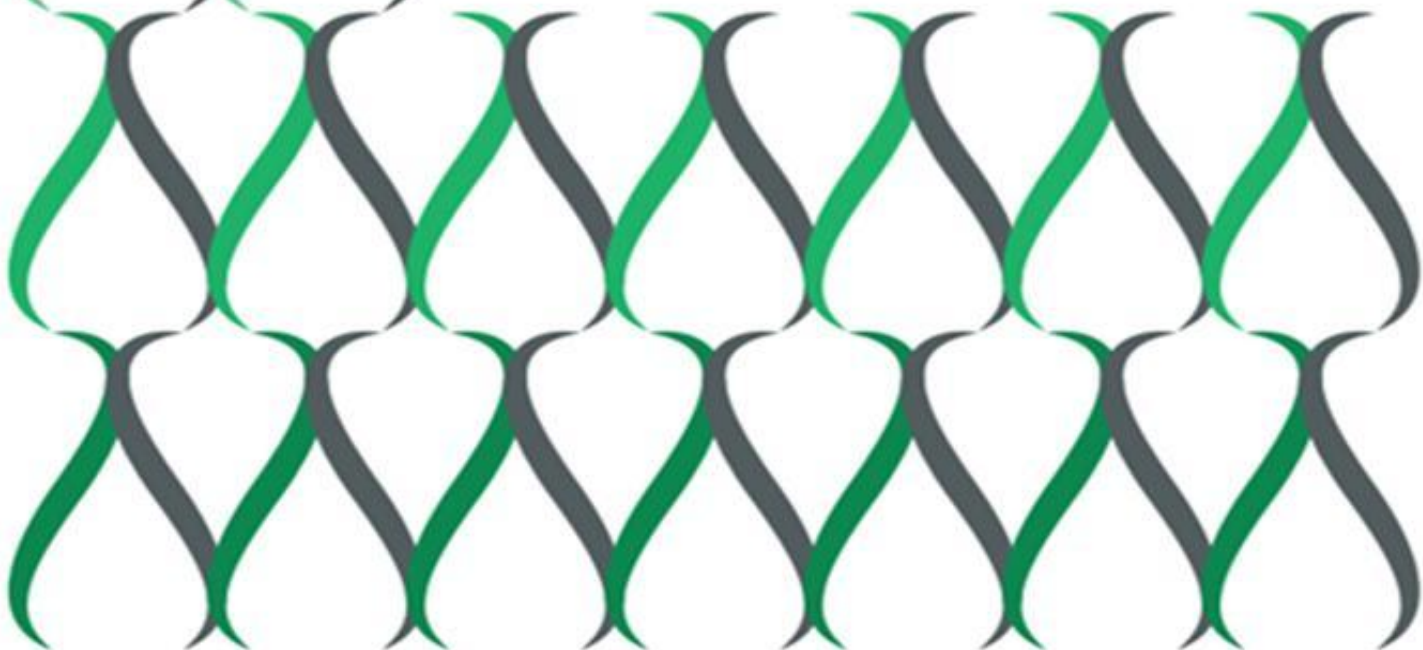




SURVEY RESULTS

**FINANCIAL AUDIT PRACTICES
IN SAIs OF DEVELOPED COUNTRIES**



Foreword

There has been an increasing demand on Supreme Audit Institutions (SAIs) to contribute to the strengthening of democracy and to social and economic stabilization. SAIs are extremely important when it comes to providing trust to society and to the international market. This is done by performing audits focused on good public governance, accountability and transparency in the use of public resources by government leaders and public managers.

With this in mind, the Federal Court of Accounts – Brazil (TCU) is implementing a project aiming at strengthening its financial audit function, with the support of the World Bank, since this is one of the most used oversight mechanisms in the world, both in the private and public sectors. It is a very important tool to improve management of public finances, promoting more transparency and, consequently, more trust between citizens/investors and governments.

This document presents the results of a survey on financial audit practices in SAIs of developed countries. Its main purpose is to know the best international practices of this type of oversight, identifying gaps and, based on this, formulate a strategy to reduce the gaps that were identified.

The survey covers four relevant aspects: a) mandate and objectives; b) resources and organization; c) methods and procedures; and d) reports and impacts.

Regarding **mandates and objectives**, it was found that financial audit is the most recurring issue in the SAIs that were surveyed and that there is a strong interaction between this type of audit and other oversight engagements, especially with compliance audit.

With regard to **resources and organization**, it was found that, on average, the surveyed SAIs have a strong structure and professionally certified financial auditors. Many of them have centralized organizational structures and develop internally their human resources, instead of widespread use of internal audit engagements and outsourced audit companies. Furthermore, there is extensive use of experts in Information Technology, statisticians, and actuaries.

As for **methods and procedures**, it was noted that there is a preference for IT solutions that are leaders in the market focused on management and documentation of financial audit, as well as for statistic sampling. Many SAIs periodically submit themselves to peer reviews, but in different time intervals. It was also noted that there is a balance between evidence resulting from substantive tests and oversight.

Concerning **reports and impacts**, the conclusion is that the main benefits of accounts certifications of government bodies are: strengthening of accountability,

integrity and transparency, improvement of internal controls and enhancement of the value of public governance.

This summary shows the wealth of the survey not only for TCU, but also for the whole SAI community. Mutual learning and collaboration are of great importance for the institutional improvement of INTOSAI members. This survey is the result of efforts endeavored by all participants and represents an international reference for identification of best practices in financial audit in the public sector.

With these comments, I conclude my report and recommend that the results of this survey be used. I would like to thank the World Bank for their partnership and the twenty-one SAIS that participated in the survey for their willingness to exchange experiences with the TCU.

AROLDO CEDRAZ

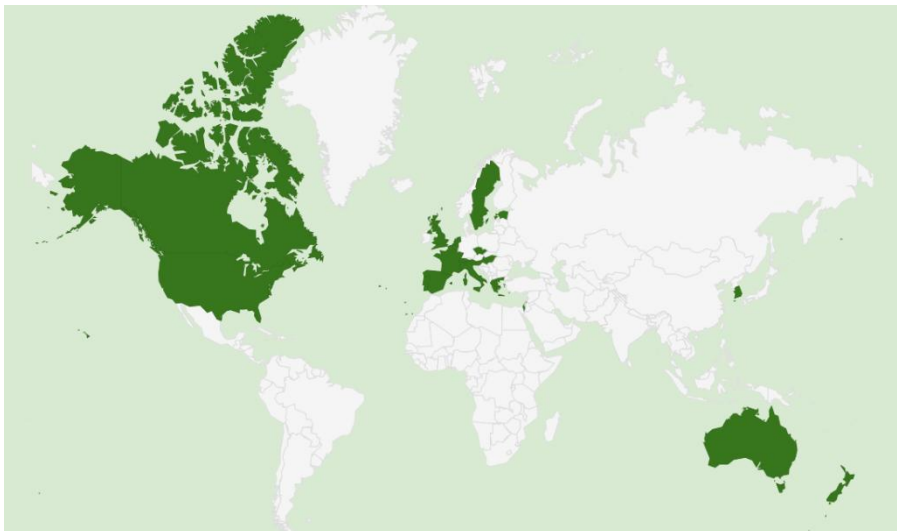
Minister of the Federal Court of Accounts - Brazil

Rapporteur of the Strategy to Strengthen Financial Audit

Respondents

The questionnaire was responded by 21 Supreme Audit Institutions:

- 1) Australia - Australia National Audit Office
- 2) Belgium - Belgian Court of Audit
- 3) Canada – Office of the Auditor General of Canada
- 4) Czech Republic – Supreme Audit Office
- 5) Estonia – Estonian National Audit Office
- 6) European Union – European Court of Auditors
- 7) France – French *Cour des Comptes*
- 8) Greece – Hellenic Court of Audit (*Elegktiko Synedrio*)
- 9) Hungary – State Audit Office of Hungary
- 10) Israel – Office of the State Comptroller and Ombudsman
- 11) Italy – Italian *Corte dei Conti*
- 12) Korea – The Board of Audit and Inspection of Korea
- 13) Netherlands – Netherlands Court of Audit
- 14) New Zealand – Office of the Controller and Auditor General
- 15) Portugal – Portuguese *Tribunal de Contas*
- 16) Slovenia – Court of Audit of the Republic of Slovenia
- 17) Spain – Spanish *Tribunal de Cuentas*
- 18) Sweden – Swedish National Audit Office
- 19) Switzerland – Swiss Federal Audit Office
- 20) United Kingdom – National Audit Office
- 21) United States of America – Government Accountability Office



