

GUID 5090

Audit of International Institutions



INTOSAI

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Pre-IFPP document - this document was developed before the creation of the INTOSAI Framework of Professional Pronouncements (IFPP) in 2016. It may therefore differ in formal purpose from more recent INTOSAI Auditing Guidelines.



INTOSAI



INTOSAI, 2019

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- 2) Incorporated in the ISSAI Framework as ISSAI 5000 in 2010
- 3) Content revised in 2016
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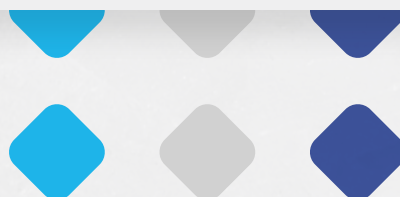


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BACKGROUND

- 1) There is a large number of international institutions around the world of varying size and complexity. Some institutions are small with relatively few members, while others are huge with global membership.
- 2) International institutions are primarily financed through contributions, guarantees or other public funds from the member states. As such, the funds are part of national budgets. Supreme Audit Institutions (SAIs) have a fundamental interest in good governance, accountability, effective financial management, effective performance management and transparency in international institutions, and strongly believe that good, well-organised and independent audit systems will contribute to better and more transparent control of international institutions, thus contributing to their efficiency, effectiveness and economy.
- 3) Issues concerning the audit of international institutions have been on the agenda of INTOSAI (International Organization of Supreme Audit Institutions) over a long time, and INTOSAI has agreed on recommendations at the:
 - IInd INCOSAI in Belgium (1956)
 - IIIrd INCOSAI in Brazil (1959)
 - IXth INCOSAI in Peru (1977), which endorsed “The Lima declaration of Guidelines on Auditing Precepts” and postulates in Section 25 the audit of international and supranational organisations through SAIs.

- Xth INCOSAI in Kenya (1980)
 - XVIIIth INCOSAI in Hungary (2004), which endorsed “Principles for Best Audit Arrangements for International Institutions” and “Guidance for Supreme Audit Institutions”
 - XIXth INCOSAI in Mexico (2007), which established the ISSAI (International Standards of Supreme Audit Institutions) framework.
- 4) The members of INTOSAI established standards in 2004 for international institutions to update their external audit arrangements to align them more closely with best practice. There have been significant improvements in these arrangements since 2004 and many institutions have introduced a more professional approach to procuring audit services with increased competition to select external auditors based on merit and also more regular rotation of external auditors to counter the risk of familiarity and to refresh the input from external auditors on a more regular basis. This supplementary guidance is aimed at strengthening such external audit arrangements further.
- 5) Over the last decade many international institutions have progressed to using International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS). Indeed, the United Nations (UN) and UN system entities have all progressively moved to IPSAS by 2014 as have many non-UN system international institutions. The adoption of internationally recognised accounting standards has brought improved financial reporting, financial management and transparency with regard to the income, expenditure, assets and liabilities of international institutions. A more robust set of accounting standards requires commensurate external audit skills and it is ever more important for international institutions to appoint the most suitable and best qualified external auditors for their specific activities.
- 6) INTOSAI believes that an effective external audit is a decisive factor in better governance, and that INTOSAI members are uniquely placed to contribute towards achieving this. INTOSAI collectively, and its members individually, have therefore undertaken to promote audit arrangements that encourage the auditing of international institutions by the community of SAIs,

recognising their expertise and independence in the financial, compliance and performance auditing of public money.

PRINCIPLES FOR EXTERNAL AUDIT ARRANGEMENTS FOR INTERNATIONAL INSTITUTIONS

- 7) The following set of principles has been considered as essential to ensure an effective external audit of international institutions, see *GUID 5091 Arrangements for Audit of International Institutions*.
- All international institutions financed with or supported by public money should be subject to an efficient, high quality external audit by SAIs to promote better governance, transparency and accountability.
 - The external auditor (hereinafter referred to as auditor) should be appointed in an open, fair and transparent manner.
 - The international institution should ensure the auditor's independence in the conduct of the audit.
 - The legal framework of the international institution and/or its financial regulations should guarantee the auditor's authority to carry out the audit of public money in a manner that is in accordance with INTOSAI pronouncements or other internationally recognised auditing standards.
 - The auditor should be provided with adequate resources to carry out the audit.
 - The international institution should ensure that the auditor reports on the results of the audit to the governing body of the institution.
- 8) These principles are being presented to the XXIInd INCOSAI, United Arab Emirates in 2016, for approval.

