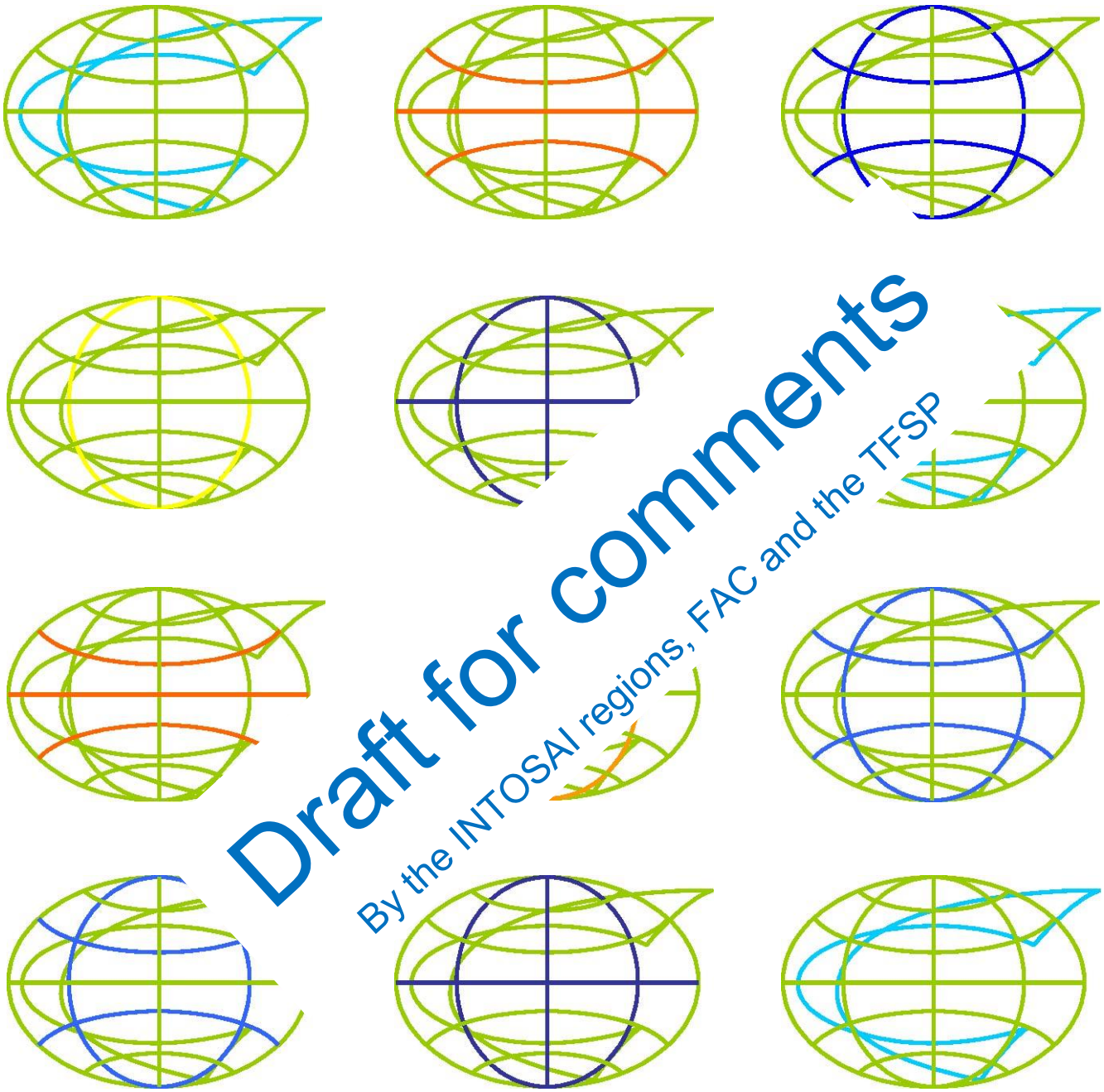

INTOSAI Professional Standards Committee

Evaluation and recommendations to improve INTOSAI's standard setting

Report to the Governing Board – November 2014

Draft version – July 2014

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Executive summary for the Governing Board

(To be elaborated after comments have been obtained)

1 Introduction

1.1 PSC's purpose and mandate

The Professional Standards Committee (PSC) was established in order to pursue INTOSAI's goal 1 as currently formulated by the Strategic Plan 2011-2016:

Promote strong, independent, and multidisciplinary SAIs and encourage good governance, by

1. providing and maintaining the International Standards of Supreme Audit Institutions (ISSAI)
2. contributing to the development and adoption of appropriate and effective professional standards.

At the XXI INCOSAI in Beijing in 2013 the PSC reported on the status of INTOSAI's achievements with regard to goal 1. These achievements are the result of a great common effort made by the 70 members of the PSC as well as many working groups under the Capacity Building Committee (CBC) (goal 2) and the Knowledge Sharing Committee (KSC) (goal 3), who have also contributed to goal 1 by developing ISSAIs and INTOSAI GOVs. They are also the result of a close cooperation between INTOSAI and external partners who have shared INTOSAI's ambitions to define sound professional standards and support capacity building and implementation based on auditing standards that address the specific needs of SAIs.