Survey Content

SECTION A: ENVIRONMENTAL MATTERS

SECTION B: MANDATE AND OBJECTIVES

SECTION C: RESOURCES AND ORGANIZATION

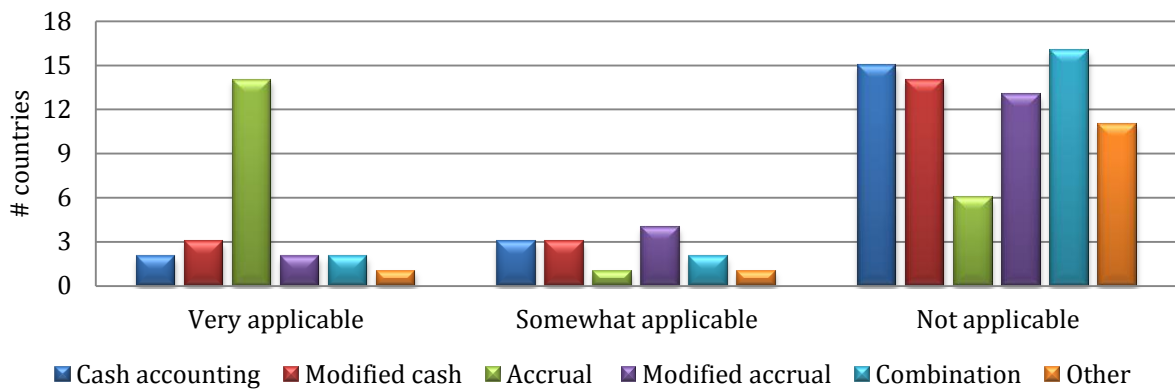
SECTION D: METHODS AND PROCEDURES

SECTION E: REPORTS AND IMPACTS

SECTION A: ENVIRONMENTAL MATTERS

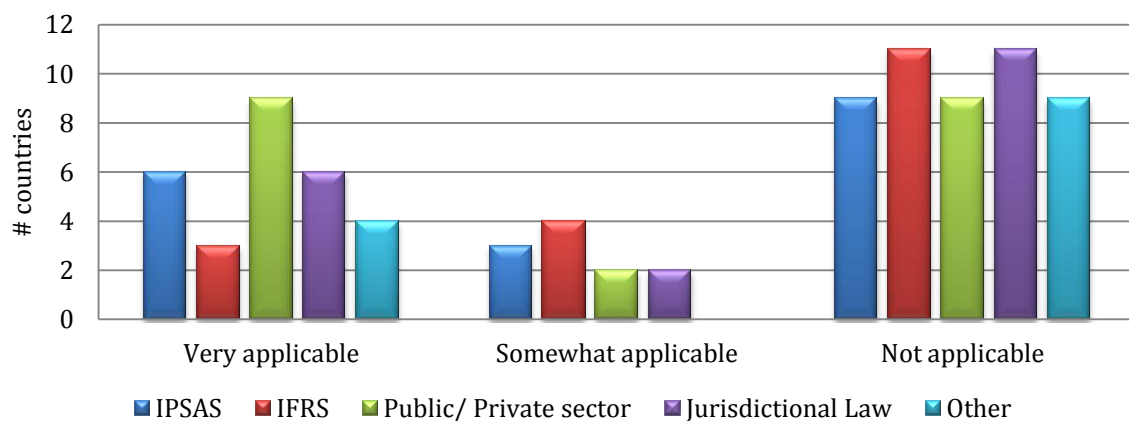
QUESTION 1: ACCOUNTING BASIS APPLICABLE

For the financial audits that you perform, estimate which of the accounting standards listed below best characterize your situation.



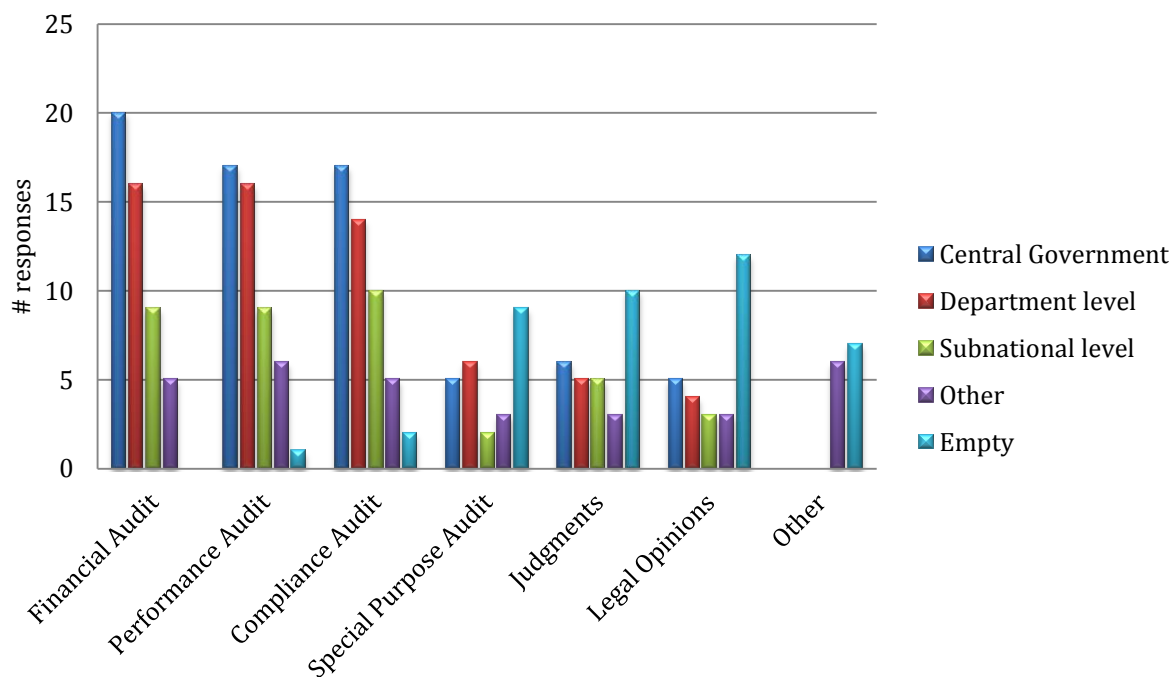
QUESTION 2: ACCOUNTING STANDARDS APPLICABLE

For your consolidated central government financial statements, estimate which of the accounting standards listed, best characterize your situation?



SECTION B: MANDATE AND OBJECTIVES

QUESTION 4: SAI MANDATE



Examples of other mandates:

“Opinions on legislation with financial impact”

“Different types of engagements”

“Special examinations”

“Opinions related to requests from Parliament”

Examples of other levels:

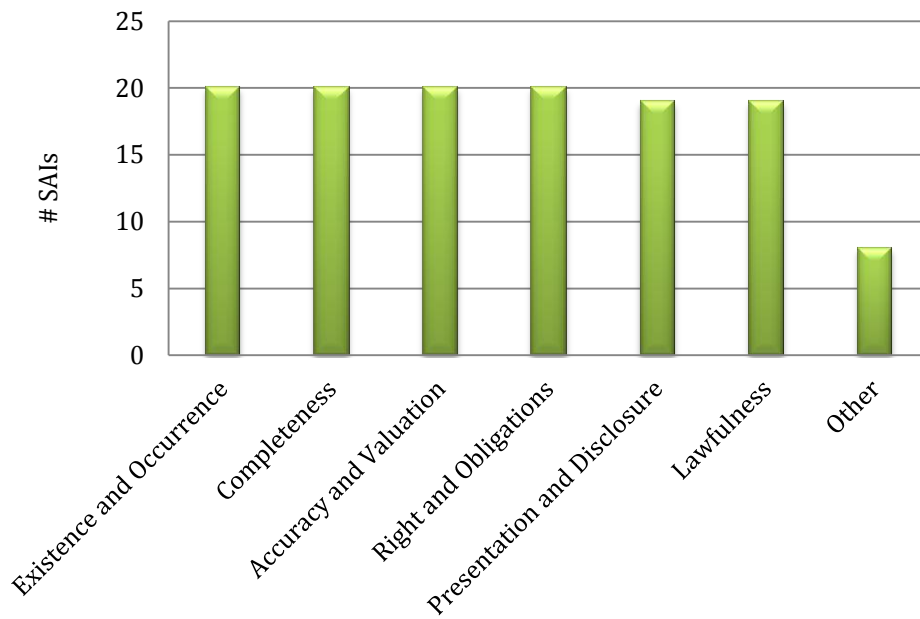
“State owned enterprises”