DEFINITION OF INTERNATIONAL INSTITUTIONS

- 9) For the purpose of the Principles for External Audit Arrangements for International Institutions as proposed in GUID 5091 an international institution was defined as follows:

An international institution is an organisation whether or not established by a treaty, in which two or more states (or government agencies or publicly funded bodies) are members and in which a joint financial interest is overseen by a governing body.

The purpose of such an international institution could be to achieve international cooperation in dealing with issues of an economical, technical, social, cultural or humanitarian character. This could be co-operation in the field of governance, security, finance, scientific research, environment or the realization of joint technical, economical, financial or social projects.

GUIDANCE FOR SAIS

- 10) This document is intended to provide supplementary guidance for SAIs in promoting the establishment of better external audit arrangements for international institutions and preparing SAIs for undertaking such audits. The guidance does not duplicate standards and guidelines issued elsewhere, nor does it presume to provide a comprehensive summary of all issues that an individual SAI will need to consider before deciding whether or not to assume an international audit assignment.
- 11) (This paragraph has been deleted)
- 12) GUID 5090 and GUID 5091 provide a framework for ongoing work to improve external audit arrangements and give some useful guidance on practical matters for SAIs that are less experienced in auditing international institutions. Including this background given in Chapter 1 the document is divided into eight chapters:

Chapter 2 outlines the major benefits of external auditors of international institutions being appointed from among the SAIs, mainly due to their extensive experience in the field of public sector auditing. In addition to audits of financial statements, SAIs also have broad experience in providing additional audit services by conducting performance as well as compliance audits.

Chapter 3 identifies relevant issues for SAIs wishing to undertake the audit of international institutions.

Chapter 4 provides an overview of key points and guidance on the core principles in completion of proposals for new audit engagements in the context of a competitive tendering exercise.

Chapter 5 provides guidance on risk assessment for accepting external audit engagements, both at the initial stage before accepting an appointment and for ongoing engagements.

Chapter 6 outlines best practice for the hand-over arrangements to be put in place for the exchange of information, knowledge and data between successor and predecessor auditors following a change of external auditor.

Chapter 7 refers to the relevant INTOSAI pronouncements and other internationally recognised auditing standards, and identifies certain aspects of the audit of international institutions that may differ from audits in a national context.

Chapter 8 provides guidance on the role and context of audit committees which have become significantly more prevalent in international institutions.

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PROMOTING PRINCIPLES FOR EXTERNAL AUDIT ARRANGEMENTS

INTRODUCTION

INTOSAI stated as follows in the Lima declaration of 1977:

International and supranational organisations, whose expenditures are covered by member country contributions, shall require an external, independent audit similar to that of individual countries.

Although this audit shall be adapted to the structure and tasks of the respective organisation, it shall be conceived along lines similar to those of the supreme audits of member countries.

To ensure the independence of such an audit, the members of the external audit institution shall be appointed mainly from within the Supreme Audit Institutions.

- 13) An international institution, as an autonomous body, is responsible for establishing its own rules and regulations, including the audit arrangements. The rules and regulations should be based on internationally accepted principles. International institutions vary in their set-up. Typically, however, they are constituted under international law as a legal entity and may enter into various commitments following their own established rules.
- 14) A governing body consisting of representatives from all (or some of) the member states decides such rules, among which are financial rules and regulations covering financial management, budgets and accounting as well

as auditing. Management undertakes the day-to-day management of the international institutions within the framework laid down by the governing body. The issue of rules and regulations covering audit is within the sphere of interest of INTOSAI and the SAIs. SAIs should engage with international institutions and their national representatives to ensure that the rules and regulations provide for appropriate arrangements for external audit.