The XXI INCOSAI highlighted that the progress achieved with regard to goal 1 is now so well advanced that INTOSAI is reaching a new cross-roads; the International Standards of Supreme Audit Institutions (ISSAIs) constitute an international set of auditing standards which define and safeguard the specific features of public-sector auditing and can be used directly and referred to in audit reports. With this new and more ambitious standard-setting role for INTOSAI follows an obligation to ensure that members and stakeholders – also in the very long term - can rely upon the professional quality, continuous improvement and widespread recognition of the ISSAIs as international public-sector auditing standards. In light of the deliberations on the status of goal 1 INCOSAI moved through the Beijing Declaration to welcome the PSC's *determination to find sustainable solutions that will provide sufficient guarantees that the Framework and Due Process of INTOSAI's professional standards are maintained and developed for the future*.

This objective is reflected in the PSC's mandate for 2014-2016 as follows:

- *Evaluate and improve the standard-setting processes in close cooperation with the INTOSAI Task Force on Strategic Planning (TFSP) in order to ensure and develop INTOSAI's standards for public-sector auditing.*

1.2 The purpose of the evaluation

The purpose of the evaluation has been:

- *To assess whether INTOSAI as a result of goal 1 has the capabilities and processes needed to define and influence international standards for public-sector auditing in the future.*

It has been the ambition to make a thorough and overall assessment of INTOSAI's standard setting rather than of any individual bodies within INTOSAI. The resulting recommendations therefore concern the continued work of all parties involved in the efforts of strengthening INTOSAI's role as an international standard setter. In this sense the report serves the multiple purpose of providing the basis for:

- asking for the INTOSAI Governing Board's approval that the efforts to improve INTOSAI's standard-setting process continue on the basis of the report's recommendations and encouraging the board to provide any further relevant directions;
- the TFSP's consideration of the coming planning period;

- the continued work in INTOSAI's Financial and Administrative Committee in the coming years on any financial and administrative aspects of the recommendations;
- the continued cooperation between the PSC, CBC and KSC on the strengthening of INTOSAI's standard setting and the development of INTOSAI's standards;
- the PSC's joint efforts to ensure a smooth transition when some of the members – including the SAI of Denmark as chair of the PSC – terminate their current engagement by INCOSAI 2016.
- the continued work of the PSC Steering Committee to drive the efforts of the full PSC to fulfil its mandate for 2016 and improve the standard-setting processes.

INTOSAI's ambitions as a provider of professional standards were reflected in INTOSAI's first Strategic Plan 2005-2010 and updated in the current plan 2011-2016. The Task Force on Strategic Planning (TFSP) has been established to develop a new strategic plan for INTOSAI that will take effect from 2017. This report concerns only one of the strategic goals – goal 1. It has not been the purpose to provide an overall assessment of the current division of responsibilities between goals and committees as defined by the Strategic Plan 2011-2016 or consider how the voluntary work of INTOSAI's members should be organised under a new Strategic Plan in 2017-2022. Irrespective of the future goal and committee structure, the recommendations presented in this report are all relevant and valid. It will however be important for the continued work of all parties involved that the recommendations provided and the further process is addressed by the INTOSAI Governing Board in 2014.

1.3 The overall conclusion

INTOSAI has come a long way since the first steps to fulfil the ambitions set for goal 1 in the Strategic Plan 2005-2010 were taken. INTOSAI has, over a relatively short period of time, managed to set up a standard-setting function and - through the voluntary engagement of representatives from more than 100 SAIs - provide a comprehensive set of public-sector auditing standards to its membership.

INTOSAI's accomplishments in standard setting are widely appreciated by the membership. This appreciation is accompanied by renewed expectations to INTOSAI's future standard setting in terms of, for instance, quality and consistency, coordination, implementation assistance, training and certification of auditors.

The PSC Steering Committee – and in particular the circle of subcommittee chairs – is currently taking steps to improve coordination internally in the PSC and set directions for the future. Yet, meeting the requirements of the INTOSAI membership and external stakeholders for adequate standards for the public-sector auditing profession - through continued improvement of the standard-setting processes - is not a task that should be solved by the PSC alone. INTOSAI's standard setting is part of an overall long-term commitment to support SAIs in their professional development and implementation of standards. This commitment extends beyond the strategic planning periods as well as the terms of rotating chairs. INTOSAI's future standard-setting efforts must be sufficiently embedded in the INTOSAI organisation and its institutional structures in a way that supports its ambitions.

The report therefore provides recommendations in the following areas:

1. **Establishment of a permanent committee for professional matters to ensure united leadership.**
2. **Establishment of a common forum for the Framework of Professional Standards ensuring focus on the overall development of the ISSAIs as the international standards for public-sector auditing.**
3. **Establishment of a separate advisory board to ensure more systematized feedback on the standard-setting work.**

4. **Strengthening the due process for INTOSAI Professional Standards and the Governing Board's oversight function to ensure reliable independent standard-setting.**
5. **Taking the first steps to establish common supporting functions to ensure effective operation and better support to SAIs on the use of the ISSAIs.**
6. **Defining the long-term perspectives for INTOSAI's standard setting to provide a higher level of clarity for INTOSAI's members and partners.**

The recommendations are presented in more detail in chapter 3.

2 Outcome of the evaluation of INTOSAI's standard setting

INTOSAI's current standard-setting function is the result of a stepwise process of institution building over the past 10 years. The input achieved through the evaluation therefore reflects the challenges INTOSAI are facing at the current stage of development as well as the many different views on how INTOSAI should pursue its standard-setting ambitions in the future. The summary of INTOSAI's development as a standard setter in section 2.1 is followed by a presentation of the main inputs obtained concerning INTOSAI's future standard-setting activities and a summary of the main assessments made to arrive at the report's overall conclusion and recommendations.

