

GUID 4900

Guidance on Authorities
and Criteria to be
considered while
examining the regularity
and propriety aspects in
Compliance Audit



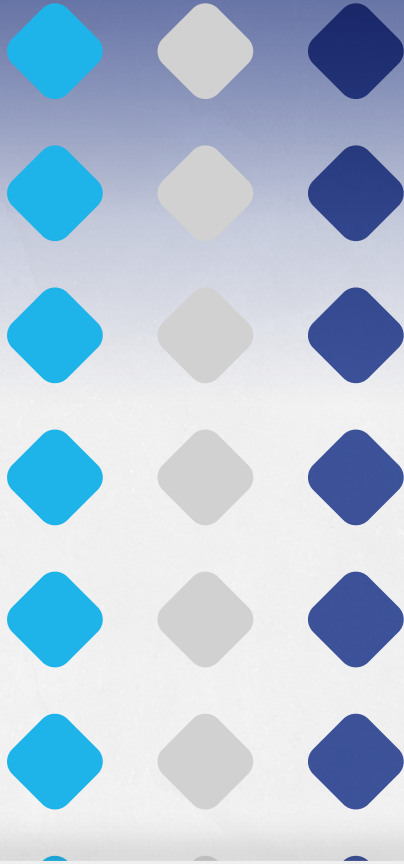
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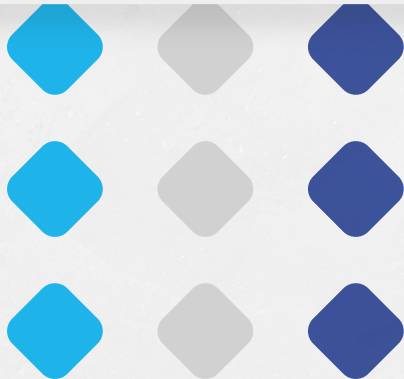


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INTRODUCTION

- 1) There is a need for specific guidance in identifying regularity and/or propriety criteria in compliance audit. The ISSAIs define that compliance auditing may be concerned with regularity (adherence to formal criteria such as relevant laws, regulations and agreements that are binding for the auditee) and/or with propriety (observance of the general principles governing sound financial management and operational management as well as the conduct of public officials). While regularity is the main focus of compliance auditing, propriety may also be pertinent given the public-sector context, in which there are certain expectations concerning financial, administrative and budgetary management and the conduct of officials. Depending on the mandate of the SAI, the audit scope may therefore include aspects of propriety.

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OBJECTIVE

- 2) The objective of this guidance is to provide support to auditors in identifying suitable regularity and propriety criteria in a compliance audit. The guidance elaborate further on the difference and relations between regularity and propriety concepts.

- 3) *Compliance audit* - one of the three types of public sector audit, independent assessment of whether a given subject matter complies with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities that govern the audited entity.¹ Compliance audits may include **regularity** and/or **propriety**² criteria, depending on the mandate of the SAI and the jurisdiction. The criteria identify evidence which can be used further as basis for jurisdictional decisions or sanctions taken by adequate authorities.
- 4) *Authorities* - laws, rules, regulations, policies, international treaties and conventions, established codes, agreed terms or general principles governing sound public sector financial, administrative and budgetary management and the conduct of public officials, Codes of Ethics and other from which 'criteria' for verification of compliance is derived while carrying out a compliance audit.
- 5) *Criteria* - benchmarks used to evaluate a subject matter. Each audit shall have criteria suitable to the circumstances of that audit. Criteria can be specific or more general, and may be derived from various authorities.
- 6) *Regularity* refers to adherence to formal authorities such as relevant laws or resolutions of the legislature or other statutory instruments, directions issued by public authorities with powers provided for in the law, with which the audited entity is obliged/bound to comply³. Binding terms for the

1 ISSAI 4000/2.

2 ISSAI 400/13, ISSAI 4000/24.

3 SSAI 400/13, 32, 24.

auditee, for example agreements and contracts may also be considered as a part of regularity.