BENEFITS FROM USING SAIS AS EXTERNAL AUDITORS

- 15) In promoting the adoption of the principles for external audit arrangements for international institutions, SAIs will want to emphasise the major benefits of an external audit conducted by the SAI community.
- 16) *INTOSAI-P 12 The Value and Benefits of Supreme Audit Institutions* – making a difference to the lives of citizens, states the extent to which a SAI can make a difference to the lives of citizens by:
 - strengthening the accountability, transparency and integrity of government and public sector entities (also including international institutions as defined under paragraph 9 above);
 - demonstrating ongoing relevance to citizens, Parliament and other stakeholders; and
 - being a model organisation through leading by example.
- 17) International institutions, whose expenditures are covered by member state contributions, require an external, independent audit similar to that provided to the governments of individual countries. Although this audit should be adapted to the structure and tasks of the relevant institution, it should likewise be structured along lines similar to those of the national audits carried out by the SAIs.
- 18) The financial rules and regulations of each international institution should determine whether the external auditor will be selected from among SAIs of member countries or more widely from other SAIs.

- 19) Factors that SAIs could consider in influencing the international institutions to make use of their audit services are as follows:
- the independence of SAIs from governments within their own countries as well as international institutions, in compliance with the auditing standards;
 - SAIs have extensive experience and a proven track record in providing effective external audits of public sector entities;
 - SAIs are in many instances institutions with a long history and high standing in public sector auditing;
 - the experience of SAIs in conducting performance audits in addition to audits of financial statements and compliance with laws and regulations;
 - the considerable hands-on experience of the SAI community in undertaking international audits to the highest professional standards, i.e. a significant number of international institutions are audited by SAIs;
 - SAIs provide audit services cost-effectively;
 - the strong links between SAIs established within INTOSAI, which provide mechanisms for establishing and addressing relevant standards for public sector auditing and in sharing best practice in every aspect of public sector auditing; and
 - the willingness and ability of SAIs to work in partnership with other SAIs that are less experienced in auditing international institutions.
- 20) The external auditor is an independent source of information to the governing body and the member states on whether the international institution performs economically, efficiently and effectively to achieve the purpose for which it was established. The members of the governing body of an international institution represent the member states, “the owners”. As the funds allocated to the institutions come from public funds, national authorities are accountable for the use of these funds. INTOSAI believes the best way of achieving a well-functioning, transparent system is by employing SAIs for the audit.

- 21) The individual SAI, as external auditor of an international institution, has an important role in assessing the existing audit arrangements, and it will fall within its mandate to point to possible weaknesses in the accountability arrangements, including the external audit arrangements, and if appropriate, report to the governing body on deficiencies.

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PREPARING SUPREME AUDIT INSTITUTIONS TO BE EXTERNAL AUDITORS

INTRODUCTION

- 22) There would be obvious benefits to the SAI community if the number of SAIs taking on audit assignments in international institutions could be increased. International institutions have been advised to advertise the prospective audit assignments on the INTOSAI website and SAIs are encouraged to visit the website for information on these assignments.
- 23) In order to be aware of audit assignments that become available, SAIs should establish a relationship with the relevant ministries or representatives of their countries on the governing bodies of international institutions to pursue these opportunities.
- 24) There may be significant benefits for a SAI undertaking the audit of an international institution. These include:
- professional development for the SAI and its employees through exposure to the international environment;
 - professional development through working together with other SAIs in a board of auditors, partnerships with other SAIs, etc.;
 - positive challenges and international audit experience for staff members from the SAI; and
 - gaining more insight into institutions receiving contributions from the national budgets of member states.

- 25) There are also likely to be a number of challenges, namely:
- the need to ensure that the international audit work does not affect national priorities;
 - the need for additional training and development of the staff undertaking this work; and
 - the need to adjust work planning arrangements to accommodate the needs, and timetables for an international audit, for example for the presentation of audit reports and findings.

THE LEGAL AND CONSTITUTIONAL COMPETENCE OF THE SAI

- 26) A SAI that is considering taking on the role as external auditor of an international institution must ensure that such a role is within its mandate. Some SAIs may not have the mandate to take on audits of international institutions, while others may be constrained by their legislation from receiving payment for this kind of work.
- 27) If the mandate does not make explicit provision to perform international audits, SAIs may consider the content of the *INTOSAI-P 1 - The Lima declaration*, according to which the audit of international institutions should fall under the mandate of a SAI. SAIs that do not have the mandate to perform audits of international institutions are encouraged to influence the inclusion of these types of audits in their mandate.

