

**Memorandum of Understanding
between
The Auditing Standards Committee
of
The International Organization of Supreme Audit Institutions
and
The International Auditing and Assurance Standards Board**

Purpose

1. The International Organization of Supreme Audit Institutions (INTOSAI) has as a goal the development of Guidelines for Financial Audit, which will be more detailed than the INTOSAI Auditing Standards – providing INTOSAI members with practical guidance on the application of INTOSAI Auditing Standards to financial audits. INTOSAI is of the opinion that, in developing the Guidelines for Financial Audit, it could benefit from the work of the International Auditing and Assurance Standards Board (IAASB) and, as a result, that the Guidelines, as far as possible, should ~~be based on~~ draw upon the International Standards on Auditing (ISAs).
2. At present the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) is responsible for ~~drafting preparing the~~ Public Sector Perspectives (PSPs) to individual ISAs. The PSC supports the establishment of a new process ~~that will lead to the incorporation of public sector considerations within the body of each ISA for the preparation of public sector considerations for inclusion in the ISAs~~. The IAASB is of the opinion that INTOSAI involvement in the development of ISAs will be an important aspect of such a process.
3. The purpose of this Memorandum of Understanding is to create a project structure and co-operation process that will enable INTOSAI to benefit from the work of the IAASB, and the IAASB from INTOSAI involvement in the development of ISAs.
4. Background information on INTOSAI and the IAASB is provided in an appendix to this Memorandum of Understanding.

Guidelines for Financial Audit and Bridging Document

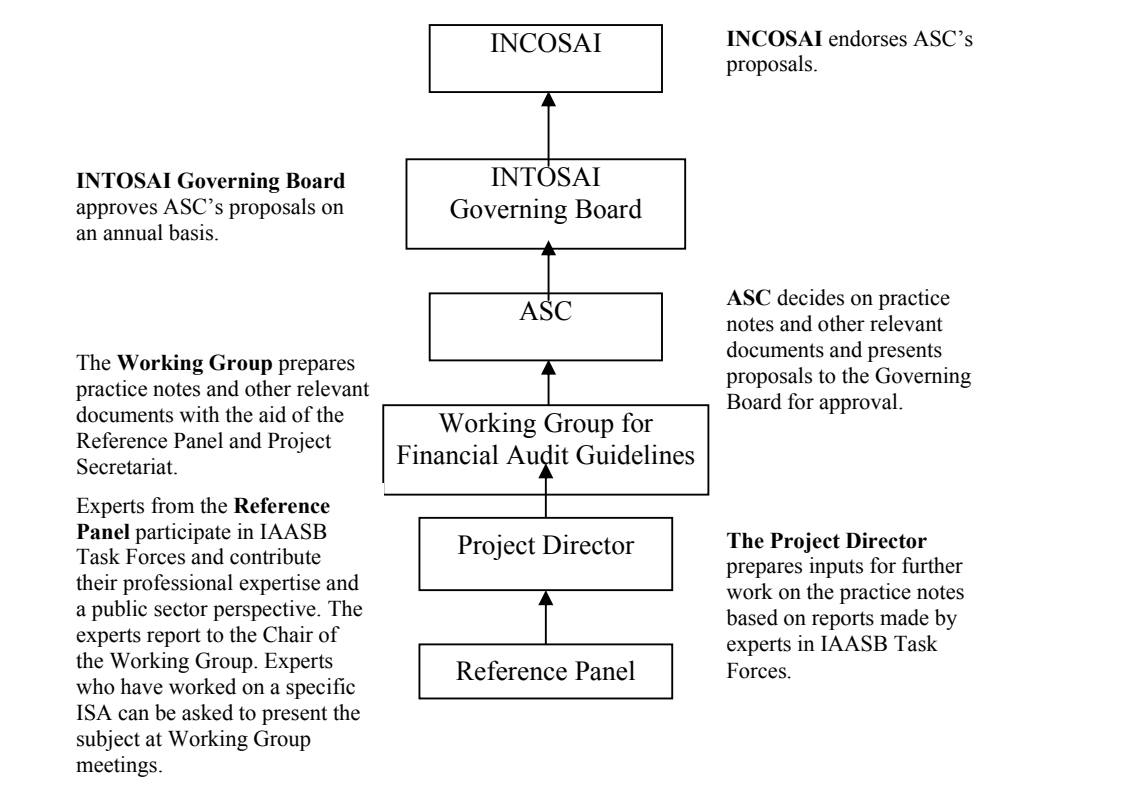
5. The Guidelines for Financial Audit will form in-depth guidance to the INTOSAI Auditing Standards. The Guidelines will constitute the fourth level in the existing hierarchy of standards in INTOSAI, which consists of the Lima Declaration, the Code of Ethics and the INTOSAI Auditing Standards.
6. A Guideline will consist of an ISA, which – where applicable – may contain public sector considerations at a general level, and a practice note. Practice notes will be prepared by the Working Group for Financial Audit Guidelines (see paragraph 10) for decision by the INTOSAI Auditing Standards Committee (ASC). Practice notes will explain whether or not an ISA is applicable in the public sector, the extent to which it is applicable, and what adjustments need to be made by a public sector auditor. Where considered necessary, a practice note may contain detailed guidance on the application of an ISA in the public sector.

