

GUID 5091

Arrangements for Audit of International Institutions



INTOSAI

INTOSAI Guidances are issued by the International Organisation of Supreme Audit Institutions, INTOSAI, as part of the INTOSAI Framework of Professional Pronouncements.

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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.



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- 1) Adopted as an INTOSAI document as Principles for Best Audit Arrangements for International Institutions in 2004
- 2) Incorporated in the ISSAI Framework as ISSAI 5000
- 3) Content revised and renamed as INTOSAI GOV 9300 – Principles for External Audit Arrangements for International Institutions in 2016
- 4) With the establishment of the Intosai Framework of Professional Pronouncements (IFPP), relabeled and renamed as GUID 5091 – Arrangements for Audit of International Institutions with editorial changes in 2019

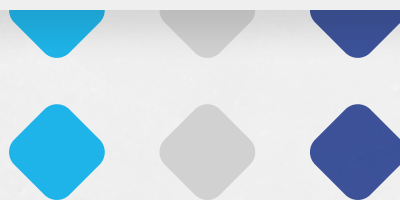


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INTRODUCTION

- 1) INTOSAI states 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.
- 2) For the purpose of this document an international institution is 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 co-operation in dealing with issues of an economical, technical, social, cultural or humanitarian character. This could be cooperation in the field of governance, security, finance, scientific research, environment or the realisation of joint technical, economical, financial or social projects.

- 3) International institutions are primarily funded with public funds through contributions or guarantees from the member states. Besides, some international institutions also receive funding from donors that are not necessarily member states, e.g. private donors. Some international institutions generate income from the sale of goods and services. Supreme audit institutions (SAIs) have a fundamental interest in enabling oversight and they strongly believe that good, well-organised and independent audit systems will enable accountability and thus promote transparency and good governance in the international institution. Reasonable assurance may be provided to the governing board/council/member states that the international institutions have used available funds and managed their financial affairs in line with sound financial principles and relevant legal framework.
- 4) INTOSAI thus believes that an effective, professional and high quality external audit is a decisive factor in achieving better governance, and that SAIs, as INTOSAI members, are uniquely placed to contribute towards accomplishing this. INTOSAI collectively, and its members individually, have therefore for years been promoting audit arrangements that encourage international institutions to use external audit services provided by members of the INTOSAI community, recognising the SAIs' expertise and independence in financial, as well as compliance and performance auditing of public money.
- 5) This document provide guidance to the international institutions on external audit arrangements. Historically this document was titled *Principles for Best Audit Arrangements for International Institutions* (issued 2004) and has been classified as both ISSAI 5000 and INTOSAI GOV 9300. With the establishment of the IFPP in 2016, the document was renamed and relabeled as *GUID 5091 – Arrangements for Audit of International Institutions*.

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PRINCIPLES FOR EXTERNAL AUDIT ARRANGEMENTS FOR INTERNATIONAL INSTITUTIONS

- 6) International institutions should strive to adopt the following principles to establish best practice and effective arrangements for external audit:

1. 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.
2. The external auditor (hereinafter referred to as auditor) should be appointed in an open, fair and transparent manner.
3. The international institution should ensure the auditor's independence in the conduct of the audit.
4. 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 the International Standards of Supreme Audit Institutions (ISSAI) or other internationally recognised auditing standards.
5. The auditor should be provided with adequate resources to carry out the audit.
6. The international institution should ensure that the auditor reports on the results of the audit to the governing body of the institution.

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GUIDANCE ON THE APPLICATION OF THE PRINCIPLES FOR EXTERNAL AUDIT ARRANGEMENTS FOR INTERNATIONAL INSTITUTIONS

PRINCIPLE 1

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

- 1.1. An international institution is, as an autonomous body, responsible for establishing its own financial rules and regulations, including audit arrangements. The financial rules and regulations should be based on internationally accepted principles, e.g. United Nations (UN) financial rules and regulations, International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), etc. International institutions vary in their set-up. Typically, however, they are constituted under international law as legal entities and may enter into various commitments following their own established rules. A governing body consisting of representatives from all (or some of) the member states decides on such rules, including financial rules and regulations covering financial management, budgets and accounting, as well as internal and external audit arrangements. Management is responsible for the day-to-day management of the international institution within the framework laid down by the governing body.
- 1.2. The external audit arrangements of an international institution must ensure that the audit of the institution is adequate and performed in

accordance with the ISSAIs or other internationally recognised auditing standards. Arrangements for the appointment of the auditor should be made in accordance with the procurement procedures of the international institution, which in turn should be in line with procurement best practice. The appointment of the auditor should be approved by the governing body (refer to principle 2: “The auditor should be appointed in an open, fair and transparent manner”).

