general, professional standards and regulations are not exhaustive. They present a general framework of action for auditors, a general way to follow, but cannot predict the particular circumstances, specificities of activities and operations (Popa *et al*, 2012: 14).

Regarding *the need* for these regulations in the field of auditing, Anerud (2006) identified a number of factors that have influenced the development of international audit standards, of which:

- *Financial scandals and the need to restore confidence in the accounting and auditing industry* - over time, a major influence on the development of international auditing standards has been the numerous financial scandals that have existed, which is why the accounting and auditing industry have lost their credibility, and efforts to rebuild trust in these professions are concentrated around the world;
- *Globalization, convergence and the need to harmonize standards* - globalization and international convergence were also factors influencing the development of audit standards. The European Union and the World Bank are seeking a broad use of harmonized and high quality standards. There is, also, a real interest in harmonizing audit standards in the public and private sectors;
- *The link between the public and the private sector* - numerous Supreme Audit Institutions already have well-developed audit standards in the public sector. In countries such as the United States or the UK, if certain public external audit work is outsourced to private contractors, they are then reviewed by the Supreme Audit Institutions. Institutions within these countries have contact with national standardization bodies and are consulted in the process of developing national audit standards.

By analyzing the public sector and retrospectively in history, the factors that have influenced the development of international auditing standards, identified by Anerud (2006) and the development of public sector audit standards can be considered identical. At the same time, alongside these factors, *internal control* and *adequacy* need to be considered.

Strong internal controls can be seen as factors that have influenced the emergence and development of international auditing standards in the public sector, because they have a huge impact on the credibility of a government and the operations it carries out.

They form the international control environment in which governments operate so that standards provide a mechanism by which reasonable assurance can be obtained towards the fact that assets are protected, financial transactions are ethical, and financial reporting is reliable. Taking into account the fact that trust is a gradual concept - ranging from mistrust to absolute trust, it manifests horizontally or vertically, cognitively or emotionally, and ultimately leads to a built-in trust in favour of an ex-ante type (Feleagă *et al*, 2013: 12) - strong internal control provides insurance and trust for international companies and organizations with which a country enters into relationships, regardless of the field, and the use of common guidelines allows a unified understanding and efficient communication to obtain both insurance and trust.

Using a common framework or language in the public sector of audit standards and guidelines, it will be obtained an audit approach that will allow auditors to share experiences, reference points and a performance measurement framework through cross-border cooperation.

Adequacy, as a factor influencing public sector audit standards, should be taken into account because adequate standards must be followed to ensure a high-quality audit work. In this case, the adequacy is given by the objectives pursued by the audit. Each Supreme Audit Institution is required to establish a policy by which INTOSAI standards or other specific standards are followed in performing the various types of

work the organization carries out to ensure that its activity and results are of high quality (ISSAI 100, 2001).

The need for ISSAI must also be seen from the perspective of the benefits that may occur. In this context, INTOSAI in the work "Implementing the International Standards for Supreme Audit Institutions" (2012) identifies three major benefits, presented in Table 1, for which the Supreme Audit Institutions should adopt and implement ISSAI.

Table 1: Benefits of implementing ISSAI

Criteria	Description of Benefits
Quality	Supreme Audit Institutions need to gain the trust of citizens and stakeholders in the work done, and the application of internationally recognized standards will ensure a certain high level of quality and consistency in audits as credibility builds on the quality offered and represents an important step towards gaining confidence. A high quality standard will reduce auditing risk, will simplify comparative analysis and may help in sharing experiences or continually improving.
Credibility	The use of globally accepted standards leads to increased credibility and increased confidence in the Supreme Audit Institutions, external public auditors, audit results, and auditors' entire work.
Professionalism	Standards provide the foundation for the professionalism of auditors and of the Supreme Audit Institutions by providing a structured process for audit work through opportunities for improvement, exchange of views and professional experiences across national and sectorial boundaries. Standards also provide a common language for public and private sector auditors in similarly responsible areas, strengthening the audit profession.

Source: author's projection after INTOSAI (2012)

The Perspective of the Supreme Audit Institutions

Although the ideal approach would be to apply a uniform using of audit standards, using that would bring a number of benefits, the Supreme Audit Institutions should consider the compliance of its activities with the INTOSAI Auditing Standards. Certain standards may not apply to part of the activities carried out, either due to the structure or organization of the institution or to the non-audit activities performed. A good example is the financial and performance audit that is different as a way of exercising for institutions like the Court of Auditors or those organized within a hierarchical system headed by a General Auditor.

Also, often the Supreme Audit Institutions carry out activities that, by definition, do not qualify as audit activities, but contribute to better governance. As a result, Supreme Audit Institutions are required to set the standards applicable to such works to ensure that they are consistently of high quality (ISSAI 100, 2013).

Surely, in order to ensure high-quality work, it is necessary for the Supreme Audit Institutions to adopt and follow appropriate standards. But to what extent do they apply these standards and how useful do they consider? A question to which the

Professional Standards Committee - the PSC sought a response in 2007 based on a study.

The PSC of INTOSAI conducted the study from November 2006 to February 2007 on the needs and priorities of the Supreme Audit Institutions in the development of professional standards. The purpose of the study was to provide guidance to the Committee on how ISSAI and INTOSAI GOV can be best developed in the coming years. The response rate was 54%, that is, a total of 100 Supreme Audit Institutions, of which 56 are organized in the form of the Auditor General, 20 as Audit Courts or Courts of Auditors, 9 are part of the College model and 15 are parts of other forms of organization.