“Social security funds”

“Non-national entities”

QUESTION 5: FINANCIAL AUDIT ASSERTIONS

Choose below the audit assertions that are covered in your **financial audit**:



Examples of other assertions:

“Cut-off”

“Classification”

“Principle of going concern”

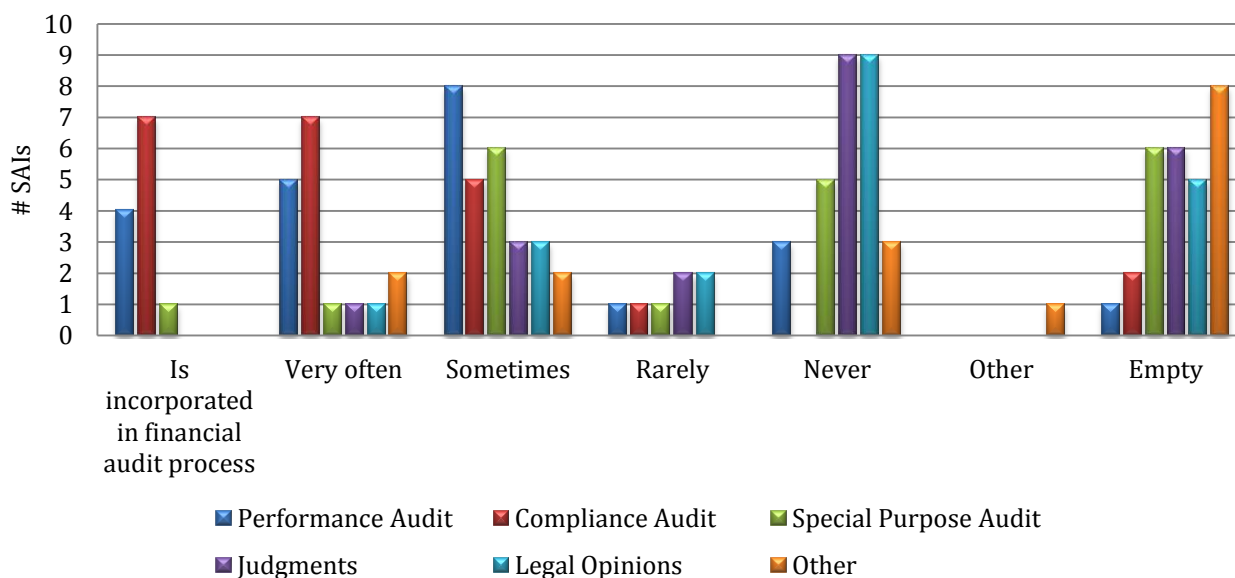
“Principle of consistency”

“Principle of continuity”

“Principle of matching”

QUESTION 6: FINANCIAL AUDIT AND OTHER SAI MANDATE

To what extent does your financial audit function incorporate/integrate with other types of oversight functions for your SAI (e.g. the financial audit function feeds into the planning and scope determination of other oversight functions or vice versa OR the need for other oversight engagements are identified as a result of the financial audit):



Examples of other mandates integrated with Financial Audit:

“Examination of drafts budgets and budget advisor”

“Oversight of budget execution”

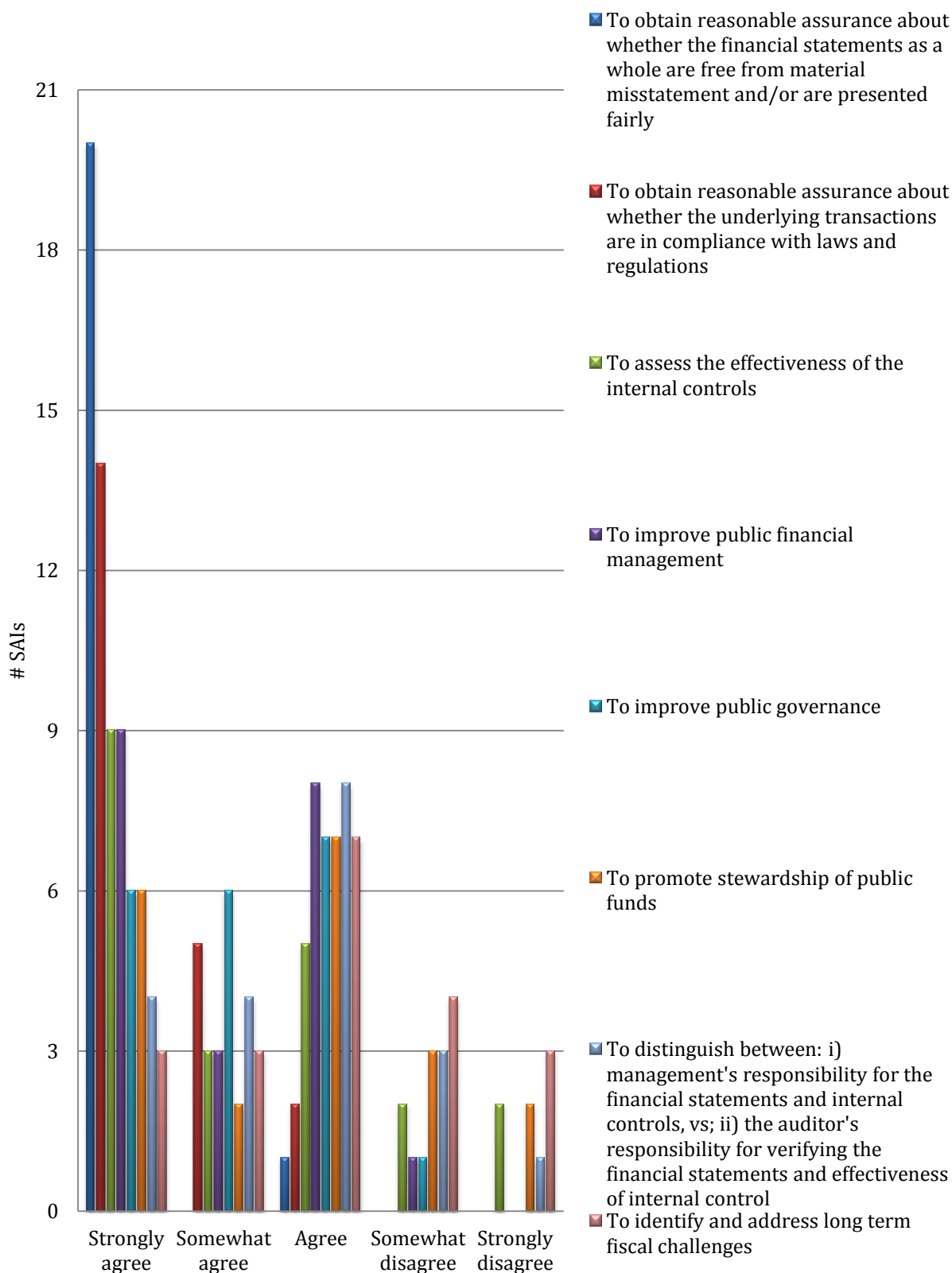
“Special examinations”

Example of comments:

“The Office is in the process of increasing the amount of linkage between financial audits and all the other product streams and works that we undertake. Thus we expect this to increase to ‘very often’ in a relatively short timeframe.”