Documentation of input provided through the evaluation process can be found on http://www.psc-intosai.org/5448.aspx

2.1 The stepwise development of INTOSAI's standard-setting

INTOSAI's current standard-setting function has grown out of a long string of decisions made by INTOSAI since 2004. The most important milestones in this development are summarised in the following:

First phase (2004 – 2007)

- Establishment of the Professional Standards Committee
- Names ISSAI and INTOSAI GOV are agreed on
- Creation of the ISSAI Framework
- Confirmation of the dual approach to standard-setting.

The INTOSAI Strategic Plan 2005-2010 was launched at the XIIX INCOSAI in Budapest (Hungary) in 2004. Goal 1 of the plan - 'Accountability and Professional Standards' – was included to ensure that INTOSAI could provide an up-to-date framework of professional standards that were relevant to the needs of its members. Providing professional standards for SAIs' work was by then considered a strategic priority for INTOSAI. As a result of discussions and decisions in the INTOSAI Governing Board in 2002-2004, INTOSAI also launched a new project to provide guidance on financial auditing. This included INTOSAI participation in the process of clarifying the International Standards on Auditing (ISA) that are issued by the International Auditing and Assurance Standards Boards (IAASB) established by the International Federation of Accountants (IFAC). The project included development of INTOSAI practice notes to the ISAs.

In 2005, the PSC Steering Committee had its inaugural meeting and discussions of the Framework of Professional Standards became a fixed item on the agenda. Decisions and activities in the period 2005 to 2007 included the following; agreement on the names of INTOSAI's future standards, ISSAI and INTOSAI GOV, launch of a survey among the INTOSAI membership to identify the needs and priorities of SAIs in respect to the future development of professional standards. The survey showed that three quarters of all SAIs used the INTOSAI Auditing Standards - often in combination with other standards, such as the ISAs. The survey also showed consensus among the SAIs that there are differences between public and private-sector auditing and that these should be addressed through further INTOSAI guidance. Subsequently new guidelines were developed for the ISSAI Framework and INTOSAI could provide its first comprehensive set of ISSAIs at INCOSAI in 2010.

Through the survey it was clarified that INTOSAI's standards developing work should be based on the principle of dual approach, meaning that INTOSAI's standard-setting work should be partly based on work done by other standard setters. By recognizing, utilizing and building on standards issued by other standard-setting bodies to the maximum extent possible and appropriate, INTOSAI should work to harmonize public-sector audit internationally. INTOSAI should develop complementary guidance where a special need and/or

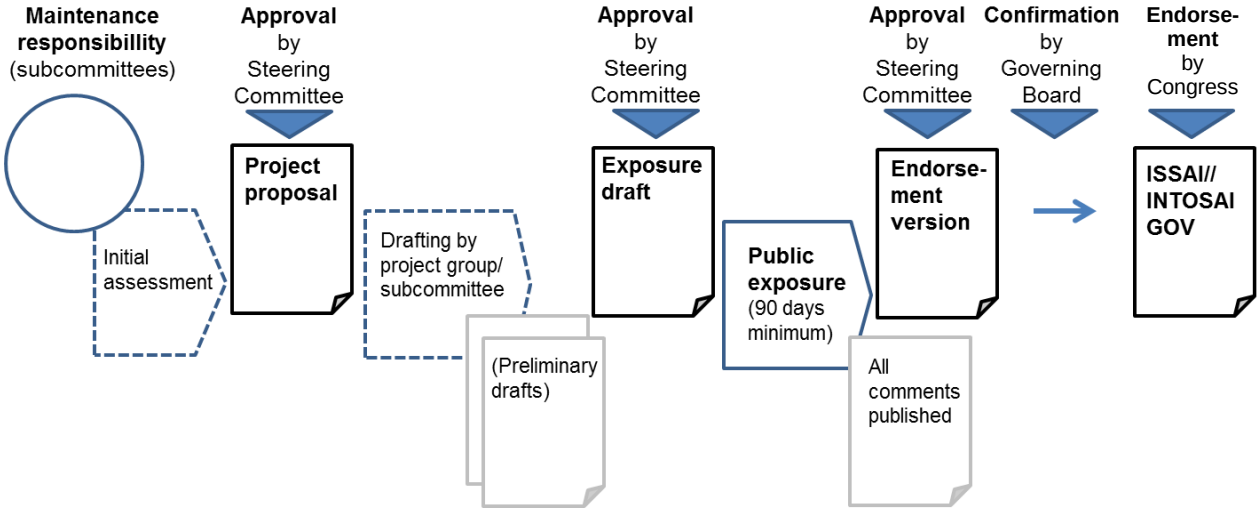
pressing concern existed in the SAI environment and seek to influence international standards to address issues of particular interest to SAIs. This approach allows INTOSAI to focus its efforts and resources on issues that are specific to the public sector in order to clarify how public-sector auditing differs from auditing in the private sector.

In 2007, at the XIX INCOSAI, the Framework for Professional Standards and the new names International Standards of Supreme Auditing Institutions (ISSAI) and INTOSAI Guidance on Good Governance (INTOSAI GOV) were endorsed. The ISSAIs comprised all existing documents endorsed by INCOSAI providing guidance on auditing matters and incorporated also the ISAs in the set of Financial Auditing Guidelines.

Second phase (2008 – 2010)

- The Due Process for INTOSAI Professional Standards
- The ISSAI Framework filled out
- The South Africa Declaration

The PSC Steering Committee decided to develop a due process that should define the procedures through which INTOSAI issues its Professional Standards and describe in detail the various steps in developing, revising and withdrawing the ISSAIs and INTOSAI GOVs - including overall requirements and approval processes. The Due Process for INTOSAI Professional Standards was approved by the Governing Board and INCOSAI in 2010.



