



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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DATE: 13 JUNE 2003  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: JERRY GUTU  
SUBJECT: **PUBLIC SECTOR PERSPECTIVES ON ISAs**

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## **ACTION REQUIRED**

The Committee is asked to:

- **receive and note** a progress report on the process of takeover of PSPs by INTOSAI and IAASB; and
- **receive and note** a report on Public Sector Perspectives agreed since the last PSC meeting.

## **AGENDA MATERIAL:**

	Pages
19.2 Update on takeover process of PSPs by INTOSAI/IAASB	19.2
19.3 Report on PSPs since last PSC meeting	19.3-19.4

## **BACKGROUND**

At the last PSC meeting members were advised that the takeover process of PSPs was still in its infancy and that PSC was to continue for the time being to provide PSPs to IAASB ISAs until a mechanism had been finalized to the satisfaction of IFAC and INTOSAI. Attached at 19.2 is a progress report on the process.

PSC set up a subcommittee to draft and propose PSPs at the last meeting in Melbourne, Australia. At 19.3 is a report on the PSPs drafted, circulated to PSC and submitted to IAASB for incorporation in their EDs.

**REPORT ON THE PROCESS OF TAKEOVER OF PSPs BY INTOSAI/IAASB**

At the last PSC meeting members were advised that the takeover process of PSPs was still in its infancy and that PSC was to continue for the time being to provide PSPs to IAASB ISAs until a mechanism had been finalized to the satisfaction of IFAC and INTOSAI.

In April 2003, IAASB staff met with representatives of The International Organization of Supreme Audit Institutions' (INTOSAI) Auditing Standards Committee Working Group to further explore how adoption of ISAs might be facilitated.

The Working Group will be drafting detailed working plans for its volunteers. For some IAASB projects they will find volunteers to join IAASB Task Forces. INTOSAI already has about 16 names willing to support this work with more to come. For others they will identify a volunteer who will read drafts and provide comments on an electronic basis only. ED responses from the INTOSAI Auditing Standards Committee are expected to be provided on a regular basis. The working Group will work independently from IAASB to consider whether they need to produce Practice Notes to assist SAIs in adopting or interpreting ISAs for governmental needs.

It has been suggested that the Working Group be asked to take on responsibility for providing input to IAASB projects that would be approved at the October 2003 meeting and beyond. Until then, the PSC can continue its current role. It is hoped that the Working Group will be able to provide suggestions of words or paragraphs that can be included inside IAASB standards and eliminate the need for perspectives added at the end.

IAASB staff will be working with the Working Group Secretariat to draft operating procedures and establish a working relationship between INTOSAI and IAASB over the next couple of months for approval by the IAASB in July 2003 and finalization by October 2003. In the meantime, INTOSAI will begin participating in three new IAASB projects that are starting over the next three months – documentation, communications with those charged with governance and modified audit reports. The World Bank has provided funding to INTOSAI to support this project.

Should these plans be realized the PSC will be able to divest itself of its current responsibility of providing PSPs to ISAs so it can concentrate on the Public Sector accounting issues by the end of the year.

**REPORT ON PUBLIC SECTOR PERSPECTIVES AGREED SINCE LAST MEETING**

PSC set up a subcommittee to draft and propose PSPs at the last meeting in Melbourne, Australia. The subcommittee comprises members from Canada, New Zealand, South Africa and United Kingdom. The draft PSPs are circulated for comments to PSC out of session before submission to IAASB.

Since the last meeting the subcommittee with support of PSC staff drafted and circulated to PSC two draft PSPs on ISA 220 Quality Control and ISQC 1 Quality Control for Audit, Assurance and Related Services. The two drafts have since been submitted to IAASB after incorporating comments received from some PSC members.

The two drafts are attached below for your information.

**Draft PSP ISA 220 Quality Control**

1. The general principles contained in ISA 220 are applicable to auditors of public sector entities.
2. Some of the terms used in this ISA such as 'engagement partner' and 'firm' should be read as referring to their public sector equivalent. In general public sector entities, like listed entities, may be of significant public interest. Many of the requirements applicable to the audit of listed entities are, therefore, likely to be relevant to the audit of public sector entities
3. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly certain of the considerations regarding the acceptance and discontinuance of client engagements, as set out in paragraphs 21 - 22 of this ISA, may not be relevant.
4. Similarly the independence of public sector auditors may be protected by statutory measures. However public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending upon the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to ensure compliance with the spirit of paragraphs 13 - 18. This may include, where the public sector auditor's mandate does not permit withdrawal from the engagement, disclosure of circumstances that have arisen that would, if it were in the private sector, lead the auditor to withdraw.
5. Paragraph 24 sets out competencies expected of the engagement teams. Additional competencies may be required in public sector audits, dependent upon the terms of the mandate in a particular jurisdiction. Such additional competencies can include an understanding of the applicable reporting arrangements which may include reporting to parliament or in the public interest. The wider scope of public sector audit may require the financial statement audit to include, e.g., some aspects of performance auditing, and a comprehensive assessment of the arrangements for ensuring legality and preventing and detecting fraud and corruption.

**Draft PSP ISQC 1**  
**Quality Control for Audit, Assurance and Related Services**

1. The general principles contained in ISQC 1 are applicable to the auditors of public sector entities.
2. Some of the terms used such as 'engagement partner' and 'firm' should be read as referring to their public sector equivalent. In addition, the term “listed entity” should be read to include all public sector entities.
3. In the public sector auditors may be appointed, in accordance with statutory procedures. Accordingly considerations regarding the acceptance and discontinuance of client engagements, as set out in paragraphs 28 - 34 of ISQC 1, may not apply.
4. Similarly the independence of public sector auditors may be protected by statutory measures with the consequence that certain of the threats to independence of the nature envisaged by paragraphs 18 -27 of ISQC 1 are unlikely to occur.