- 7) *Propriety* refers to compliance with general principles and frameworks governing sound financial and administrative management and conduct of public officials⁴. In the context of public sector audit, this would include conventionally accepted standards of behaviour in public sector management and delivering of public services.⁵
- 8) *Subject matter* refers to the information, condition or activity that is measured or evaluated against certain criteria.⁶
- 9) *Sound financial, administrative and budgetary management* means generally accepted principles governing conduct of public officials in executing financial transactions (decisions and operations). In addition, administrative management refers to the principles that govern the operations of the rules that regulates the administrative systems for the provision of public services.
- 10) *Conduct of public officials* refers to an ethical wisdom, behaviour and discipline where norms and moral in a society are followed.

4 ISSAI 400/13.

5 Oxford English dictionary (OED).

6 ISSAI 100/26.

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SCOPE OF THE GUIDE

- 11) This GUID provides supplementary audit guidance in relation to the compliance auditing standard, ISSAI 4000, and does not contain any further requirements for the conducting of the audit.
- 12) The GUID is aimed at auditors who need guidance on sources for criteria in compliance audit and how to identify criteria derived from these sources. It will depend on the mandate of the SAI and the terms and circumstances of the individual engagement, whether it is relevant to consider propriety criteria when performing a compliance audit. Auditors who make use of this GUID in the context of a compliance audit that does not include propriety criteria should disregard any guidance provided in relation to propriety.

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SOURCES FOR CRITERIA IN COMPLIANCE AUDIT

- 13) Authorities are the sources for criteria and serve as a fundamental element in compliance auditing. Their structure and content provide the audit criteria and establishes the regulatory framework for conducting the audit. Authorities can be used to develop regularity and propriety criteria. Due to different legal frameworks, SAIs may interpret the concepts of regularity and propriety differently.
- 14) Suitable criteria are required in order to ensure a reasonably consistent measurement of a subject matter by using professional judgement. Without the frame of reference provided by suitable criteria, any audit findings or audit conclusions are open to individual interpretation and misunderstanding.
- 15) The ISSAIs require each audit to have criteria suitable to the circumstances of the audit. Once the available criteria have been identified the auditor needs to identify whether the criteria are suitable. In order to determine the suitability of criteria the auditor will have to consider their relevance and understandability for the intended users, as well as their completeness, reliability and objectivity. Suitable criteria exhibit the same characteristics regardless of whether these are regularity or propriety criteria: relevance, completeness, reliability, neutrality, understandability, usefulness, comparability, acceptability and availability.⁷

7 ISSAI 4000/118.

AUTHORITIES AS THE SOURCE FOR REGULARITY CRITERIA

- 16) Regularity is concerned with compliance with authorities stemming from law, rules, regulations and agreements.
- 17) Authorities as the sources for regularity criteria may include:
- Parliamentary plenary resolutions, including policies;
 - International law that the country has acceded to or incorporated, such as law of sea, international criminal law and refugee law or foreign country law affecting national organizations such as USA issued act “The Foreign Account Tax Compliance Act (FATCA)”;
 - International and supranational treaties such as rights to shares of the river’s flow;
 - Laws and regulations, rules, other legislative acts;
 - Constitutional budgetary laws and resolutions, the annual budgetary laws;
 - Regulations with financial effect in the public management;
 - Regulations governing the administrative and functional systems of a State or country;
 - Case law elaborated by jurisdictions;
 - Contracts/ agreements (e.g. with vendors); and
 - Internal rules, procedures and processes issued by audited entity (applicable depending on whether they form a part of the formal rules of the jurisdiction).
- 18) The sources of regularity criteria can be broadly described as follows⁸:

⁸ <https://www.slideshare.net/Rohitshrivastava59/kelson-pure-theory>. Kelson pure theory of law is based on pyramid structure of hierarchy of norms which drive there validity from the basic norm which he termed as Grundnorm. According to this theory kelson consider legal science as a pyramid of norms with Grundnorm (basic norm) at the apex. The subordinate norms are controlled by norms superior to them.