QUESTION 7: FINANCIAL AUDIT OBJECTIVES

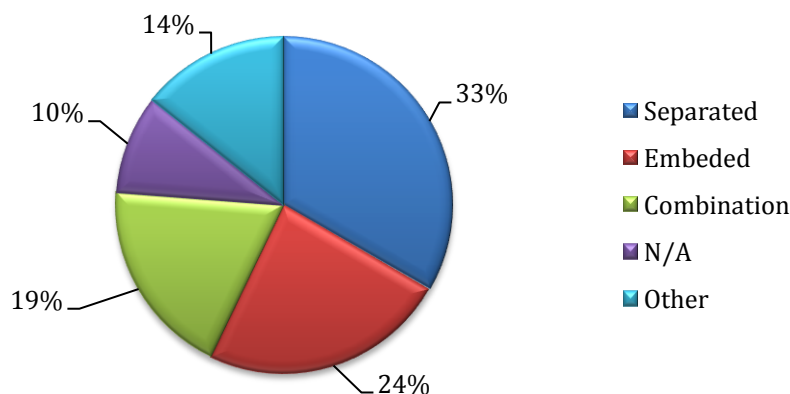
What are the objectives of your financial audit function?



SECTION C: RESOURCES AND ORGANIZATION

QUESTION 8: FINANCIAL AUDIT IN THE ORGANIZATIONAL DESIGN

In the chart below, what best describes the organizational design of **your SAI**, specifically regarding your **Financial Audit function**:



Examples of other organizational designs:

“Our organizational structure is grouped by practice including different geographical regions. Each group may include a financial audit function, a performance audit function and a special examination audit function.”

“The Audit Section is composed of 7 Audit Departments, each of them in charge of a sub-sector of the public sector. Each Department has competence to develop compliance, financial and performance audit. In fact, almost every audit report covers all types of audit.”

“Financial audits carried out by audit service providers on contract under an allocation method on behalf of the Auditor-General.”

“The audit departments are organized by activity sector and each department includes both the financial and performance functions.”

“Financial audit is organized in three departments.”

Examples of comments:

“We are arranged in 6 clusters which group government departments depending on aspects of similarity (for example one cluster is made up of departments that principally deliver their functions through a net work of other bodies.”

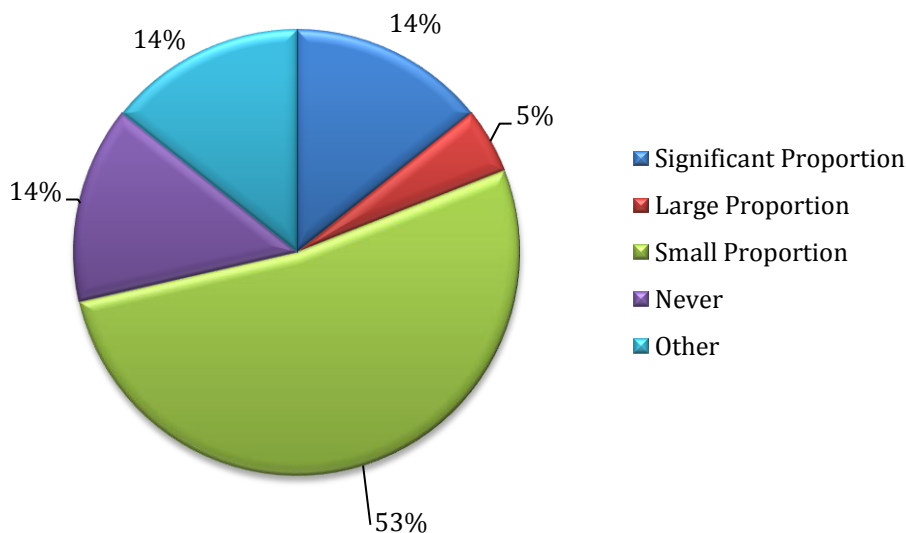
“Financial audit is performed mainly in the period from August to March.”

“Our institution is organised in separate chambers with responsibilities in specific policy areas and each chamber is divided in audit units. The financial audit is coordinated by a central audit unit which has correspondents in all the other audit units that are involved in the annual audit report.”

“Financial audit department is divided into 2 minor departments: Department of financial audit realization and Department of financial audit methodology.”

QUESTION 9: USE OF INTERNAL AUDIT

To what extent does your financial audit incorporate the work of an internal audit function that is located in another governmental department (outside of your SAI):



Examples of other:

“According to the SAI’s legislation, the results of any auditing function or internal control may be obtained and used for the purposes of its audit function. The SAI may also request any data, statements, documents, records or reports in connection with the performance of its functions.”

“We practice the requirements in the ISA 610. Use the work of internal auditors, which states that we have to evaluate the internal audit function and also to consider and evaluate the possibilities to use their work. This does not happen very often. It is very difficult to estimate how much.”

Examples of comments:

“Where possible, we rely on the work of internal audit and reduce our financial statement audit work accordingly.”

“Reliance on the internal audit function varies. For a few entities, it may constitute a large proportion of audit evidence, but for the majority of our entities we do not rely on the work of the internal audit function.”

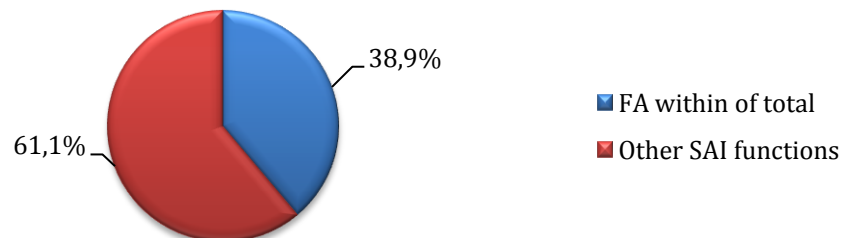
“We look to place reliance on internal audit for each audit assignment but in practice we do so only in a small number of instances.”

“While we would have regard to the work of internal auditors, generally we are not able to place reliance on this work for carrying out financial statement audits.”

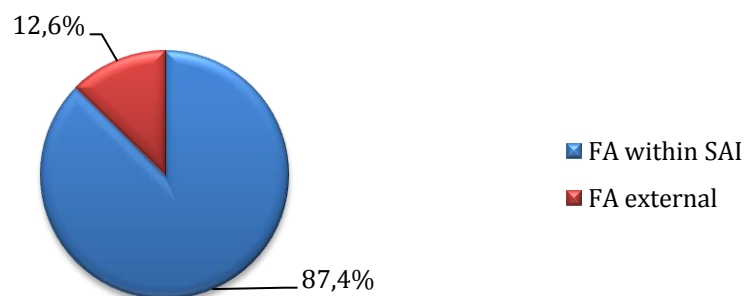
QUESTION 10: MANAGEMENT OF FINANCIAL AUDITORS¹

Complete the table below regarding the number of auditors you have engaged on a **Full Time Equivalents (FTE)²** basis:

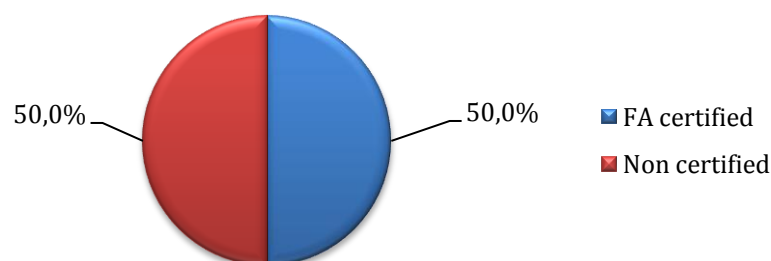
% of Financial auditors in relation to total of auditors



% of Financial Auditors within and external to SAI



% of Financial Auditors certified

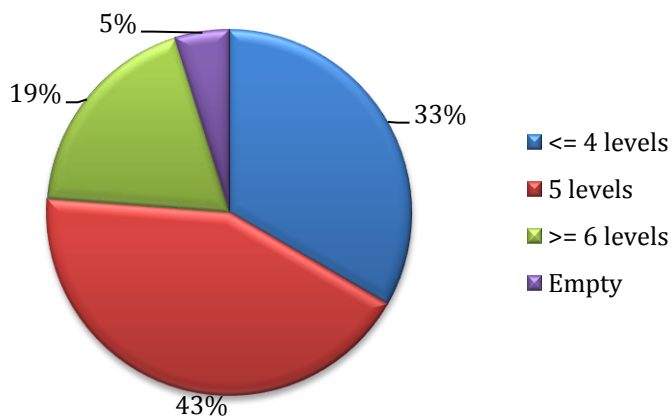


¹ Only 18 SAIs have answered this question.