The Due Process assigns responsibility to the respective steering committees (the PSC, CBC or KSC) for approving draft documents and referring documents to the INTOSAI Governing Board with the assurance that the Due Process has been followed. The responsibility for ensuring the quality of the individual ISSAIs and their coherence with the rest of the ISSAI Framework is thus placed on the three steering committees. It is also for each steering committee to consider in each case whether the development of drafts is referred to an existing subcommittee or a special project group is established for the purpose.

In the second phase the ISSAI Framework was expanded with 38 ISSAIs and INTOSAI GOVs, primarily filling level 4 of the ISSAI Framework. After INCOSAI's endorsement of the many new standards in 2010, the ISSAI Framework included guidance on financial, compliance and performance auditing and could fairly be considered a first comprehensive set of standards for public-sector auditing.

At INCOSAI in 2010, all INTOSAI members endorsed the South Africa Declaration, which calls upon the members of INTOSAI; to use the ISSAI Framework as a common frame of reference for public-sector auditing; measure their own performance and auditing guidance against the ISSAIs; and implement the

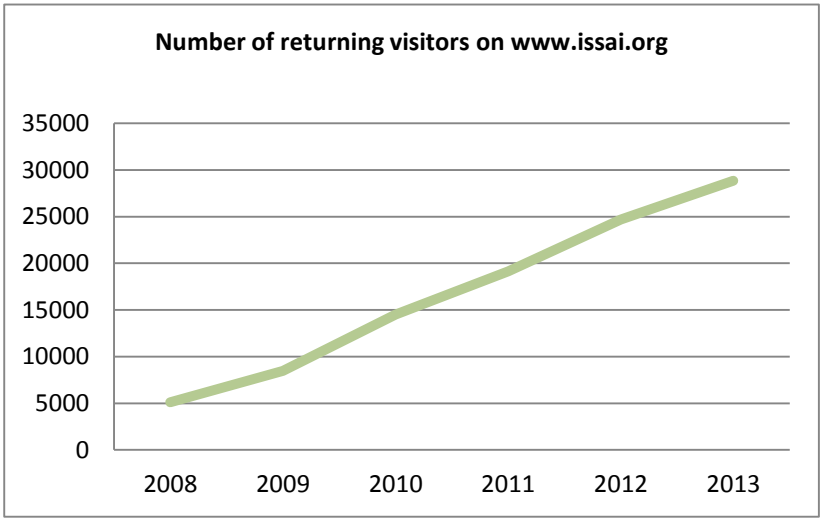
ISSAIs in accordance with their mandate and national legislation and thus take an important step towards ensuring that the ISSAIs become the internationally recognized set of standards for public-sector auditing.

Third phase (2011 – 2013)

- The harmonisation project
- Awareness raising of the ISSAIs
- INTOSAI's standard-setting organisation

Following the South Africa Declaration, a project to raise awareness of the ISSAIs and support the SAIs in their implementation of the ISSAIs was launched.

The knowledge of the ISSAI Framework has grown steadily since its launch in 2007 - best reflected perhaps through the number of returning visitors on www.issai.org, which reached almost 29,000 in 2013.

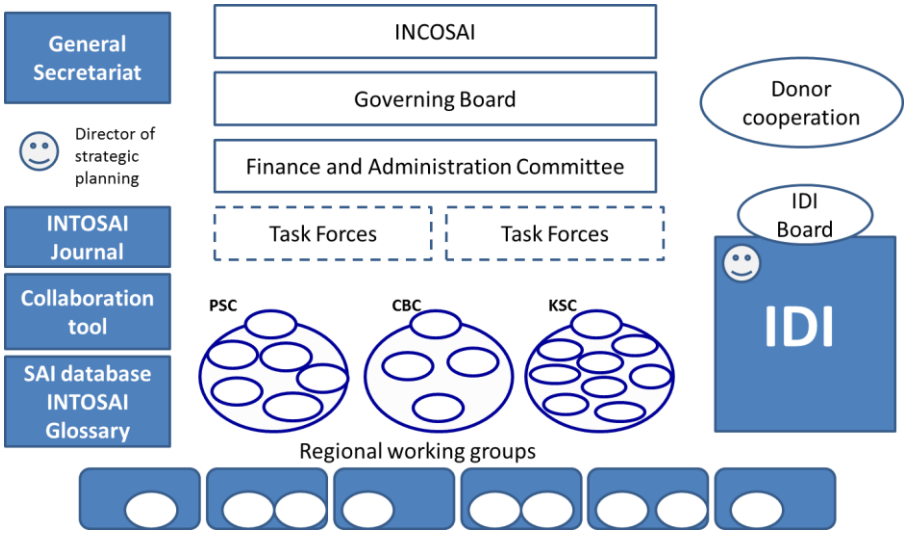


The visitors represent all INTOSAI's regions and almost all INTOSAI member countries.

The ISSAI harmonisation project was launched in 2010 in order to provide a set of fundamental auditing principles that could provide a basis for the future process to ensure consistency in the ISSAI Framework. The project group based its work on the ISSAIs on level 3 (The old INTOSAI Auditing Standards) and on the guidelines on level 4 endorsed in 2010.