PREPARING THE SAI

- 28) There are a number of areas where care should be taken to ensure that the SAI will be able to deliver the audit services required. SAIs with experience in auditing international institutions will probably have been through most if not all of these issues, but may find the following guidance useful to refine their policies and strategies. It is important that:
- the SAI's work as auditor for international institutions is based on a firm policy decision and commitment by the SAI leadership;

- a legal framework for such assignments is established, clarifying the responsibility of the SAI and of the staff engaged in the audit; and
- the SAI formally adopts and implements relevant standards and ensures that it possesses the professional skills to undertake the audit of international institutions and delivers audits of the highest quality.

These points are developed further below:

POLICY DECISIONS

- 29) For undertaking international audit assignments a SAI will need provisions of both financial and human resources. Commitments to undertake international audits should be taken by management at strategic level and provisions included in the SAI's strategic plans as well as in annual plans and budgets.
- 30) Some SAIs may not, due to financial constraints, be able to take on such audits if not fully recompensed. As part of the planning, a desired volume of involvement and the spectrum of auditing should be determined, and the resources for training and preparing staff made available.
- 31) For audit arrangements where individuals from a SAI rather than the SAI itself are appointed as auditors, the SAI should take full responsibility for the audit by giving clear instructions to the appointed staff, and establish a quality assurance system to ensure adherence to the instructions given.

LEGAL FRAMEWORK

- 32) The legal implications of the appointment of a SAI as the external auditor of an international institution might be different from those related to national work. SAIs that are considering taking on international audit assignments must take into account the legal implications and possible consequences of such assignments. Chapter 6 details the factors that a SAI should consider when accepting an audit engagement.

LIABILITIES FOR BREACH OF DUTY

- 33) In recent years there has been an increase in litigations against private sector auditing firms. It is obvious that cases may also arise where a SAI or its staff members acting as external auditors of an international institution could be taken to court. SAIs should be aware of, but not put off, by this issue when considering whether to assume such audit engagements.
- 34) In some countries national legislation concerning the SAI may provide the SAI and its staff with immunity from legal processes of any kind arising from their official duties. Depending on the legislation this could also cover the audit work for an international institution.

THE SAI'S RESPONSIBILITY AS THE EMPLOYER FOR AUDITORS INVOLVED IN THE AUDIT OF INTERNATIONAL INSTITUTIONS

- 35) Normally the SAI's employees involved in audits abroad are regarded as being fully employed by the SAI while working abroad and the employees receive full benefits from the SAI on such assignments. In most cases the SAI will be responsible and liable as the employer of its appointed staff on international audit assignments. The SAI will also have to consider other aspects such as the security of staff and arrangements for coping with emergencies. Any additional requirements could be included in an agreement or contract between the SAI and the staff concerned.

PROFESSIONAL STANDARDS AND SKILLS

- 36) The audit should be conducted in accordance with the ISSAIs or other internationally recognised auditing standards.
- 37) Generally speaking, the qualifications and skills needed by the staff involved in the audit of an international institution are the same as for any other audit of comparable size and complexity. Additional factors to consider in selecting

staff for such appointments should be:

- language skills required;
- the ability to work alone, abroad and in different cultural environments; and
- knowledge and experience of applying ISSAIs or other relevant international auditing standards.

38) The manner in which the required number of qualified staff are prepared must also be considered. Some SAIs organise workshops for their staff on international audit assignments. For SAIs with little or no experience in auditing international institutions it is recommended that they seek assistance from more experienced SAIs. On joint audit assignments staff from partner SAIs could also be invited.

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COMPLETION OF PROPOSALS FOR NEW AUDIT ENGAGEMENTS

- 39) Where an international institution has advertised to acquire external audit services through competitive tendering, the governing body will normally issue detailed instructions regarding the composition of the proposals to be submitted. Any prospective bidders should therefore follow the precise instructions set out in the call for proposals to ensure that their proposal meets these requirements. This is important in enabling international institutions to assess proposals in a consistent and fair manner where they are able to compare and technically evaluate like for like information.
- 40) In some instances the call for proposals may not specify exactly what the bid should consist of and the guidance below is aimed at providing an overview of the key features of proposal submission.