² FTE is "Full Time Equivalent". For example, if two individuals both work 50% of their time in financial audit, capture them in total as 1 FTE.

QUESTION 11: JOB LEVELS³

How many job levels exist within the financial audit function (hierarchy from most senior to most junior).



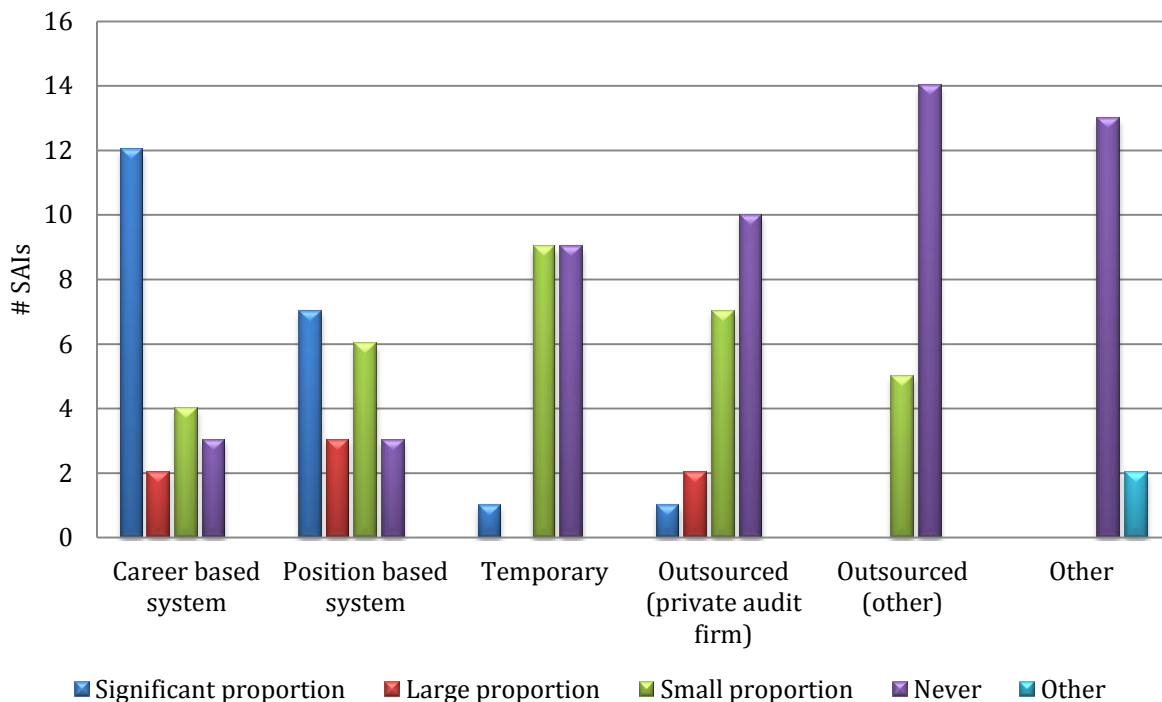
Examples of descriptions:

Director Audit manager Audit principal Trainee	Director Supervisor Senior Auditor Auditor Junior Auditor	Magistrates or senior auditors Auditors
Member Director Head of unit Senior Auditor Junior Auditor	President Supervisory management Auditors managers Auditors Trainee auditor	Auditor General Deputy Auditor General Auditor responsible for the engagement Auditor in charge of the engagement Auditor
Head of department Audit Manager Senior Auditor Auditor Junior Auditor	Auditor General Assistant Auditor General Principal Director Audit Project Leader Auditor (2) Auditor (1) Student trainee	Auditor-General Deputy Auditor-General Group Executive Director Principal Senior Director Director Senior Auditor Auditor Graduate

³ Only 20 SAIs have answered this question.

QUESTION 12: STAFFING MODEL

From the list below, mark where applicable, the staffing model employed that support the financial audit function inside your SAI:



Examples of other staffing model:

“Contract-in professional staff”

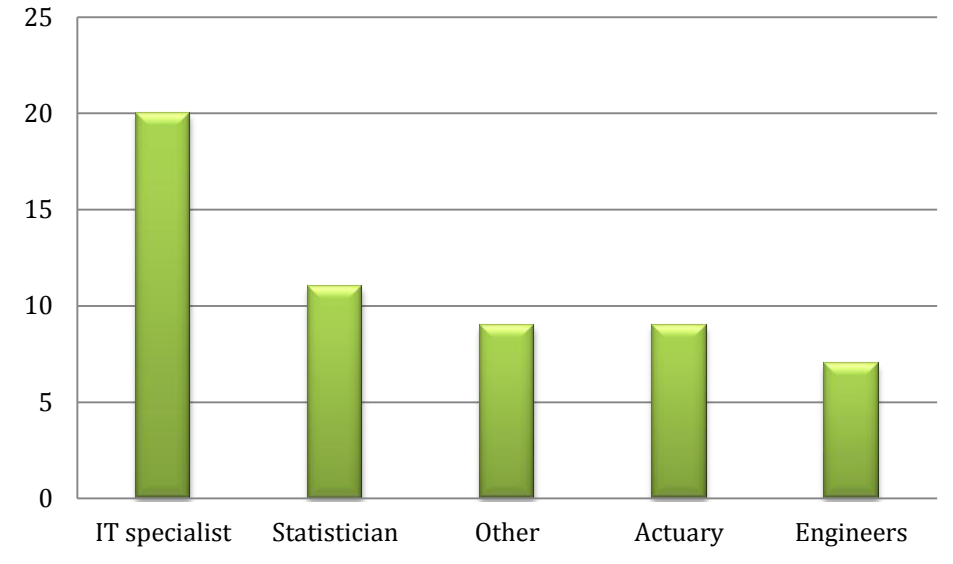
“Each auditor is appointed to conduct the financial audit without competitive selection based on his competences.”

Comment:

“We use external expertise in our IT audits and for statistical calculations when necessary.”

QUESTION 13: USE OF SPECIALISTS

Mark where applicable, those specialists in the list below, who support the financial audit function:



Example of other specialists:

“Legal and Economic advisors”

SECTION D: METHODS AND PROCEDURES

QUESTION 14: MATERIALITY LIMITS

What are the materiality limits/thresholds used in your consolidated central government financial statements?

Examples of responses

“Generally the percentage can be up to 2% of total revenues or expenses or up to one percent of net assets.”

“According to act on accounting materiality threshold is set as 2% of the central government’s total expenditure.”

“Approximate 1% of expenditure for the Income Statement and approximately 2,5% of net assets for assessing fair value movements that do not directly impact the income statement.”

“usually between 0,5 - 2% of total expenses.”

“2% of the total amount of the balance sheet.”

“0,5-2% of assets/expenditures.”

“The materiality limits in our central government financial statements are:

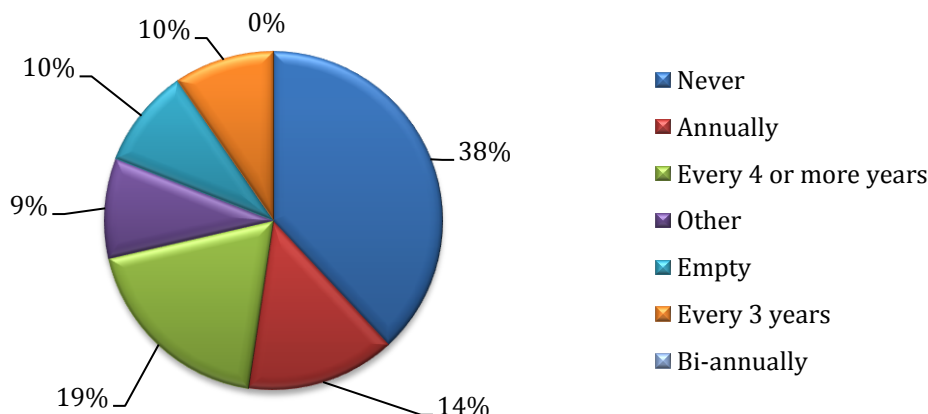
Expenditure: 1%;

Receipts/revenues: 1%;

Trial balance: 1% of the value of the relevant balance sheet items.”