- Primary Legislation - These authorities may include the country's constitution, formal acts and laws, rules and regulations governing a subject matter, which together could be categorized as primary legislature framework.
 - Secondary Legislation – The authorities may also be codal provisions, orders issued by regulatory authorities in government or by regulatory bodies and jurisdictional decisions and their case law. These may be categorized together as Secondary Legislation governing an activity or information, which is subject matter of audit.
 - Contractual Provisions - The authorities could also be treaties, agreements, contracts etc. relating to the subject matter under audit, which are contractual in nature and are legally enforceable in a country. For example, management of outsourcing arrangements would be audited with regard to the provisions of the contract/agreement.
- 19) There is a hierarchical relationship between different types of authorizing legislation. The constitution of the country is normally the highest formal authority, followed by laws, rules, regulations and other legislative acts. An authority that is lower in this hierarchy or is a part of secondary legislation cannot be *ultra vires*⁹ of the authority that is higher in hierarchy. For instance, if the laws governing a social welfare scheme in a jurisdiction lay down eligibility requirements for social benefits, subsequent rules or orders issued under these laws cannot change these eligibility requirements. In a compliance audit the auditor must ensure that the criteria derived from secondary legislation comply with the above requirement.
- 20) Dependent on the national legal system this hierarchy may also include certain general legal rules or principles of law, which have not been codified into a written constitutional or legal act, meaning that sources of law can be unwritten as well as written. For instance, a government agency which decides on social benefits may be subject to the general rule that all eligible persons should be treated in an equal way even if this rule is not explicitly stated in any legal act governing the scheme (legal principle of equality).
- 21) Most authorities originate from the basic premises and decisions of the national legislature, but they may be issued at a lower level in the organisational

9 The Oxford English dictionary (OED) definition: beyond the powers or legal authority.

structure of the public sector for instance as statutory instruments etc.¹⁰ At the same time, rules and regulations derived at a lower level must be clearly traceable to rules and regulations issued by national legislature. Further, contractual provisions must be consistent with the provisions of applicable rules and regulations.

- 22) Established codes and agreed upon terms may also be considered as authorities – sources of regularity criteria. This includes international treaties, such as:
- Treaties establishing international or supranational organizations when adopted by a country;
 - Treaties with binding fiscal or budgetary content when adopted by a country;
 - Legal rulings issued by the competent institutions of international or supranational organizations with direct and binding effect in the legal order of each member state, for example international agreements/treaties on subjects of climate change and sustainable development when adopted by a country; and
 - Other agreements and contracts relating to the subject matter of audit, being contractual in nature and legally enforceable in a country.
- 23) Most countries have worked out policies for certain sectors of national economy. Such policies may be approved/sanctioned by the parliament/government. Policies are metarules (rules that govern other rules) in this context. Policies should relate to all legal instruments that regulate the particular sector, and the legal framework should be in accordance with the policies. Hence, policies can be directly relevant as criteria when SAs evaluate or ascertain compliance in implementing the policies contents and intentions.
- 24) When deriving regularity criteria from the authorities and describing them, the auditor is advised to use the articles, paragraphs, sections, chapters, etc. of the authorities, which are relevant to the specific subject matter under the audit.

10 ISSAI 4000/113.

AUTHORITIES AS THE SOURCE FOR PROPRIETY CRITERIA

- 25) Whereas regularity is concerned with compliance with authorities stemming from rules and regulations etc, propriety is concerned more with expectations from intended users and standards of conduct, behaviour and corporate and/or public governance. Depending on the jurisdiction, it may include values and principles generally accepted such as fairness and integrity, the avoidance of personal profit from public business, even-handedness in the appointment of staff, avoid nepotism by not giving opportunities to family and friends, open competition in the awarding of contracts even-handedness towards similarly placed potential bidders and established limits to avoid waste and extravagance (for example with regard to class of travel). In many jurisdictions some of these examples have been codified into formal rules or law (i.e. open competition and avoidance of nepotism) and would thus be regarded as regularity criteria.
- 26) Authorities for propriety criteria are normally general in nature and therefore the criteria can be harder to identify compared to the criteria stemming from authorities governing regularity criteria.
- 27) Suitable criteria, either regularity or propriety, exhibit the same characteristics: relevance, completeness, reliability, neutrality, understandability, usefulness, comparability, acceptability and availability¹¹. In the case of regularity, it may often be relatively easy to establish that the criteria exhibits these characteristics as the criteria are derived from legal acts or other sources of law. It may require a more careful consideration when the auditor considers criteria of propriety. It is therefore important that the auditor examine to what extent the criteria used to form a conclusion to a sufficient degree exhibit these characteristics. Forming audit conclusions based on propriety criteria can be less objective compared to regularity criteria. Hence, the need to rely on the professional judgment of the auditor is also likely to be higher in the case of propriety criteria than in the case of regularity criteria.
- 28) Depending on the national context, authorities (sources) for propriety criteria can be derived from:

11 ISSAI 4000/118.

- General principles for public officials in incurring expenditure on public goods and services;
 - Principles and practices in safeguarding public funds against loss or wastage;
 - Codes of conduct/governance laying down broad principles to guide the conduct of public officials;
 - Ethics principles (including disclosure of conflict of interest requirements); and
 - National or international good practices.
- 29) Furthermore, propriety criteria may refer to conventionally accepted normative behaviour in public sector financial, administrative and budgetary management and in the conduct of public officials. The written norms for this acceptable behaviour can vary between jurisdictions depending on social norms, business practices etc. There is no universally accepted propriety criteria and hence the auditor has to give due consideration to the written norms prevailing in the jurisdiction in which audit is conducted. These norms may be expressed in documents dealing with general expectations of behaviour from public business and public officials in public sector financial, administrative and budgetary management and delivery of public services. In this way the SAI will in its communication be transparent about the propriety criteria it has identified as relevant and used as norm in the audit by adequate and timely documentation on the auditor's professional decisions.
- 30) An example where the auditor is auditing the eligibility of the expenditure and the terms in the contract defining the eligibility are not very specific: A production sharing contract obliged the contractor to report all costs (capital asset costs and operating costs) to the government. Those expenditures would be reimbursed with cost recovery mechanism. Auditors found that some of the expenses did not directly relate to petroleum extraction, processing, transportation, marketing and selling activities. The contractor claimed some entertainment expenses, such as sport club membership, celebrating religious and national holidays, or donations to community events. Such a situation

occurred because the government failed to specify eligible cost categories and/or cost limits in the contract, in particular for those costs not related to petroleum operations. Even though the eligible cost categories were not adequately specified, the government and the contractor had to follow principles of propriety.

- 31) Another example of propriety criteria derived from a code of conduct for public officials is that public officials recuse themselves from transactions involving conflicts of interest or close relations. The term conflict of interest, may be codified in some jurisdictions in terms of the nature of relationship or degree of kinship between the public official and the contracting party. In some jurisdictions, criteria to judge the nature of relationship that constitutes conflict of interest may not exist. Where such specific criteria do not exist, the auditor will have to rely on professional judgment to form a conclusion on whether a particular relationship constitutes a conflict of interest and therefore a breach of the propriety criteria. For instance, in most jurisdictions, the criteria of conflict of interest is likely to be applied to public transaction with the spouse of the public official, unless the same is specifically permitted by rule or is an 'arm's length'¹² transaction. The auditor can adopt this general principle to conclude whether there was any conflict of interest.
- 32) Propriety is linked to the fiduciary duty of those who have been entrusted with public management. This includes the duty to act in good faith, and with the highest standard of care, honesty and loyalty. It represents a legal obligation of one party to act in the best interest of another. The fiduciary duties of public officials are usually described in legislation, Parliamentary instructions or code of conducts. Therefore the propriety is usually concerned with expectations from intended user stemming from codes of conduct, behaviour and corporate governance.
- 33) Depending on jurisdiction, this may include conventionally accepted values and norms, such as fairness and integrity, and exercising of prudence. Criteria relating to propriety may also relate to expectations regarding behaviour, for example what may be considered acceptable in regard to class of travel or

¹² This valuation principle is commonly applied to commercial and financial transactions between related companies. It says that transactions should be valued as if they had been carried out between unrelated parties, each acting in his own best interest. OECD, 2006, Annual Report on the OECD Guidelines for Multinational Enterprises: Conducting Business in Weak Governance Zones, OECD, Paris.

levels of hospitality and entertainment at government expense if such limits are not explicitly stated by regulations.