- 1.3. The international institution’s governing body should regularly assess whether the evolution of the institution or external requirements warrants a change in audit arrangements. Where the scope or structure of the international institution changes fundamentally, the external audit arrangements should be considered carefully and updated if necessary.
- 1.4. SAIs are uniquely positioned to assist international institutions in enhancing good governance, transparency and accountability. This follows from their statutory independence and their long tradition of providing the same assurance in a national context. SAIs will also have experience in assessing carefully the need for the public to receive relevant information on financial issues. The international institution can derive added value from a financial audit, compliance audit as well as performance audit performed by a SAI.
- 1.5. Where possible, the international institution should appoint a single SAI to be responsible for the audit. To the international institution, the appointment of one SAI means that the audit arrangements will be quite flexible, with simple lines of communication. However, in some institutions, such as the United Nations, NATO, African Union, etc., a board or group of auditors have been considered to be more appropriate because of the size and complexity of the international institutions involved.
- 1.6. If two or more SAIs perform the audit, whether in the form of a board or group of auditors, the audit arrangements can still be quite flexible. The institution will benefit from the fact that different perspectives will be represented in the audit and the professional base of relevant audit expertise will be larger. Therefore, if the member states decide to form a board or group of auditors, the number of SAIs should be relatively small - no more than three or four.

- 1.7. Where more than one SAI is involved, the international institution should work with the SAIs to clearly identify the lead auditor responsible for the overall audit opinion in line with the ISSAIs or other internationally recognised auditing standards.
- 1.8. Provided that procurement rules are observed and appointments are made on a merit basis, audit partnerships between experienced SAIs and other SAIs should be encouraged, i.e. the financial rules and regulations of an international institution should not prevent such arrangements.

PRINCIPLE 2

The auditor should be appointed in an open, fair and transparent manner

- 2.1 The auditor should be appointed by the governing body independently of the management.
- 2.2 The selection process should allow participation of all member states to ensure that the process is fair, equitable and transparent.
- 2.3 The process for appointing the auditor should be established by the governing body and included in the financial rules and regulations. Timely information on forthcoming appointments is essential. Announcement of audit assignments should be communicated through member state representatives of the governing body and advertised on the INTOSAI website prior to the commencement of the appointment process. This would allow sufficient time for prospective auditors to engage with the incumbent auditor while the latter is still in office.
- 2.4 The governing body should decide on the appropriate duration of the auditor's appointment, which should be specified in the financial rules and regulations of the international institution. Factors that may influence the duration of appointment are the costs and benefits of changing auditors, the likely availability of auditors, as well as the complexity of the institution. Ideally, appointments should be for a minimum of three to four years, with a maximum of six years.

- 2.5 There are no standard arrangements for the selection of a new auditor. The selection process should offer an equal opportunity for all SAIs to be appointed as auditor, while also ensuring quality auditing. The final decision on the appointment of the auditor should be made by the governing body based on a thorough evaluation of the bids. The international institution should engage formally with the auditor to agree on the roles and responsibilities of both the institution and the auditor.
- 2.6 The governing body should set clear and open criteria for the selection of the auditor. Selection criteria may include factors such as appropriate technical and professional competence to conduct the audit, as well as the cost thereof, sought by descriptive tenders from those SAIs that wish to undertake the audit. Selection of the auditor should not be based on cost alone.
- 2.7 The institution should seek to obtain bids in a defined format. This means that specific guidelines and recommendations have to be applied when compiling bids. Such guidelines could include the manner in which various budget items are presented, for example cost for permanent staff, preparatory work in home country, travel plans, etc. It is also important to emphasize that competition between SAIs in their efforts to be appointed as auditor should be fair and transparent. International institutions should conduct a technical evaluation of accepted bids against transparent criteria which have been set out in the announcement for the appointment.
- 2.8 In the event of competitive bidding by inviting technical and financial bids from the SAIs, the international institution should apply standards for good procurement practice.
- 2.9 Candidates for an audit assignment must have a thorough knowledge of, and experience in auditing and examining government operations in accordance with the ISSAIs or other internationally recognised auditing standards. On the appointment of the auditor, whether a single SAI or a board of auditors, the engagement letter should state the relevant auditing standards to be used.
- 2.10 Candidates for an audit assignment must have a good working knowledge of at least one of the official working languages of the international institution.