QUESTION 15: PEER REVIEW

What is the frequency of peer reviews that you are engaged in for your financial audit process:



Example of other:

“This year we are having our first peer review.”

Examples of comments:

“We have a program of hot reviews which are aimed at our most strategic clients. These are performed at planning stage and before the accounts are certified. The prime focus of these is to ensure that the correct audit opinion is given on the accounts.”

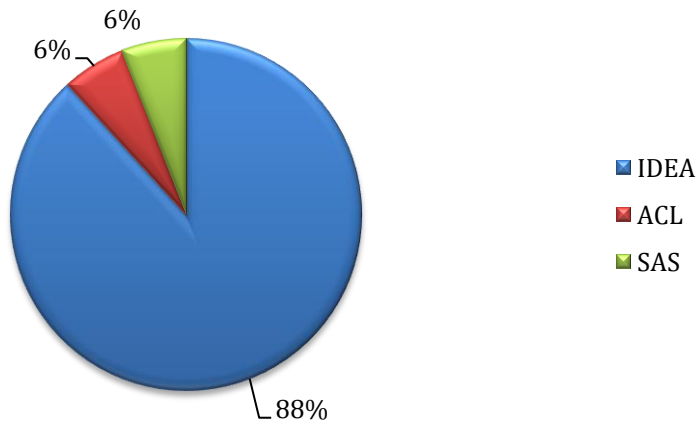
“In 1999, we retained the services of an external audit firm to conduct an audit of our quality management system for financial audits. The audit was undertaken to provide reasonable assurance that we conduct financial audits in accordance with legislative requirements, professional standards, and our own internal policies. The report concluded that our quality management system was suitably designed and that it was operating effectively in 1999. In 2009, a second international peer review was carried out by a team led by the Australian National Audit Office. This peer review’s purpose was twofold: to assess to what extent our Office’s systems and practices are appropriately designed to ensure the quality of our audits, and whether we are implementing them effectively. The team found that our quality management system was suitably designed and operating effectively for the performance audit and special examination practices. For the financial audit practice, the team found that our system was suitably designed and generally operating effectively but noted that risk assessment and documentation needed attention.”

“In 2012, the National Audit Office of Finland (“NAOF”) performed a specific limited Peer Review regarding the implementation of ISQC 1 (International Standard on Quality Control) and ISA 220 (Quality Control for Audits of Historical Financial Information) standards in this certification. The scope of the Peer Review was limited to the organization and procedures of the Cour concerning the certification of the State Accounts and the certification of the accounts of the General Regime of the Social Security. In particular, NAOF was invited to assess whether the Cour had put in place the resources, procedures and guarantees to ensure compliance with the relevant international standards of audit. The scope of the Peer Review was restricted to issues related to ISQC 1 and ISA 220 standards. However, a number of other relevant standards were partially considered when such standards were regarded as essential for the implementation of ISQC 1 and ISA 220.”

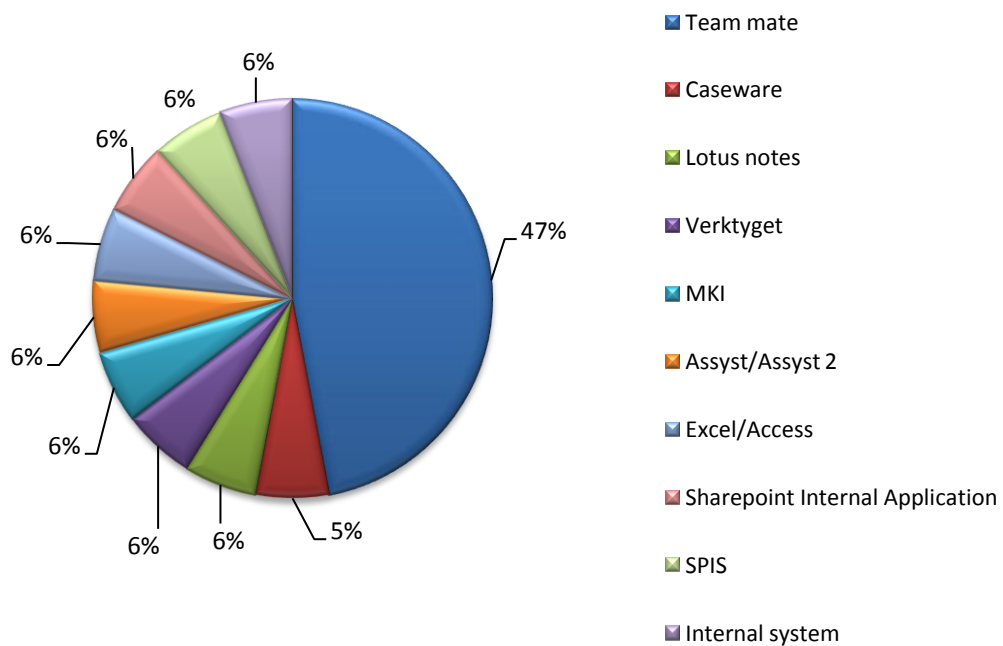
QUESTION 16: IT SOLUTIONS⁴

Complete the table below regarding the IT solutions you employ for your financial audit function:

IT solution for sampling



IT solution for working papers



Examples of other IT solutions:

“ChangePoint, Nuix, SQL Server 2005, SAP assure, IDEA, MS Access.”

“Central Management System.”

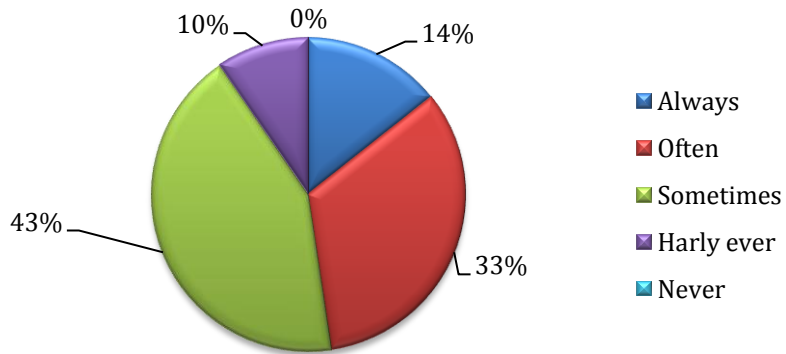
“MS Excel, MS Access.”

⁴ Only 17 SAIs have answered this question.

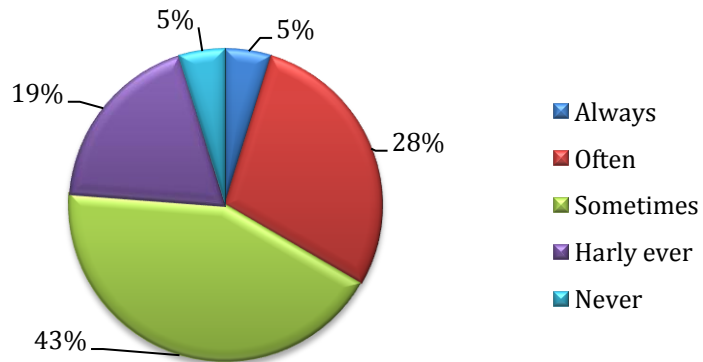
QUESTION 17: SAMPLING

To what extent do you use statistical sampling in your gathering of audit evidence:

Sampling for substantive testing

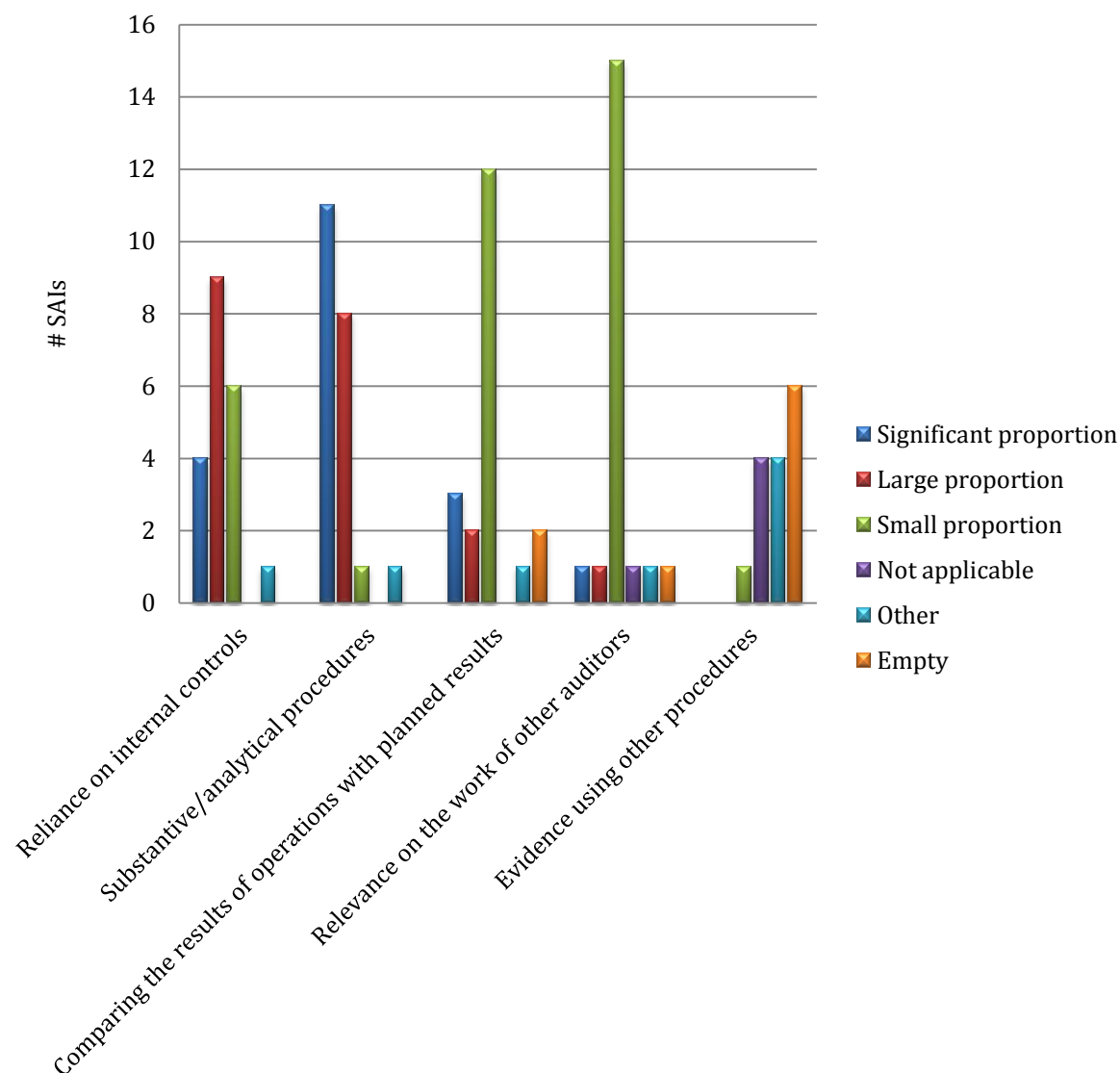


Sampling for testing of controls



QUESTION 18: AUDIT EVIDENCE⁵

For the financial audits you perform, estimate the extent to which your audit evidence is based on the following:



Examples of comments:

“Generally, larger audits with a higher volume of transactions involve a higher proportion of audit evidence that is based on reliance on internal controls; while smaller audits involve a higher proportion of audit evidence using substantive procedures.”

“For some audits, we place reliance on the work of auditor’s specialists/experts as a source of audit evidence. This is most commonly encountered for the audit of employee benefits or income taxes or legal matters.”

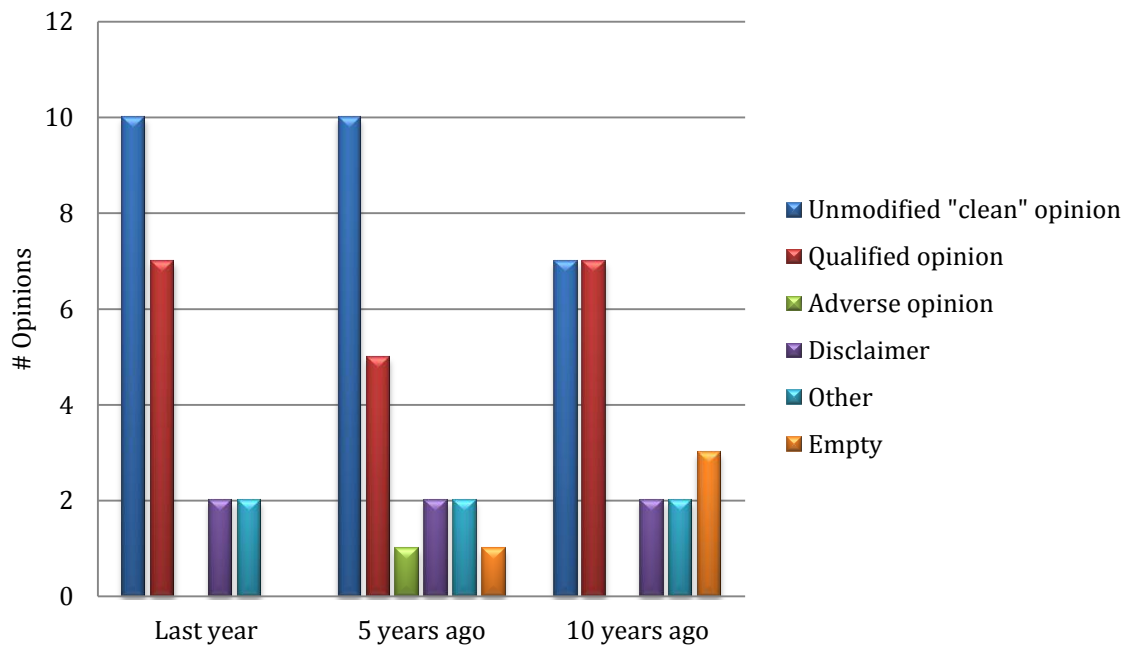
“Our audits are based on the requirements of the ISAs and how the evidence is gathered depends on the entity and the function of its internal control system. All the suggestions listed above are relevant but I can not provide you with a estimate on how much.”

⁵ Only 20 SAIs have answered this question.

SECTION E: REPORTS AND IMPACTS

QUESTION 19: AUDIT REPORT⁶

Complete the table below regarding your audit on the consolidated governmental financial statements (central government):



Examples of number of qualifications:

“7 qualifications, covering 60 audit matters last year and 12 qualifications 5 years ago.”

“4 qualifications 10 years ago”

⁶ Only 19 SAIs have answered this question.

QUESTION 20: MISSTATEMENTS

List below the more significant misstatements issued in your most recent audit report:

Examples of responses:

“The clauses of long term liabilities to employees and legal lawsuits are not complete.”

“The insufficient quality of inventories and valuation processes of the military and real estate assets have led to uncertainty as to their correct inclusion in the State’s balance sheet.”

“The financial information recorded in the financial statement relating to investment was deficient, checking its incorrect registration.”

“Unquantifiable value because of road network valuations being inconsistently applied.”

“Transactions between bodies in the same group not all eliminated on consolidation.”

“IT control environment, including controls to manage IT incidents and change management, the regular review and updating of change management processes, and segregation of duties within IT systems (40% of internal control weaknesses reported over the past four years).”