Guidelines may also be developed by the ASC in areas that are not relevant to the private sector.

- In addition to the Guidelines, the ASC intends developing a bridging document. The bridging document will explain the unique characteristics of audits in the public sector, i.e. compared to those in the private sector, and create a structure for linking each Guideline to the relevant part of the INTOSAI Auditing Standards.

Project Structure and Co-operation Process

- To facilitate the development of Guidelines for Financial Audit, the ASC has created a project structure, which involves a Working Group responsible for developing the Guidelines for Financial Audit, a Reference Panel and a Project Secretariat.
- Decisions within INTOSAI on the Guidelines for Financial Audit will be made as follows:



WORKING GROUP ON GUIDELINES FOR FINANCIAL AUDITING

- The Working Group currently consists of the Supreme Audit Institutions (SAIs) of Austria, Canada, Cameroon, Namibia, Norway, Portugal, Sweden, Tunisia, the United Kingdom and the United States.

REFERENCE PANEL

- On the basis of nominations from INTOSAI members, the Working Group will propose experts for inclusion in the Reference Panel. These proposals will be approved by the ASC. The Reference Panel will consist of individuals with expertise and experience in auditing and standard setting from different SAIs in the INTOSAI community.

12. The Project Secretariat, in consultation with the IAASB Technical Director, will ~~inform the IAASB of~~ appoint Reference Panel experts ~~appointed~~ to participate in relevant IAASB Task Forces (refer paragraph 13).
13. A Reference Panel expert will either be a member or a correspondent member of an IAASB Task Force. Members will prepare for and actively participate in the discussions at task force meetings, while correspondent members will submit written comment on task force papers. The objective is for the member or correspondent member to ensure that public sector considerations are appropriately considered by the IAASB Task Force and ~~reflected~~ included in the ~~body of the~~ ISA.
14. Each member or correspondent member will have at least one other Reference Panel expert appointed to discuss the work of the IAASB Task Force with. The objective is to obtain input from SAIs in different parts of the INTOSAI community. In addition, each member or correspondent member will have a co-expert from another type of SAI (e.g. Auditor General SAIs or Court Model SAIs). The member or correspondent member will be responsible for coordinating discussions with these experts.
15. Reference Panel experts will also assist the Working Group in preparing practice notes and other relevant documents.

PROJECT SECRETARIAT

16. The Project Director is appointed by, and reports to, the Chair of the Working Group, and is responsible for facilitating the project structure and co-operation process on behalf of the Chair of the Working Group.