PRINCIPLE 3

The international institution should ensure the auditor's independence in the conduct of the audit

- 3.1. The international institution should engage with the auditor on taking up the assignment to enable the auditor to obtain an understanding of the institution. In doing so the auditor will determine the scope, methods and resources required to conduct the external audit.
- 3.2. The auditor's independence from the management of the institution is compulsory, i.e. management shall not direct or interfere with the auditor in the execution of its responsibilities and tasks.
- 3.3. The international institution should be assured that the auditor will neither seek nor receive instructions from an individual member state. However, the auditor needs to discuss issues concerning audit risk, methodology, etc. with management of the international institution and representatives of the governing body. This way of gathering the necessary information is not discouraged, provided that the auditor decides on the audit strategy.
- 3.4. The financial rules and regulations of the international institution should include provisions that ensure that the auditor is appointed by and is responsible for reporting to the governing body.
- 3.5. The financial rules and regulations of the international institution covering external audit should ensure that the auditor is not restricted in carrying out any audit task deemed necessary to fulfil the audit mandate.
- 3.6. The auditor must be solely responsible for the conduct of the audit, including determining the scope of the audit and the audit methodology.
- 3.7. Only the governing body may request the auditor to perform specific or additional audit work. Before the auditor accepts such additional tasks, the international institution should seek an assurance that the auditor has the

necessary resources to perform the tasks, and that the work is consistent with the mandate and competence of the auditor. Having accepted the specific or additional audit work, it is for the auditor to determine the scope, methodology and resources of the audit.

- 3.8. The independence of the auditor should not be constrained by other factors, such as lack of authority, resources, mandate or reporting rights and obligations as described below in principles 4 - 6.
- 3.9. In accordance with INTOSAI-P 10 The Mexico Declaration on SAI Independence, the auditor should be perceived to be independent. This implies that the auditor is required to be objective in dealing with the audit issues and free of personal interest and any external pressure, basing conclusions exclusively on audit evidence obtained in accordance with relevant auditing standards.

PRINCIPLE 4

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 the ISSAIs or other internationally recognised auditing standards

- 4.1. The governing body of an international institution is responsible for establishing effective systems that promote good governance, transparency and accountability. This includes ensuring that financial statements are subject to audit; establishing reliable systems of accounting for the financial resources granted; establishing good systems of internal controls; and maintaining good systems for efficiency, effectiveness and economy to ensure that resources are well spent.
- 4.2. It is the responsibility of the executive head of the international institution, e.g. the secretary-general or director-general, to prepare the financial statements in accordance with the financial reporting framework adopted by the institution and to submit them to the auditor for audit. The financial reporting framework adopted by the international institution will in most cases be the

- International Public Sector Accounting Standards (IPSAS) or International Financial Reporting Standards (IFRS). The auditor's responsibilities to audit these financial statements and to express an opinion on these are normally set out in financial regulations and will be reflected in the letter of engagement and/or external audit convention for the audit term of engagement signed by the auditor and the international institution.
- 4.3. The audit mandate should include financial, compliance and performance audits, and should allow for special audits, e.g. environmental audits. The audits should be conducted in accordance with the ISSAIs or other internationally recognised auditing standards.
- 4.4. Further information such as definitions and fundamental principles on different types of audits, i.e. financial, compliance and performance audits, can be found on the website www.ISSAI.org.
- *ISSAI 100 - Fundamental Principles for Public-Sector Auditing*
 - *ISSAI 200 - Financial Audit Principles*
 - *ISSAI 300 - Performance Audit Principles*
 - *ISSAI 400 - Compliance Audit Principles*
- 4.5. To guard against narrow interpretation of the audit mandate, the auditor should be encouraged to bring special circumstances and issues to the attention of the governing body for consideration if an audit is required or recommended.
- 4.6. The auditor should have unrestricted and timely access to records, documents, staff and any information of the institution, including the internal audit, deemed necessary for the performance of the audit.
- 4.7. The international institution should appoint/contract specialists and experts as appropriate where expert advice, valuations and assessments are required, e.g. actuaries and values. Where the auditor did not get sufficient appropriate evidence from the experts of the international institution, the auditor should be allowed to use its own expert(s).
- 4.8. Depending on the size and complexity of the international institution the

following could be established:

- an effective internal audit function, which follows internationally accepted internal auditing standards; and
- an audit committee consisting of external independent members.