KEY POINTS OF THE PROPOSAL TO THE INTERNATIONAL INSTITUTION

- 41) The opening section of the proposal should provide an executive summary of the services to be delivered, qualifications, experience, time frame for delivery and the expected cost. This section should end with a commendation of the proposal signed by the head of the bidding SAI.

GENERAL INFORMATION

- 42) This section should set out details for the following areas:
- information about the SAI in terms of its role, responsibilities, size and mandate;
 - organisational structure of the SAI;
 - quality assurance and control arrangements; and
 - experience more widely and in the specific areas in which the international institution operates.

QUALIFICATIONS OF STAFF, THEIR TRAINING AND EXPERIENCE

- 43) This section should seek to cover the following areas:
- staff profile for the SAI – number of staff in each area of specialism;
 - composition of the team that will deliver the audit services to the international institution in question;
 - details of individual staff as audit team members:
 - position
 - role
 - expertise
 - summary of specific areas of expertise, e.g. information systems and audit experience; and
 - arrangements for continuous professional development

AUDIT APPROACH AND STRATEGY

- 44) The proposal should set out in some detail how the audit services will be delivered and the key features thereof as follows:
- the audit strategy to be adopted to deliver the audit, including details of the audit cycle;
 - an assessment of areas for audit focus based on knowledge of the international institution;
 - reporting arrangements for when and how the external auditor will report to management and the governing bodies;
 - communication plan for engagement with management, internal audit, the governing body and other stakeholders such as budget and finance committees and audit committees.

AUDIT FEE

- 45) The proposal should clearly identify the overall fee to be charged for the provision of external audit services. The fee should be denominated in the reporting currency of the international institution as required by the call for proposals. Where more than one set of financial statements are to be certified, for example where the institution has a separate pension fund or staff provident fund, the proposed fee should be clearly specified for each set of financial statements.
- 46) The proposal should include an agreement that the auditor's fee can be amended if unforeseen circumstances or specific requests by the governing bodies of the international institutions require increased efforts and resources to be put in place for providing the additional audit services.
- 47) If for any reason a SAI is prohibited from charging an audit fee, or a discounted fee is charged for the provision of external audit services, reference to national legislation or other reasons should be provided. In addition, the SAI should indicate the number of hours that would be needed to complete the audit, which would provide the international institution with some form of comparable information.

THE AUDITING STANDARDS APPLIED

- 48) The proposal should clearly set out the auditing standards to be complied with in the delivery of the external audit service. This should refer to the ISSAIs or other internationally recognised auditing standards.

CURRICULA VITAE FOR THE SENIOR TEAM MEMBERS

- 49) The curricula vitae of the senior team members and any other team member deemed necessary should be provided in annexes to the proposal detailing the relevant experiences of the team that will be involved in delivering the audit. Again, this allows a technical evaluation of the skills available for the external audit service

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RISK ASSESSMENT FOR ACCEPTING EXTERNAL AUDIT ENGAGEMENTS

- 50) While *ISSAI 2210 - Agreeing the Terms of Audit Engagements*, sets out the standards for agreeing the terms of an external audit engagement, this section provides supplementary guidance on the actions that a SAI should consider before formally accepting an engagement. A SAI submitting a proposal for external audit services should consider the following issues:

PRECONDITIONS FOR AN AUDIT

- 51) In accepting an external audit engagement, the SAI should consider the following:
- Does the financial reporting framework applied in the preparation of the financial statements meet the preconditions that the preparation of the financial statements will be in accordance with this framework and that it is a fair presentation framework?
 - Does management acknowledge and understand its responsibilities?
 - Is an adequate system of internal control, considered necessary to enable preparation of financial statements free from material misstatement, in place to prevent material irregularities?
 - Is the international institution able to provide all relevant information of which it is aware or as requested by the auditor, and will the auditor have unrestricted access to systems and persons within the entity from whom audit evidence can be obtained?