- 34) In some cases, general principles and frameworks governing sound financial and administrative management may not be fully codified or may be implicit or based on overriding principles of law. In such cases, the SAIs may consider if there is a weakness, and, if so, to identify the party responsible for this weakness.
- 35) While regularity criteria are legally binding for audited entities, the sources of propriety criteria are conventionally accepted norms of a moral and ethical nature, and are closely linked to the values and social conventions in a society to which there is a broad support among citizens.
- 36) Propriety is a wide concept capable of varying interpretations and influenced by multiple factors including cultural differences. In respect of propriety, legislative intentions has a broader meaning – its expectations about the way in which public business should be or should not be conducted; its expectations about the way public officials should or should not behave when managing public funds.
- 37) Best practices or good conduct may change over time because of new knowledge, but obligation of public officials to follow the best practice does not change. An example may be environmental issues, where the best practice changes through time by increased knowledge of environment and new technological solutions.
- 38) The authorities and criteria pertaining to propriety are also more context-sensitive than those relating to regularity. This aspect needs to be considered when evaluating audit evidence and reporting on propriety aspects in compliance audit.
- 39) When determining propriety criteria, SAIs may consider applying some canons of propriety in public expenditure and have in mind if the management used their common sense, for example:

- The expenditure should not *prima facie*¹³ be more than what the occasion demands;

¹³ Means at first sight (= based on what seems to be the truth when first seen or heard). The Cambridge Dictionary.

- Every public official should exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence, given the same context, would exercise in respect of expenditure of his/her own money;
- No authority should exercise power of authorizing the expenditure, which will be directly or indirectly to own advantage;
- Compliance with “arm’s-length”¹⁴ principles in transactions with related parties;
- Primacy to the benefit of the majority over that of an individual;
- Fairness, integrity, the avoidance of personal profit from public business, like even-handedness in the meritocratic appointment of staff;
- Safeguarding resources belonging to the country’s population (natural resources).
- Sometimes, the rules explicitly distinguish between procurement/utilization of stores during normal circumstances and emergency circumstances e.g. procedures for utilization/control of ammunition by armed forces during peace-time and during military action.

If there are no prescribed procedures for incurring public expenditure under certain special circumstances e.g. during an emergency like flood, the propriety criteria to be followed could be whether the public official exercised the same level of prudence that a man of ordinary prudence would exercise in incurring such expenditure. A man of ordinary prudence is likely to deviate from prescribed procedures such as inviting bids for procurement etc. in order to save lives or property in an emergency. The auditor should therefore use his professional judgment based on the expected behaviour of a man of ordinary prudence to arrive at audit conclusion on whether the deviations from procedures to procure relief material, expected to be followed were warranted under the emergency circumstances.

14 <https://payrollheaven.com/define/arms-length-principle>. The arm’s length principle (ALP) is the condition or the fact that the parties to a transaction are independent and on an equal footing. It is used specifically in contract law wish to arrange an equitable agreement that will stand up to legal scrutiny, even though the parties may have shared interests (e.g., employer-employee) or are too closely related to be seen as completely independent ...

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PROCESS OF DERIVING THE CRITERIA FROM SOURCES

- 40) The ISSAIs require the auditor to identify relevant audit criteria prior to the audit to provide a basis for a conclusion/an opinion on the subject matter.¹⁵ The criteria should be made available to the intended users and others as appropriate. They should also be communicated to the responsible party.¹⁶
- 41) Each audit shall have criteria appropriate to the scope and circumstances of that audit. While planning the audit, based on the audit scope and the risk assessment, the auditor derives the criteria from formal authorities or conventionally accepted norms, and applies them for the assessment of compliance of the subject matter.
- 42) In order to arrive at suitable audit criteria, the auditor needs to derive the criteria from the authorities and describe the criteria as relevant to the subject matter. The description is an interpretation of paragraphs and sections of the authorities made for the specific subject matter under audit. In the interpretation of regularity and propriety criteria the intentions and premises set out in developing the law may be taken into consideration.
- 43) Determining compliance audit criteria is an important process, which requires considerable professional judgement by the auditor and knowledge both of the relevant authorities and its sources of interpretation which requires a level of experience in the exercise of the audit. To assess compliance with authorities in the public sector, it is necessary to have sufficient knowledge of the structure and content of the authorities themselves.