IAASB

17. The IAASB remains responsible for the approval of ISAs. The IAASB may consider it necessary to amend ISAs prepared by IAASB ~~Task~~ Task Forces, including the public sector considerations proposed by the Reference Panel expert. Where the IAASB proposes amendments to the ISA that impact the public sector considerations, the relevant IAASB Task Force Chair ~~will be requested~~ may consider it necessary to consult the Reference Panel expert involved in the task force in this regard. In this case, the consultation takes place in a manner that will not disrupt the timely issue of the proposed or final ISA. The IAASB may also consider it necessary to consult others with public sector expertise and experience in regard public sector considerations reflected in ISAs, for example members of the PSC.

Translation of Pronouncements

18. INTOSAI works in five languages: Arabic, English, French, German and Spanish. The ASC, in consultation with the IAASB Secretariat, will consider how best to make the ISAs, practice notes and bridging document available in all INTOSAI languages, taking into account IFAC's translations policy for ISAs.

Project Timetable

19. The IAASB will inform the Project Secretariat of its project timetable and any amendments thereto in order for INTOSAI to have the maximum time available to make appointments of Reference Panel experts to IAASB Task Forces.

20. Reference Panel experts will participate in IAASB Task Forces, providing input to current and future projects, starting in August 2003. ~~For existing IAASB Task Forces, correspondent members only will be allocated.~~
21. Practice notes will be issued by INTOSAI within nine months after a new or revised ISA is issued by the IAASB. Existing ISAs, which are not to be revised in the near future, will be considered by the Working Group and practice notes developed, starting 2004.
22. The bridging document, which will provide a link between INTOSAI Auditing Standards and ISAs, ~~The document~~ will be prepared in 2003.
23. Both INTOSAI and the IAASB recognize that the IAASB project timetable is paramount and that the Working Group's participation in IAASB projects (i.e. through Reference Panel experts) will take place in the context of the project timetable. If the Working Group for any reason is unable to participate in accordance with the IAASB timetable, the project nevertheless will progress as planned.

Periodic Review of Project Structure and Co-operation Process

24. This Memorandum of Understanding and the project structure and co-operation process will be reviewed by INTOSAI and the IAASB within two years, i.e. December 31, 2005.

Appendix

INTOSAI

1. INTOSAI is the professional organization of Supreme Audit Institutions (SAIs) in countries that belong to the United Nations or its specialized agencies. As the internationally recognized leader in public sector auditing, INTOSAI issues international guidelines for financial management and other areas, develops related methodologies, provides training and promotes the exchange of information among members. In keeping with INTOSAI's motto, "Experientia mutua omnibus prodest" (mutual experience benefits all), the exchange of experiences among INTOSAI members, and the findings and insights which result, are a guarantee that government auditing continuously progresses with new developments.

INTOSAI AUDITING STANDARDS COMMITTEE

2. The INTOSAI Auditing Standards Committee (ASC) is a committee formed by INTOSAI. The ASC consists of 28 INTOSAI members from all over the world, and is chaired by the Swedish National Audit Office (Riksrevisionen).
3. The original task of the ASC was to develop the INTOSAI Auditing Standards. Subsequently, the ASC had its terms of reference extended to:
 - Improve the Standards by updating them and making any necessary additions (subject to the approval of the International Congress of Supreme Audit Institutions (INCOSAI));
 - Facilitate the development of practical guidance material in respect of the Standards;
 - Cooperate with and advise the INTOSAI Development Initiative (IDI) and the Regional Working Groups on the development of training material and the provision of training required to support effective application of the Standards; and
 - Consult with the INTOSAI Secretariat and the Regional Working Groups on the provision of administrative support in terms of the promulgation of guidance and training material.
4. The ASC has five projects, as approved by INCOSAI in Seoul (2001):
 - SAI Independence
 - Developing Guidelines for Performance Audit
 - Developing Guidelines for Financial Audit
 - Creating a Web-based Bibliography for auditing standards from SAIs
 - Performing a survey in order to investigate the use of the existing INTOSAI Auditing Standards.