According to the study, three main questions were followed, with the following results:

1. What standards and guidelines are used by the Supreme Audit Institutions?

The aim was to know the types of standards most commonly used by the Supreme Audit Institutions. A response was received from 76 institutions (out of a total of 100 respondents) using the INTOSAI Auditing Standards for Financial Audit, Compliance Audit, or Performance Audit. Most of them use the standards for all three branches of external public audit (70 - financial audit, 67 - compliance audit, 64 - performance audit) and one uses standards in relation to other tasks (43 by ISA), such as program ratings. The responses reflect that many Supreme Audit Institutions combine guidance materials from multiple sources to perform different tasks. In addition to the INTOSAI standards, the most widely used are the International Auditing Standards issued by IFAC. Practically, 55 institutions use these standards in the field of financial audit, but there are uses for compliance and performance audits.

2. What are the needs for guidance in public sector audit work?

In a declarative way, the questionnaire pointed out that the PSC, through the "double approach", is based on the development of INTOSAI standards and guidelines and on other standards of various widely recognized bodies of the Supreme Audit Institutions. As a result, the PSC will work to harmonize public sector auditing worldwide, INTOSAI will develop complementary guidance if there is a special need and will attempt to influence international standards so that they will address issues of particular interest to external public audit. With regard to this support, 81 Supreme Audit Institutions have stated that the approach is appropriate and 2 have expressed their disagreement. At the same time, the importance of focusing on improving guidance on audit work and the importance of harmonizing public sector and private sector standards have been emphasized. Another consensus was that there are some differences between public and private sector auditing, and therefore special guidance is needed for public sector audit (81 institutions state that the overall purpose of public sector audit is to a certain extent different from private sector auditing).

3. How can INTOSAI standards and guidelines be improved in the coming years?

The questionnaire refers to the existing and planned INTOSAI standards and guidelines and contains a number of questions on the need for improvement. According to the replies, 53 Supreme Audit Institutions consider that there are no problems, while 41 suggest a number of problems that could be the objective of new standards. With regard to the orientation guides, the vast majority of the Supreme

Audit Institutions indicate a number or area where a series of guidelines should be developed in the coming years. However, the answers do not show a strong indication on a particular area (INTOSAI / PSC, 2007c: 3-4).

A - Central Administration



B - State Administration



C - Local Administration



D - Social Funds



Figure 1: Applying audit standards across the European Union

Source: Ernst & Young 2012:44

Legend:

- Different from International Auditing Standards / ISSAI
- Closed to the International Auditing Standards / ISSAI
- International Standards of Auditing or ISSAI
- There is no information

In December 2012, Ernst & Young presented in the report *Overview and comparison of public accounting and auditing practices in the 27 EU Member States* the level of application of the International Auditing Standards and respectively, ISAI's in the financial sector audit to the public sector. Figure 3 reflects the response of the financial auditors of each Member State regarding the application of audit standards,

either identical to or close to the International Auditing Standards and ISSAI, or different.

Only the application of standards by the Supreme Audit Institutions has been considered in the report, even if it is known that in some EU countries the local government is the subject of a financial audit by private firms (e.g. Sweden). The majority of respondents believe that the audit standards applied by the Court of Auditors at the European level are close to or identical to the International Standards on Auditing and ISSAI. According to the results, this situation seems to apply to all governance sub-sectors.

Given the interest in external public audit exercised by the EU's Supreme Audit Institutions, it is relevant to identify, based on the Ernst & Young Report (2012), for each EU Member State, the standards applied in the public financial audit system. So, to determine this, the country reports found in the study were analyzed, and Table 2 compares the results obtained as follows:

Table 2: Synthesis of the results of the standards applied at EU level

Country	Audit standards applied
Austria	International Standards on Auditing and ISSAI
Belgium	No information
Bulgaria	ISSAI
Cyprus	No information
Denmark	Audit guides that follow the standards of ISSAI
Estonia	ISSAI and International Standards on Auditing
Finland	Audit guides that follow standards of ISSAI
France	International Standards on Auditing
Germany	National regulations. ISSAI are accepted as "Good practice"
Greece	No information
Ireland	International Standards on Auditing
Italy	ISSAI
Latvia	National regulations
Lithuania	International Standards on Auditing and ISSAI
Luxembourg	Do not apply
Malta	International Standards on Auditing and ISSAI
Great Britain	National regulations that follow the standards of the Supreme Audit Institutions
Holland	International Standards on Auditing
Poland	National audit standards
Portugal	International Standards on Auditing (ISSAI on a voluntary basis)
Czech Republic	Close to the International Standards on Auditing
Romania	National regulations that follow the International Standards on Auditing and ISSAI
Slovakia	No information
Slovenia	National regulations (ISSAI on a voluntary basis)
Spain	ISSAI
Sweden	International Standards on Auditing
Hungary	International Standards on Auditing and ISSAI

Source: Author's projection after Ernst & Young (2012)

According to the results, most member states apply the International Standards on Auditing or ISSAI, which underlines the desire for harmonization in the public sector. At the same time, the countries that have recently joined the European Union seem

to be more interested in reforming the public sector and moreover, reforms in this sector are finalized more rapidly.

Conclusions

Administrative and financial activities of the public sector are governed by laws and regulations, so public external audit needs to verify that asset accounting and management are properly conducted in accordance with applicable laws and regulations.

The public sector becomes the main beneficiary of the application of standards by the Supreme Audit Institutions. Institutions, through their activities, offer a certainty to the public sector that they carry out their activities in good condition and in an economical and efficient way. At the same time, audit activities also provide taxpayers with the good functioning of the public system, and the latter can provide greater confidence to the whole system.

As a result, the use of best practices and a regulatory framework agreed by the Supreme Audit Institutions is becoming a topic of great interest to both the institutions themselves and the public sector as a whole.

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