CLIENT INTEGRITY ASSESSMENT

- 52) The external auditor should consider whether there is any risk to the integrity of the entity to be audited. It may be difficult to access reliable sources of information to conduct this assessment when considering whether to bid for an audit assignment. However, any prospective external auditor may wish to consider the following sources of information to complete this assessment:
- the international institution's own website showing the nature of its activities and current developments;
 - the website of the international institution where documents such as previous audit reports, internal audit annual reports, audit committee annual reports, secretariat advice on administrative matters and other relevant information may be available;
 - the incumbent external auditor, who may be willing to share information on areas such as audit findings, significant audit risks and the quality of financial reporting;
 - the ministry of foreign affairs or other relevant ministry's representative on the international institution's governing body who may be able to provide some insight into the institution's activities, performance and quality of financial management;
 - media reports.

6

ACCEPTANCE OF NEW EXTERNAL AUDIT ENGAGEMENT— HAND-OVER ARRANGEMENTS

HAND-OVER ARRANGEMENTS

- 53) The new auditor should arrange a formal hand-over with the previous auditor. The previous auditor will have gathered general knowledge of the institution, its customs and practices, which will not necessarily have been documented. A meeting with the previous auditor will therefore usually be appropriate.
- 54) It is likely that similar guidelines have been applied equally to other international audits. Where the audit of the international institutions has previously been undertaken by auditors other than a SAI, the hand-over should be undertaken in accordance with relevant auditing standards, but also observing the guidance set out in this section.
- 55) Because limited information is available before taking over the audit, SAIs should be flexible in allocating resources for the first audit to cater for unforeseen activities. This is because the detailed planning work and findings during the first audit may indicate the need for additional work.

GUIDANCE FOR HAND-OVER ARRANGEMENTS

- 56) In the event of an audit assignment being transferred from one external auditor to another, the predecessor and successor auditors are jointly responsible for a smooth hand-over. Once officially appointed, the successor

auditor initiates contact with the predecessor auditor to agree on hand-over arrangements. The institution is kept informed of these arrangements. The predecessor auditor shares information with the successor auditor, at least with regard to the following:

- audit approach and strategy set out in audit planning reports;
 - audit areas covered during past financial periods and programme of work for the current financial period;
 - significant risks and the additional procedures used to address such risks;
 - risk factors considered as part of the audit but which are not considered to be specific risks;
 - significant judgements made regarding accounting treatment and related issues and important decisions taken on audit matters;
 - communication to audit committees, or other committees with equivalent authority, also with regard to fraud and illegal acts by the institution, if any. This should include:
 - long-form audit reports
 - management letters
 - ad hoc reports produced for management and governing bodies
 - disagreements with the institution as to accounting principles, auditing procedures and other significant matters, if any; and
 - unresolved audit matters and any other matters that could have an important impact on future audits, if any.
- 57) The predecessor auditor is also encouraged to provide access to working papers if specifically requested. A formal record of the hand-over is prepared and kept on file by both the predecessor and successor auditors, listing notably the documents handed over and the key information provided orally. At the end of the hand-over exercise, a written hand-over statement is prepared and signed by both the predecessor and successor auditors.

7

SUPPLEMENTARY GUIDANCE ON THE AUDIT OF INTERNATIONAL INSTITUTIONS

INTRODUCTION

- 58) All audits of international institutions should be carried out in accordance with the ISSAIs or other internationally recognised auditing standards. In doing so SAIs and the appointed auditor will need to keep track of relevant changes to the auditing standards.
- 59) In preparation for the audit the auditors should familiarise themselves with the financial rules and regulations of the international institution and confirm that the institution is able to report in terms of its own accounting framework.
- 60) The sections below provide specific supplementary guidance on areas where the unique circumstances of international institutions require wider consideration.

ASSESSMENT OF RISK AND MATERIALITY

- 61) The auditor must assess risk and materiality in line with the standards based on:
- *ISSAI 2300 - Planning an Audit of Financial Statements;*
 - *ISSAI 2315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment;*

- *ISSAI 2320 - Materiality in Planning and Performing an Audit*; and
- *ISSAI 2330 - The Auditor's Responses to Assessed Risks*, as well as the nature of the institution being audited. There may also be additional risks to consider, such as the non-payment of member states contributions, foreign currency exposure, pensions and other staff liabilities.