15 ISSAI 4000/110.

16 ISSAI 4000/97.

- 44) Communicating the criteria with the audited entity is crucial to allow the auditee to give feedback on the criteria. SAIs are advised to engage in this communication as early as possible in the audit process, in order to ensure that once performed the audit will be relevant. The criteria are deriving specifically from the authorities governing the auditee or conventionally accepted norms, and the criteria cannot be used automatically from one subject matter to the next. In cases where the auditee does not agree with the criteria, the auditor considers whether the disagreement is due to the criteria not being suitable or that the auditee does not want to be measured using these criteria. The feedback from the auditee should be managed by the auditor while ensuring the independence of the supreme audit institution.
- 45) Suitable audit criteria either regularity or propriety, should exhibit the characteristics listed in ISSAI 4000.¹⁷ This is especially important when determining propriety criteria, and in communicating and explaining to the auditee. In determining suitable audit criteria, the following may be taken into account.
- Criteria must be appropriately ‘operationalised’¹⁸ for the particular circumstances of the audit so as to be able to reach meaningful audit conclusion(s).
 - In many compliance audits, the applicable authorities will be clearly identifiable. For regulatory audits, for example, in some cases a law or regulation (or its article, paragraph, section, chapter, etc.) could be sufficiently clear to be used directly as a criterion. If situations arise where there may be doubt as to what is the correct interpretation of the relevant authority, public sector auditors may find it useful to consider the intentions and premises set out in developing the authority (e.g. law), or to consult with the particular body responsible for the legislation. If this is not an option in the legal system, public sector auditors may follow the rules deriving from their legal system on the interpretation of laws and when necessary and legally admissible. The auditors may also consider relevant **decisions** made by judicial authorities.¹⁹

17 ISSAI 4000/118.

18 Operationalization of a variable usually involves clarifying how the measurement of the variable is to be carried out. This can be done using an indicator, which indicates as precisely as possible how the relevant variable is to be measured, translated from the Big Norwegian Encyclopedia.

19 ISSAI 4000/117.

- In some cases, provisions of relevant authorities may be unclear, for example, where a legislative act states that more specific provisions should be set out by the relevant administrative body and these provisions have not yet been developed. In such cases, public sector auditors clearly state in the audit report what they believe the relevant legislation requires, or that the scope of the audit has been limited and the reasons for this limitation. For example, in this case the report may state that insufficient clarity of law has limited the audit criteria applied and that there is a need for remedial measures to be taken.
- In some cases subordinate authorities may not be consistent with the requirements. In these cases the lack of consistency can be a finding in itself. However, the provisions of primary legislation should prevail over those in subordinate legislation. For instance, if the law governing public procurement mandates compulsory bidding process, while the rules framed there under provide an exception, the audit should adopt provisions of the law as an appropriate authority. As a result, to assess compliance with authorities in the public sector it is necessary to have sufficient knowledge of the structure and content of the authorities themselves.²⁰
- The audit approach may also be broken down into parts, or the scope narrowed, so that clearly identifiable criteria may be applied.