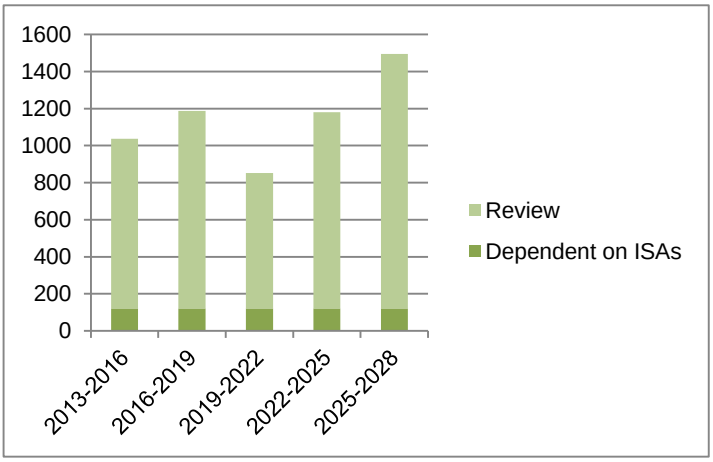
At XXI INCOSAI in Beijing, INTOSAI's Fundamental Auditing Principles (ISSAIs 100, 200, 300 and 400) were endorsed. The key document – ISSAI 100 Fundamental Principles of Public-Sector Auditing - provides a strong definition of public-sector auditing and its three main auditing types: financial, performance and compliance auditing. The new principles clarified that it is for each individual SAI to take strategic decisions - based on their mandates - on what types of audits they want to undertake. The new ISSAI 100 provided a common basis for any standards that individual SAIs may wish to develop in this regard. The new ISSAI 100 also clarified that public-sector auditors may state in their audit reports that ***the audit has been conducted in accordance with the International Standards of Supreme Audit Institutions*** thus providing a new means to distinguish public-sector audits from (private sector) audits of financial statements, which are (only) based on ISAs and do not include performance or compliance auditing aspects. In order to provide standards that better support such statements, the PSC's subcommittees on performance auditing and compliance auditing (PAS and CAS) are currently developing new ISSAIs for performance and compliance auditing.

Over the years, and with the establishment of the Due Process, INTOSAI's standard-setting organisation has grown into a complex organisational set-up, where a large number of groups, committees and stakeholders are involved in developing INTOSAI's standards; the involvement ranges from developing, discussing, approving and evaluating the standards to gaining experience from using the standards.



At present a total of 78 ISSAIs and nine INTOSAI GOVs have been endorsed at INCOSAI. The ISSAIs include 22 documents developed by the KSC, one by the CBC, 12 by special project groups in the PSC, six by PSC's permanent subcommittees FAS, PAS and CAS as well as 37 ISAs with practice notes.

The due process ensures the continued maintenance of these standards by providing that all documents are reviewed at regular intervals, which have been decided on by the responsible subcommittee or working group in the PSC, CBC and KSC.



The figure shows the number of pages that need to be reviewed during the next congress periods based on the review plan. In this context, a review refers to the process of scrutinizing existing ISSAIs/INTOSAI GOVs to determine whether a revision of the text is needed. The light green part of the column is the number of pages developed by INTOSAI that needs to be reviewed according to the established maintenance frequencies. The dark green part of the column is a more uncertain estimate representing the financial auditing guidelines. These are dependent on the ISAs and are not reviewed at regular intervals.

2.2 Defining a sustainable solution – the 10 main challenges

The evaluation has been carried out by the PSC Chair by gathering input from a wide range of different sources. This process has included activities of the PSC as well as those parts of the activities under the CBC and KSC that, through the development of ISSAIs, contribute to goal 1 of the current INTOSAI Strategic Plan. The process has involved the following steps:

1) At the 64th Governing Board meeting and XIX INCOSAI in Beijing in 2013, the PSC provided a special report on the status of goal 1 and encouraged all delegates to engage in informal discussions on the way forward.

2) The initial plan for the evaluation was circulated for comments within the PSC Steering Committee and the reactions received were integrated into the ongoing planning. The plan described how input would be obtained in relation to the following themes:

- Do the processes established under goal 1 provide for legitimate, independent and transparent standard-setting?
- Has goal 1 resulted in a clear and consistent set of standards for public-sector auditing that can be implemented and referred to by all INTOSAI members?
- Is goal 1 supported by structures and capabilities that provide credible guarantees to INTOSAI's members and partners that the standards will be sustained and developed in the future?
- Is goal 1 supported by capabilities and processes that enable INTOSAI to cooperate with other standard setters on a mutual and equal basis in order to influence requirements and expectations to audits?
- Is goal 1 supported by capabilities and processes that will encourage wide recognition of the ISSAIs as a set of auditing standards that can be relied upon by auditors, users, other stakeholders and the wider public as a credible and adequate safeguard of the quality of public-sector audits.
- Is the standard-setting work under goal 1 organised in cost-efficient ways?

3) The first input was obtained through a survey among individuals who had recently participated in standard-setting processes: 155 persons provided their views and experience through an electronic questionnaire in the period 4 February to 3 March 2014.

4) The second input was a benchmarking of INTOSAI's standard-setting processes against three other standard setters as well as good practice in standard-setting as defined by INTOSAI GOV 9200, which was endorsed by INCOSAI in 2010.

5) The third input was an evaluation by the IDI of how well the standard-setting process and the resulting standards serve the needs of INTOSAI's implementing efforts and the SAIs and auditors who are to use the standards.

6) A fourth input was an assessment elaborated jointly by the chairs of three of the PSC's five subcommittees – FAS, PAS and CAS – on the challenges involved in developing the ISSAIs 1000-4999 towards a strong and clear set of auditing standards that can be referred to in audit reports.