ADDITIONAL AUDITS

- 62) The planning work and the financial audit may indicate areas for performance and/or compliance audits to be considered for the current or later years' audits. Such audits may call for extra resources that may have to be agreed with the governing body as part of the budget preparations for the international institution (see paragraph 46 concerning provision of specific audits upon request by the governing bodies). Guidance on considering risk and materiality for performance and compliance audits is set out in:
- *ISSAI 3000 - Performance Audit Standard*; and
 - *ISSAI 4000 - Compliance Audit Standard*

ANALYSIS OF FINANCIAL STATEMENTS

- 63) For some international institutions the financial statements and attached documentation are quite extensive due to special interests of and demands made by the governing body over the years. This documentation might comprise statistical analyses, timelines of certain key performance indicators and long-term standing tables that have no relevance to the financial statements. The external auditor should carefully examine the documentation to determine whether it forms part of the financial statements and the financial report, otherwise the auditor should clearly exclude these documents from the audit opinion.

AUDIT REPORTING

- 64) The audit report for an international institution will usually be addressed to the governing body. The financial rules and regulations may require the auditor to produce a long-form report on specific issues. These may include the results of performance audits undertaken, cases of fraud or suspected fraud, and losses. SAIs should ensure that material included in any long-form report does not inadvertently cast doubt on the audit opinion provided on the financial statements. The external auditor will also want to consider how best to explain their audit findings to a governing body which may be composed of representatives who have a background in the technical purpose of the institution and may be unfamiliar with general administrative and corporate governance issues.

ASSESSMENT OF EXTERNAL AUDIT ARRANGEMENTS

- 65) External audit arrangements for many international institutions will have been established at the time the institution was created, and may not have been reviewed or changed since then, even if the size and character of the institution have changed dramatically. Although the responsibility for establishing adequate audit arrangements rests with the institution, it is important that the external auditor regularly assesses them against the recommended audit arrangements. The auditor should bring any weaknesses to the attention of the governing bodies as appropriate. GUID 5091 sets out the principles for best practice in establishing external audit arrangements.

8

GUIDANCE ON THE ROLE OF AUDIT COMMITTEES IN INTERNATIONAL INSTITUTIONS

- 66) Some international institutions do have an audit committee system. The guidance below provides details with regard to the role of audit committees and how external auditors may engage with them.
- 67) Independent audit committees are usually formed by non-executive directors without any vested interest in the international institution. The main objective of an audit committee is to assist the institution's governing body in its oversight by challenging the executive, as well as the internal and external auditor. An audit committee has the following characteristics:
- a key component of corporate governance;
 - underpins the integrity of financial reporting by institutions through review and recommending the certified financial statements, audited by an independent external auditor, for approval by the governing body.
 - makes a significant contribution to the control environment and governance arrangements by providing advice on strengthening these;
 - essential for the integrity and credibility perception of an institution's governance arrangements;
 - considers the formal reports of the internal and external auditor to assess how these help the institution improve its operational performance;
 - improves accountability of management;
 - ensures that management responds to audit recommendations in a timely and effective manner to achieve beneficial changes;
 - helps to ensure that effective arrangements are in place to provide

assurance to all stakeholders on risk management, governance and internal control; and

- annually reports to the governing body of the international institution on its work and findings.

68) The structure and procedures of an audit committee will typically be as follows:

- an audit committee is usually chaired by an independent non-executive member;
- an audit committee consists of three to four independent non-executive members, supported as necessary based on the nature and size of the institution;
- audit committee members should have business and financial management expertise (one or two to have senior level audit experience);
- the members of an audit committee are unpaid, but their costs will be reimbursed by the international institution;
- an audit committee meets three or four times a year, approximately on a 3-4 month basis. In overall terms this is driven by the reporting period of the international institution and adapted to the timing of the internal and external auditor's presentation of audit plans and reports;
- an audit committee aims to ensure good use of audit resources and outputs; and
- an audit committee does not conduct audits and is not considered to be another layer of audit.