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THE DIFFERENCE BETWEEN REGULARITY AND PROPRIETY CRITERIA

- 46) For example: public officials are universally expected to observe sound financial, administrative and budgetary judgment while carrying out public procurement. If in a particular jurisdiction, there are specific rules, regulations and procedures etc. to be followed in the procurement processes, for instance requiring an appropriate bidding process, the evaluation of bids and the award of a contract based on prescribed parameters, the nature of these specific criteria makes them regularity criteria. If however, this expectation to follow principles of sound financial, administrative and budgetary management in public procurement, are not codified in any jurisdiction, or there are shortcomings in such codification, the audit criteria to be adopted would be the generally accepted principles governing conduct of public officials in executing financial transactions in that jurisdiction. These general principles could be reasonable expectations of transparent procurement procedures, expectations of accountability of public officials in public transactions, and expectations of reasonable quality in goods procured, works executed or services delivered. Such criteria can be termed as propriety criteria.
- 47) Another example of criteria inherently of the nature of propriety criteria but may be treated as regularity criteria is as follows. In some jurisdictions, general principles of financial, administrative and budgetary management state that an allowance drawn by a government employee should not be a source of profit to him/her. This is inherently a propriety criterion. However in the same jurisdiction, there may be specific rules and regulations stipulating the kind of allowances admissible, the amount of such allowances admissible and the conditions subject to which such allowances are admissible. In case such rules etc. exist the criteria that are inherently of a propriety nature become

regularity criteria due to further elaboration of the general principle into rules. Where, however, there are no specific rules governing admissibility of any particular type of allowance, the auditor will have to exercise his professional judgment to conclude whether the allowance paid resulted in any profit to the individual. For instance, in respect of a travel expenditure where there are no specific guidelines on entitlement, the auditor may examine if there was profit by comparing the actual payment to that which would be admissible as per standard fares of travel by actual mode of travel used and the standard rates of room tariff for hotel where the official stayed.

- 48) There could also be a thin line between regularity and propriety, and impropriety may not be easily established.

For example a contractual agreement may turn out to be wasteful and in contravention to the applicable law. To establish impropriety the auditor will look for indicators/evidence that public authority acted with a deliberate bias and chose incorrect options. Hence, criteria for propriety audit will be transparency or procedures followed by the public authority in awarding the contract.

- 49) Each SAI has to take into consideration the system of laws, regulations and agreements. Assess how the laws, regulations and agreements are developed and agreed upon as they are the sources of regularity criteria, as well as observance of the general principles governing sound financial, administrative and budgetary management and the conduct of public officials in the context of the particular jurisdiction.
- 50) There may be SAIs that are not permitted to adopt criteria of propriety, either because of the legislation or their mandate, while there may be others where propriety becomes important because the audit mandate of the SAI as well as auditing conventions require examination of compliance with authorities governing propriety. Nevertheless, this does not change the need for suitable criteria. In fact, it increases the need for them. The social conventions and context in countries can differ a lot that makes it important to look upon this document as a guiding tool for using regularity and/or propriety criteria.

DISCLOSURE OF SOURCES / CRITERIA IN AUDIT REPORTS

- 51) Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated. Therefore, the audit report should contain a section on audit criteria that refers the types of criteria used by the auditor and, in the paragraphs concerning the analysis or assessment of the audit findings, should explicitly indicate the precise/concrete authority that the auditee was obliged to comply with/should have complied with. The requirement states that the criteria are a part of the element, indicated in e) in the report structure for direct reporting.²¹
- 52) The compliance audit report determines the applicable criteria against which the underlying subject matter was measured or evaluated so the intended users can understand the basis for a conclusion. It may be relevant in the circumstances, to disclose:
- The source of the applicable criteria, and whether or not the applicable criteria are embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are derived criteria in the context of the underlying subject matter (and if they are not, a description of why they are considered suitable);
 - Measurement or evaluation methods used when the applicable criteria allow for choice between a numbers of methods;
 - Any significant interpretations made in applying the applicable criteria in the engagement circumstances;

21 ISSAI 4000/210.

- Whether there have been any changes in the measurement or evaluation methods used;
 - Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria;
 - Jurisprudence, unlawful law.²²
- 53) When the applicable criteria are derived for a specific purpose, the audit report may include a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose.
- 54) Where the audit mandate requires an audit with propriety criteria, the principles outlined in these guidelines may be applied as appropriate in the circumstances. The form and content of reports on propriety may vary depending on the mandate of the SAI and the particular circumstances.
- 55) Public sector auditors ensure that the criteria adequately reflect the topic subject to audit in its entirety. In rare cases, where the audit may be of limited scope and may only cover certain parts of a law or regulation, this limited scope must be clearly stated in the auditor's report.

It may also be necessary to elaborate on instances of conflicting criteria in the auditor's report.

22 Cambridge Dictionary: not according to or acceptable to the law.