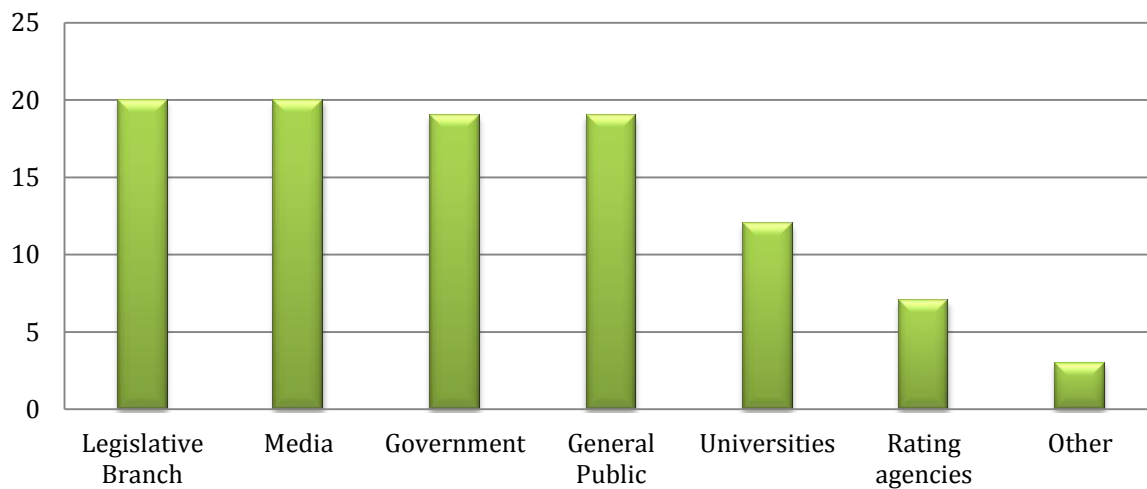
“Accounting and control of non-financial assets including the capitalisation and disposal of assets values, maintenance of fixed asset registers, timely reconciliations between agencies’ asset registers and financial systems, and stocktake procedures (17% of internal control weaknesses reported over the past four years), asset registers and financial systems, and stocktake procedures (17% of internal control weaknesses reported over the past four years).”

“Purchases and payables including a lack of reconciliations of the general ledger with other accounts or key systems, inadequate segregation of duties, weaknesses in controls designed to ensure the appropriate approval of the payment of public moneys; and lack of controls over credit card expenditure (7% of internal control weaknesses reported over the past four years).”

“Human resource management processes including controls relating to employee provisions and leave and payroll processing (7% of internal control weaknesses reported over the past four years).”

QUESTION 21: USERS

Choose from the list below, the users of your audit report and audit opinion:



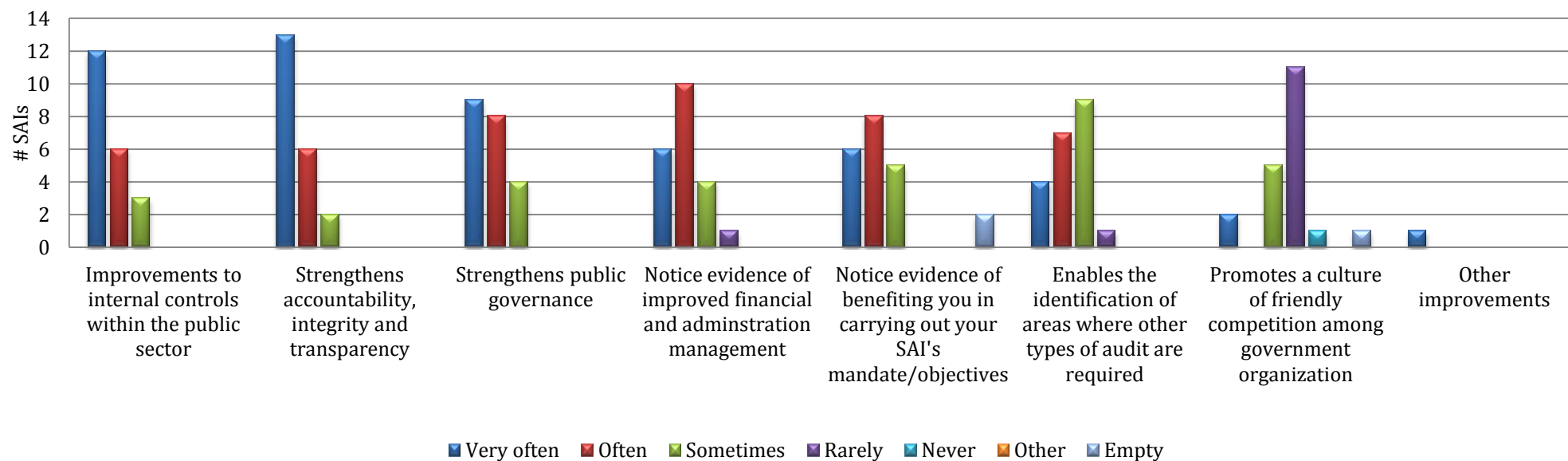
Examples of comments:

“Our auditor’s reports are published within the annual reports of the entities being audited on the entities’ websites. Therefore the auditor’s reports are publicly available and can be accessed by all of the above interested parties.”

“Immediately after the approval of any audit report by the SAI’s Full Session it is uploaded in full text in the SAI’s web page, thus making it fully available for anyone interested”

QUESTION 22: BENEFITS

TO WHAT DEGREE HAS THE FINANCIAL AUDIT FUNCTION BENEFITED IN THE CARRYING OUT OF YOUR SAI'S MANDATE/OBJECTIVES:



Examples of comments:

“Providing assurance to the Parliament.”

“the SAI can also address to Parliament its recommendations and proposed measures aimed to improve good practices in public management and legislations changes when convenient.”

QUESTION 23: RISKS

In your opinion, in the absence of a strong financial audit function (either at your own SAI or in general based on experience), what are the more significant **RISKS** that prevail:

Examples of responses:

“Lack of good **governance**.”
“Weakness of public **governance**.”

“Increased risk of **fraud**.”
“Increased risk of **fraud** and **corruption** in public sector.”

“Material **misstatements** in the financial statements.”

“Lack of **accountability** and **transparency** in the use of public funds.”

“**Non-compliance** with laws and regulations.”

“Lower **confidence** in data that are presented in central government financial statements.”

“The absence of a strong financial audit function would affect our **reputation** and **credibility** and ultimately our ability to fulfil our mandate.”

“**Accuracy** and valuation of key items that require judgement such as physical asset valuation.”

“Increased risk of material misstatements in public sector financial statements going **undetected**.”

“Increased risk of weaker **internal controls** within the public sector organizations.”

“Increased risk of **Parliament** being not as well informed of expenditures or financial management of government organizations.”

“Weak internal control systems in the public sector which might lead to higher risk for **fraud**, **corruption**, payments made without proper authorization, revenue not being properly collected and accounted for etc.”

“Increased risk of non identification of other areas that should be subject to a **performance audit** or a **special examination** (which often comes as a result of the audit findings of a financial statement audit).”

QUESTION 24: REFORMS

If you have recently undergone an implementation of ISSAIs **OR** a strengthening of your financial audit process, please highlight.

i) SUCCESSSES AND BENEFITS THAT YOU HAVE REALIZED

“We implemented the ISSAIs 2010. Our belief is that the implementation has improved the **quality** of our audits and unified the profession.”

“For years the office has audited all the balance sheet clauses in a general and superficial manner. In the last few years the financial audit concentrated in the main clauses, and did **in depth** examinations that found **material deficiencies**, which brought eventually **improvement** and **corrections** in the Government's financial statements.”

ii) ISSUES AND/OR SPECIFIC AREAS THAT REQUIRED SIGNIFICANT ATTENTION AND RESOURCES

“Developing **guidelines, education** and **training**.”

“Appropriate **training** to clarify and integrate the ISSAIs.”

iii) LEARNING(S) DERIVED FROM THE CHANGE PROCESS

“It is very important to dedicate **time** and **resources** to achieve a successful **transition**.”

“Better use of ISSAIs conducts **better performance**.”

“Increasing the **knowledge**, the **professionalism**, and the **foundations** of the audit report.”

“continue to maintain its financial audit framework in line with **developments in the ISAs** and financial auditing standards and play its part in future ISSAI developments.”

“The change has brought the audited bodies to take the audit more seriously, and the **effectiveness** of the audits has increased.”

“The results of the evaluations carried out in the field of control systems confirmed the interaction between the operation of **internal audit** and the quality of internal control systems. Where internal audit was operating adequately, the elements of the control systems also received better qualification - the supervisory manager said. The **regularity** of the execution of the budget had **improved** and - as a continuation of last year's tendency - the **reliability** of financial statements had also shown further **progress**. In comparison to past years, it is a favourable change that based on our **recommendations** the obligation to prepare an action plan was met by all parties concerned.”