



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: FEBRUARY 3, 2005
MEMO TO: MEMBERS OF THE IFAC INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS BOARD
FROM: MATTHEW BOHUN
SUBJECT: **PUBLIC SECTOR PERSPECTIVES ON ISAs**

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 on Public Sector Perspectives agreed since the last PSC meeting.

AGENDA MATERIAL:

	Pages
16.2 Update on takeover process of PSPs by INTOSAI/IAASB and on PSPs since agreed since the last PSC meeting	16.2 – 16.4

BACKGROUND

At the PSC meeting in New Delhi in November 2004, members were given an update on the takeover process of PSPs from PSC to INTOSAI and IAASB. The meeting was advised that a Memorandum of Understanding between INTOSAI and IAASB finalized and approved by both organizations was now being implemented. Attached at 17.2 is a progress report on the process.

PSC set up a subcommittee to draft and propose PSPs at the Melbourne, Australia meeting of April 2003 to assist Staff in the interim. The report at 16.2 also gives details on the final PSPs considered by this process and issued since November 2004.

REPORT BY MATTHEW BOHUN ON THE PROCESS OF TAKEOVER OF PSPs BY INTOSAI/IAASB

As reported at meetings in 2004, an INTOSAI/IAASB Memorandum of Understanding (MOU) was finalized by the IAASB in December 2003. The MOU established a working arrangement for INTOSAI representation on certain IAASB task forces to provide public sector audit considerations for inclusion, where appropriate, in IAASB's auditing standards. Going forward it is anticipated that IAASB standards will be sector neutral.

To date, INTOSAI participants have been actively participating on six IAASB task forces and are appointing a member for a seventh. There has been no indication that the IAASB will be slowed down as a result of the new IAASB/INTOSAI working relationship. The IAASB now, as a matter of course, provides INTOSAI with project initiation documentation to determine whether there are public sector issues that need to be addressed by inclusion of an INTOSAI representative on a project task force.

The IPSASB's involvement with the PSP process will continue for sometime, however, as there are four current IAASB projects that commenced before INTOSAI became involved. These projects all have exposure drafts on issue, and will only need a final review of changes made as a result of the finalization process. All new IAASB projects fall under the INTOSAI and IAASB mechanism enabling IPSASB to withdraw from direct involvement.

It is standard IFAC operating procedures for technical committees to provide each other with copies of Project Initiation Documents and for each technical director or manager to sign off on that documentation. This ensures that IFAC Committees are aware of each other's work, and have an opportunity to contribute to relevant projects. I am provided with these documents which I circulate to the Chair and Technical Director. IAASB will continue to provide these documents to me, and I will continue to alert them to possible public sector issues which may require an INTOSAI representative on the task force.

PUBLIC SECTOR PERSPECTIVES AGREED SINCE LAST MEETING

The PSP subcommittee comprising members from Canada, New Zealand, South Africa and United Kingdom continued to assist Staff in drafting PSPs which were circulated for comments to PSC out of session and thereafter submitted to IAASB. ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" has been issued as a final standard, and an ED of a revised ISA 540, "Auditing Accounting Estimates and Related Disclosures (Other than those Involving Fair Value Measurements and Disclosures)" has been published.

ISA 540, "Auditing Accounting Estimates and Related Disclosures (Other than those Involving Fair Value Measurements and Disclosures)"

The objectives and scope of the revision was to (1) introduce requirements for greater rigor and skepticism into the audit of accounting estimates, including the auditor's consideration of

indicators of possible management bias; and (2) conform the approach taken to the audit of accounting estimates with the revised audit risk and fraud standards issued by the IAASB.

The previous version of ISA 540 did not include a PSP, and the consensus of opinion was that auditing accounting estimates in the public sector was no different to auditing them in the private sector, and that it was unnecessary to add a public sector perspective. Consequently, the ED of the proposed revision did not include a PSP.

The comment period for the ED closes on April 30, 2005. Staff will monitor the progress of this project to ensure that no additional issues arise before the ISA is published that would warrant further examination of public sector issues.

ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements"

This project was instituted to update and strengthen the requirements of the ISA relating to the audit of general purpose financial statements. In particular, new guidance is given on the auditor's consideration of whether an accounting framework is acceptable, and on the need for the auditor to consider whether the financial statements are misleading even when they comply in all material respects with that framework.

The original ISA 700 contained a PSP and the PSC PSP subcommittee proposed the following PSP for the revised ISA:

1. *Some terms in this ISA such as "engagement partner" and "firm" should be read as referring to their public sector equivalents.*
2. *In the public sector, legislation governing the audit mandate may specify the nature, form and content of the auditor's report.*
3. *In addition, such legislation may specify the responsibilities of management and auditors in relation to the audit. The descriptions of such responsibilities included in the audit report will need to reflect the requirements of the legislation.*

The IAASB expressed some concern about paragraph 2 of the PSP, which it believed some could interpret as meaning that public sector entities could claim compliance with ISAs, if they complied with legislation, even where that legislation imposed requirements contradictory to those in ISAs. I conferred with the PSC PSP subcommittee and the consensus was that an audit report in the public sector should not claim compliance with ISAs unless it complied with all applicable ISAs. This means that if legislation contains contradictory requirements, an audit report prepared in accordance with the legislation could not claim compliance with ISAs. The IAASB technical staff had to redraft the PSP at the December IAASB meeting and the following wording was approved by the IAASB:

2. *In the public sector, legislation governing the audit mandate may specify the layout of or words to be used in the auditor's report. When the auditor prepares the auditor's report using the layout or wording specified in such legislation, the auditor's report should refer to the audit being conducted in accordance with ISAs, and the legislation governing the audit mandate, only if the auditor's report includes, at a minimum, each of the*

elements specified in paragraph 65(a)-(j). As discussed in paragraph 66, where legislation governing the audit mandate does not conflict with ISAs, the auditor adopts the layout and wording used in this ISA so that users can more readily recognize the auditor's report as a report on an audit conducted in accordance with ISAs.

This concludes this project, in any future revision of this ISA, public sector input will be provided by INTOSAI participation on a task force.