7) A fifth input came from the members of the PSC Steering Committee. The four first inputs were discussed among the chairs of the PSC and four of its five subcommittees in Copenhagen on 3-4 April 2014. The chairs agreed on a set of proposed development goals for 2028 that would serve to clarify INTOSAI's level of ambition in the field of standard setting. The chairs also identified the most important challenges that the PSC and Governing Board will need to address in their efforts to improve INTOSAI's standard setting. The observations and suggestions from this meeting were presented to the full PSC Steering Committee in Bahrain on 20-22 May where the committee members provided further input to the strengths, weaknesses, opportunities and threats of INTOSAI's standard-setting process and proposed measures that could contribute to more sustainable solutions.

8) A sixth source was interviews to obtain the perspectives of INTOSAI's key partners in the field of development and implementation of ISSAIs on relevant issues.

9) A seventh source of input was engagement of the wider membership of INTOSAI through the Regional Working Groups.

10) The final draft report and its recommendations were:

- circulated for comments and observations within the INTOSAI Regions, FAC and the Task Force on Strategic Planning;
- discussed by INTOSAI's Finance and Administration Committee at its meeting in September 2014 with regard to any financial or administrative aspects;
- circulated for final comments within the PSC Steering Committee in September 2014

Based on all input received, we have identified the 10 most important challenges that INTOSAI needs to address. It is the assessment of the chairs of the PSC and its five permanent subcommittees that these 10 challenges represent the essential requirements that must be met, if INTOSAI is to develop a sustainable solution for its standard-setting activities.

The challenges are presented in a non-prioritized order:

The 10 main challenges to be addressed in a sustainable solution

1. Overall coordination

Current efforts to establish adequate standards for public-sector auditing suffer from a lack of overall coordination among INTOSAI's cooperation with other standard-setters, INTOSAI's own development of ISSAIs, INTOSAI's efforts to promote wide recognition of the ISSAIs and INTOSAIs efforts to support ISSAI implementation and strengthen SAIs – e.g. through the donor cooperation, the IDI, 3i-programe and performance measurement tools. These are all long-term programmes that are initiated to support INTOSAI's members and need to be planned and carried through in a coordinated way in order to have a positive impact for the affected SAIs. It is therefore an important challenge that the current leadership for these programmes is split between different fora including the three goal committees established under the current Strategic Plan 2011-2016 (the PSC, CBC and KSC) as well as the more permanent INTOSAI decision-making bodies.

2. Development of the ISSAI Framework

The ISSAI Framework was defined by an INCOSAI decision in 2007 and was based on existing and planned documents at the time. It now includes a substantial number of new ISSAIs and INTOSAI GOVs that are developed and maintained by many different subcommittees and other groups within the PSC, CBC and KSC. The current split in competencies regarding the inclusion and classification of planned documents into the Framework of Professional Standards by the PSC Chair and the initiation of standards developing projects and approval of standards by three different steering committees (the PSC, CBC and KSC) means that there is no overall planning for the development of the framework and its content. At the same time the PSC Steering Committee has a triple role of (i) driving the overall development towards INTOSAI's strategic goal 1 in cooperation with all relevant parties (ii) considering technical standard-setting issues and approve the quality and content of the standards (iii) maintaining relations to INTOSAI's external stakeholders in the field of standard setting. The workload has increased in recent years and some measure of reorganisation is therefore necessary. In pace with the activities pursued by the IDI and the growing authority of the ISSAIs, it has furthermore become increasingly important to provide clearer distinctions between requirements and any further guidance and good practice. The fact that no single body has effective means to drive the overall development of the framework entails the risk that important strategic considerations are left unaddressed like, e.g., does the framework cover all relevant audit issues? Do the ISSAIs function as a coherent set of standards? Is the 'burden' of implementation imposed on the INTOSAI membership with the adoption of new ISSAI duly considered before new standard-developing projects are launched?

3. Continuity and institutional memory

Preserving continuity and institutional memory in an environment based on principles of voluntary participation and rotation (chairs and other key committee members) is a challenge. Currently, all facts, concepts, experiences and know-how concerning INTOSAI's standard setting are held by a large number of different bodies in INTOSAI including also the individual secretariats set up by, for instance, FAS, PAS, CAS and the PSC Secretariat. INTOSAI's standard-setting function should

ensure that as much institutional memory as possible is preserved, available and easily transmitted to new members/SAIs and chairs in order to reduce the adverse impact of rotation to a minimum.

4. Decision-making process and responsibilities
According to the Due Process for INTOSAI Professional Standards the formal responsibility for the content and quality of the ISSAIs and INTOSAI GOVs falls upon the steering committee (the PSC, CBC or KSC) that is responsible for the subcommittee or working group that is developing the new standard or guidance. In practice, however, and taking into consideration that the steering committees usually meet only once a year, it is the members of the subcommittee or working groups who are drafting the ISSAIs or INTOSAI GOVs that decide on the content and are therefore also responsible for the quality of the final product. This gap between the processes established by the Due Process and the reality concerning decision-making, approval of standards and who determines the contents of standards should be closed.

5. Quality assurance The current structure means that each individual subcommittee or working group is – quite naturally – focusing only on the quality of the individual ISSAI or INTOSAI GOV documents for which it is responsible. Experience gained so far shows that the technical content of the ISSAIs is becoming more important for the SAIs or individual SAIs that are engaged in the development of the standards. In areas where there are many different viewpoints and considerations to reconcile, the different groups and subcommittees are often using substantial time and resources to arrive at solutions that are acceptable to all members in that particular group. However, for SAIs and auditors that make use of the ISSAIs it is not only the quality of each individual document that matters. Important aspects of quality are related to the overall system of standards. The standards need to be free from duplication, overlap and contradictions and the use of terminology should reflect a reasonable level of coherence. The evaluation has shown that it is particularly in this area that the ISSAI Framework should be improved in the near future. However, because the same technical issues are often discussed in different groups they are also often solved in different ways. There are examples that text of draft ISSAIs developed by one group has been aimed at contradicting the messages provided through ISSAIs developed by other groups and endorsed at INCOSAI. Stronger overall mechanisms of quality assurance are therefore needed.