PRINCIPLE 5

The auditor should be provided with adequate resources to carry out the audit

- 5.1. The international institution should make adequate resources and facilities available for the proper discharge of the audit.
- 5.2. The international institution should make provision for an adequate formal budget for the external audit services and bear the full cost of the audit.
- 5.3. Some SAIs may not undertake the role of auditor for international institutions unless all costs are covered. On the other hand, some SAIs are not allowed to receive money from anyone but their own state or legislature. The rules and regulations of the international institutions should not lead to discrimination between SAIs based on their national legislation. Normal procurement procedures should be followed when appointing the auditor. To ensure a competitive, fair and transparent selection, an appropriate weighting for different aspects of the bid should be included.
- 5.4. If the auditor considers the available resources to be insufficient to carry out the audit, either in quantity or quality, this fact should be reported to the governing body, as well as the consequences of the problem and proposed solutions. Normally, in a competitive situation, issues relating to the budget are settled when the auditor is appointed.

PRINCIPLE 6

The international institution should ensure that the auditor reports on the results of the audit to the governing body of the institution

- 6.1. The international institution should engage with the auditor to ensure that the auditor reports to the governing body:
 - on the audit of financial statements;
 - on the results of any compliance and performance audits, if required; and
 - on the status of management's implementation of the auditor's previous recommendations.
- 6.2. The management of the international institution should respond to the audit findings in a timely manner to enable the auditor to consider management's comments before finalizing the audit report.
- 6.3. The auditor should be invited to the appropriate meeting of the governing body to present the audit report. The institution should ensure that the presentation of the audit report is a separate agenda item for the meeting.
- 6.4. In order to enhance transparency and accountability all external audit reports presented to the governing body should be publicly available. Exceptions should be based on clear and relevant criteria concerning classified and confidential information.
- 6.5. The members of the governing body should be encouraged to forward the reports to the SAIs of the member states for information purposes.

Auditing standards

Generally accepted auditing standards for financial, performance and compliance audit as included in the ISSAIs and other internationally recognised standards.

Auditor

In this paper, “auditor” is used as a generic term covering the external auditor, whether single or in the form of a board of auditors.

Board of auditors

A group of auditors from different SAIs jointly responsible for conducting the audit.

External audit arrangements

The organisational set-up of the external audit of an international institution. Two arrangements dominate: A single auditor and a board of auditors. Audit arrangements will normally form part of the financial rules and regulations.

Financial rules and regulations

Rules and regulations covering financial management of the international institution. They normally cover the budgetary process, accounting, and the responsibilities of management, financial committees, etc. They also cover rules governing the external audit.

Good governance

A generic term covering standards for decision-making, propriety, probity, accountability and transparency.

Governing body

A common term used for the highest authority within an international institution. In some institutions it may also include committees e.g. finance committee. The main common factor is that all governing bodies will consist of representatives from member states.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB). They are designed as a common global language for business affairs so that company accounts are understandable and comparable across international borders.

International institutions

An international institution is an organisation, whether or not established by a treaty, of 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.

International Public Sector Accounting Standards (IPSAS)

International Public Sector Accounting Standards (IPSAS) are a set of accounting standards issued by the IPSAS Board of the International Federation of Accountants (IFAC) for use by public sector entities in the preparation of financial statements. These standards are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

INTOSAI Framework for Professional Pronouncements (IFPP)

INTOSAI Framework of Professional Pronouncements (IFPP) are the formal and authoritative announcements or declarations of the INTOSAI Community, and consist of INTOSAI Principles (INTOSAI-P), International Standards of Supreme Audit

Institutions (ISSAI), and INTOSAI Guidance (GUID).

INTOSAI

An autonomous, independent and non-political organisation established as a permanent institution in order to foster the exchange of ideas and experiences among the SAIs on government auditing. The organisation has nearly 200 members.

Management

The day-to-day executive administration responsible for carrying out the decisions of the governing body.

Member states

The nations participating in the international institution.

Supreme Audit Institution (SAI)

The public body of a state which, however designated, constituted or organized, exercises by virtue of law, the highest public auditing function of that state. In some SAIs there is a single appointed Auditor-General who acts in a role equivalent to that of engagement partner and who has overall responsibility for public sector audits. Other SAIs may be organized as a court of accounts or having a collegiate or board system.