INTOSAI AUDITING STANDARDS, GUIDELINES AND BRIDGING DOCUMENT

5. The INTOSAI Auditing Standards were developed by the ASC and endorsed by INCOSAI. The Standards contain basic principles, general standards, field standards and reporting standards. The Standards provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit, and should be viewed in the particular constitutional, legal and other circumstances of the SAI.

6. The INTOSAI Auditing Standards should not be construed as in conflict with local laws and regulations. While there is no obligation for INTOSAI members to follow the INTOSAI Auditing Standards, the Standards reflect a “best practice” consensus among SAIs. Each SAI decides for itself which Standards to apply. Today, some SAIs have developed auditing standards of their own (often based on the principles of the INTOSAI Auditing Standards), other SAIs use the INTOSAI Auditing Standards, and some SAIs have developed national auditing standard in co-operation with the private sector auditors in that country.

IAASB

7. The IAASB functions as an independent standard setting body under the auspices of IFAC. The mission of the IAASB is to establish high quality auditing, assurance, quality control and related services standards and to improve the uniformity of practice by professional accountants throughout the world, thereby strengthening public confidence in the global auditing profession and serving the public interest.
8. To achieve its mission, the IAASB focuses on the following strategic objectives:
- Development of standards – Establishing high quality auditing, assurance, quality control and related services standards.
 - Global acceptance – Promoting the acceptance and adoption of ISAs.
 - Convergence and partnership – Supporting a strong and cohesive international auditing profession by coordinating with the IAASB Consultative Advisory Group, regional organizations, member bodies, and national standard setters.
 - Communications – Improving the quality and uniformity of auditing and assurance practices and related services throughout the world by encouraging debate, presenting papers and issuing pronouncements on a variety of audit and assurance topics.
9. The IAASB consists of 18 members from around the world with significant experience in the field of auditing and assurance services, comprising practitioners in public practice as well as public members. IAASB members are appointed by the IFAC Board based on recommendations from the IFAC Nominating Committee.
10. The IAASB works closely with major national standard setters to develop high quality standards and to promote international convergence of standards. In developing these standards, the IAASB seeks out the views of its stakeholders, prioritizes the issues identified and develops standards in the best interest of the public and the profession. It also promotes debate with users, regulators and practitioners to identify needs for new standards. The IAASB Consultative Advisory Group plays an important role in this regard.
11. The IAASB follows a rigorous due process to ensure that it takes into account the views of those affected by its standards before they are issued. Proposed standards are exposed for public review and comment and all comments received are posted on the IAASB website. The due process is transparent – IAASB meetings are open to the public and related agenda materials are available on the IAASB website prior to each meeting. Final standards can be downloaded free of charge from the IAASB website.
12. The IAASB holds four meetings per year. (An additional fifth meeting has been scheduled for 2003 and 2004.)

13. The IAASB ordinarily appoints task forces to assist in the development of standards on specific subject matters. These task forces may include individuals who are not members of the IAASB, and information may be sought from other organizations so as to obtain a broad spectrum of views.

INTERNATIONAL STANDARDS ON AUDITING

14. ISAs are developed and approved by the IAASB. ISAs are applied in the audit or review of historical financial information. They contain basic principles and essential procedures (identified in bold type) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. (This form of drafting is currently being reconsidered by the IAASB.)
15. The nature of ISAs requires professional accountants to exercise professional judgment in applying them. In extremely rare circumstances, a professional accountant may judge it necessary to depart from a requirement of an ISA to achieve more effectively the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure.
16. Any limitation of the applicability of a specific ISA is made clear in the introductory paragraphs to that ISA.
17. In circumstances where specific ISAs or guidance contained in an ISA are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, this is currently stated in a PSP, which is added at the end of the ISA.

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