6. Wider external recognition
Having good working relations with external partners and stakeholders provides INTOSAI with input and perspectives on its professional standards and work in general. It is essential for the credibility of INTOSAI's professional standards that INTOSAI is recognized by external partners and stakeholders as a professional standard setter that observes the basic requirements to independence and impartiality and that, the ISSAIs are accepted as *the* set of standards for public-sector auditing.

7. Feedback mechanisms
Meeting the needs of public-sector auditors and being on the cutting edge of developments within public-sector auditing is crucial for a professional standard setter. Establishing mechanisms that can provide feedback from public-sector auditors, external experts and users of SAI audit reports will help INTOSAI in its efforts to further enhance the content and quality of the ISSAIs.

8. Competences and resources
Since 2004 INTOSAI has gradually – through its development of the ISSAIs - created a base of persons with experience in standard setting. The survey conducted as part of the evaluation indicated that there are now 40-50 persons within the PSC, CBC and KSC that have experience in INTOSAI's work on professional standards as well as a good level of knowledge of the full set of ISSAIs. Being

able to expand this base and develop the competences of this group of people further will be decisive for the quality of the ISSAIs in the future and for INTOSAI's recognition as a professional standard setter. A sustainable solution will also require an adequate model for providing and financing the resources needed.

9. Implementation

The current set-up does not provide for any channels through which individual SAIs or other parties engaged in implementation of the ISSAIs – e.g. through training based on the ISSAIs - can receive clarification and support from INTOSAI standard-setters. INTOSAI's standard-setting activities and the activities of the IDI and INTOSAI's regions as facilitators for implementing the standards are closely linked. The PSC seeks to provide clear and updated ISSAIs as well as guidance on the interpretation of the standards. The IDI provides the PSC with feedback from the users of the ISSAIs and highlights issues that can contribute to further improve the ISSAIs and facilitate their implementation. The PSC and its subcommittees has the intention and sees the need for close and tight cooperation with the IDI, but the resources to contribute to the extent required are currently not available.

10. Alignment with INTOSAI's culture

INTOSAI's culture and modus operandi have developed significantly over the past couple of years The introduction of a strategic plan in 2004, the adoption of the ISSAI Framework in 2007 and the closer cooperation with external partners are all measures that have led to new and higher levels of ambitions for INTOSAI as a model organization and efficient international standard setter. The PSC and its subcommittees have generally strived to be at the forefront of this development and have tried out different ways of working more professionally in order to take the resulting standards to a higher level of quality. The bodies involved in the standard-setting process may, however, in such a transition process – by parts of INTOSAI's membership – be perceived as 'closed clubs' or those developing the standards may be seen as too 'elitist' or 'technocratic'. It is therefore important to ensure that any new solutions for INTOSAI's standard setting are aligned with the needs and wishes of the full INTOSAI membership and fit the specific organizational context and culture of INTOSAI.

2.3 Evaluation of suggestions

The 10 challenges identified in the previous chapter can be addressed by INTOSAI in various ways. Through the process of evaluation many possible measures have been suggested to address different aspects of the challenges identified.

In order to consider how INTOSAI may best combine the various suggestions into an overall strategy, we have created a baseline scenario, in which status quo is maintained (scenario 0), and five possible future scenarios for the development of INTOSAI's standard setting. Each scenario combines a number of key measures that would work well together as an overall solution for INTOSAI's standard setting.

The basic assumptions underlying the six scenarios are:

Scenario 0 **Status quo** The development of INTOSAI's standard-setting institutions is maintained at the current level of development. The documents on the ISSAI Framework and Due Process for INTOSAI's Professional Standards, and other decisions taken since goal 1 was launched in 2004 are upheld, but no further progress is strived for. ***Is presented as a baseline for reference***	**Scenario 1** **Coordination by strong chairs** INTOSAI leaves it to the chairs of the PSC, CBC and KSC (or any similar future goal committees) to ensure sufficient coordination. Within the PSC the work is coordinated among the subcommittee chairs. The directions given by the chairs will need to be followed by all members of the standards-developing groups ***Underlying principle:*** The SAIs that chair INTOSAI's standard-setting activities bear the costs and decide on the standards on behalf of all members	**Scenario 2** **Strengthening the PSC** INTOSAI leaves it to the PSC (or a similar goal committee) to drive the process of improvements towards 2016 and the PSC Steering Committee is entrusted with united responsibility for all ISSAIs. The PSC Steering Committee is reorganized to be able to take on this larger responsibility. A new PSC Chair sets up a sufficiently strong secretariat. ***Underlying principle:*** Re-establish clear responsibility for goal 1 as originally intended in the Strategic Plan 2005-2010
Scenario 3 **Building common solutions within INTOSAI** The stepwise process of common institution building, which INTOSAI has carried out under goal 1 since 2004, is continued in coming years. All relevant parties work together in order to establish the common solutions needed for standard setting and strengthening INTOSAI as the global organisation for public-sector auditing. ***Underlying principle:*** INTOSAI's standard setting is based on broad membership engagement and cannot depend overtly on certain individual SAIs. It should therefore be facilitated by an adequate institutional set-up as a part of INTOSAI's permanent organisation.	**Scenario 4** **A professional standard setter** INTOSAI moves fast to set up a professional standard-setting organisation that would better match the organisations of other standard setters. A strong secretariat and a standard-setting board is established and financed through INTOSAI means. ***Underlying principle:*** INTOSAI needs to develop standards for public-sector auditing that stands comparison with standards developed by other standard-setters	**Scenario 5** **A separate ISSAI organisation** A new ISSAI organisation is established separately from INTOSAI. Interested SAIs pay a membership fee to the ISSAI organisation in the same way as separate fees are paid to regional working groups. The ISSAI organisation may be related to INTOSAI in a similar way as the IDI or be more loosely affiliated. ***Underlying principle:*** The purpose of INTOSAI is to provide fora for discussion and knowledge sharing. Standard-setting is not a core task.

The scenarios 1 to 5 are defined by a specific set of measures that INTOSAI may deploy in order to strengthen its standard-setting process. We have for each measure considered the extent to which it addresses the 10 identified challenges and we have estimated the costs that the SAIs involved would need to bear. On the basis of these considerations, we have arrived at the conclusion that:

Scenario 3 - **Building common solutions within INTOSAI provides the best prospect for addressing the 10 challenges in a balanced and sustainable manner**

By comparison and in a prioritized order:

Scenario 4 – A professional standard setter represents a more ambitious approach and is implemented at a faster pace. This scenario may provide satisfactory solutions to some of the challenges, but it would require permanent funding corresponding to a doubling of the current INTOSAI membership fee.

Scenario 2 – Strengthening the PSC could be a less ambitious alternative to scenario 3, but it would fail to address important aspects of the challenges.

Scenario 5 – A separate ISSAI organisation could accommodate the different expectations of SAIs, if INTOSAI fails to unite around one of the other scenarios. The feasibility of this solution would, however, need to be further assessed by the interested SAIs.

Scenario 1 – Coordination by strong chairs has little perspective of success in the long term, as the INTOSAI standards become more important for the membership.

The basis for the overall assessment is summarized in the following sections. Supporting materials and further details on the assumptions and cost estimations of each scenario can be found on the PSC website.

On the following page, table 1 provides an overview of the key measures of each scenario. The current processes/set-up is briefly summarized in the left hand column (scenario 0). All key measures are presented in bold and important implications of the key measures for other elements are indicated with a red mark (■).

Table 1 – Key measures

	Scenario 0 Status quo	Scenario 1 Coordination by strong chairs	Scenario 2 Strengthening the PSC	Scenario 3 Building common solutions within INTOSAI	Scenario 4 A professional standard-setter	Scenario 5 A separate ISSAI organisation
Leadership	Divided between the PSC, CBC and KSC	**Increased coordination among chairs**	**The PSC assumes responsibility for all ISSAIs**	**Permanent committee for professional matters**	■ *The chair and steering group of the independent standard-setting board*	*(as in scenario 4)*
Approval and classification	Decisions on inclusion and classification in the Framework of Profes-sional Standards by the PSC Chair. Approval by any of the steering committees (the PSC/CBC/KSC) at three stages of the Due Process Based on fixed membership	■ *Each steering committee to rely more on the chair/ group of chairs*	**A supporting technical group established internally in the PSC Steering Committee**	**Common forum for the Framework of Professional Standards** - established jointly by the PSC, KSC and CBC with experts drawn from all 3 committees as well as the Regions	**A standard-setting board** – fully independent	*(as in scenario 4)*
Development of draft professional standards	Decided on in approved project proposals for development of new standards Directions are provided by the three steering committees (the PSC/ CBC/KSC). Based on open and voluntary membership	■ *Each subcommittee to take more directions from the chair/the group of chairs*	■ *Any subcommittee/ group developing standards to take directions from the PSC Steering Committee (also groups under other goal committees)*	*No change – but the common forum give the directions that currently provided by the PSC Chair or the three Steering Committees*	*(The standard-setting board assisted by ad hoc task forces and the secretariat)*	*(as in scenario 4)*
Stakeholder input	Three external observes in the PSC Steering Committee. Subcommittees in relation to individual ISSAIs/INTOSAI GOVs	*(No change)*	**Advisory board for the PSC Steering Committee**	**Separate advisory board**	*(To be decided on by the standard-setting board)*	*(as in scenario 4)*
Supporting functions	Secretariats established for a limited period by chairing SAIs	■ *Strong chairs/secretariats needed*	**A new PSC chair with a strong secretariat**	**Common supporting functions** – for all bodies involved. Initially limited scope, but allowed to grow in pace with the demand	**A professional standards secretariat** – established from the outset	*(as in scenario 4)*
Oversight and final endorsement	Governing Board provides oversight that the Due Process is followed All professional standards endorsed by INCOSAI	*(No change)*	*(No formal change – the oversight role of the Governing Board could be strengthened)*	■ *The oversight role of the Governing Board to be exercised more actively*	■ *No INCOSAI endorsement - the independent board issue the standards*	■ *An oversight body with external representation* *No INCOSAI endorsement*
Relation to the INTOSAI organisation	A goal in INTOSAI's 6-year Strategic Plan Driven by interested SAIs	*(No change)*	*(No change)*	*Reinforced in the INTOSAI Statutes* *Limited INTOSAI funding*	*Reinforced through INTOSAI funding*	**A separate ISSAI organization** – each SAI to decide whether it will be a member

Table 2 summarizes our assessment of how well the measures of the scenarios will address the 10 main challenges identified.

Table 2 - Do the suggested measures address the identified challenges?

The main challenges:	**Scenario 1** Coordination by strong chairs	**Scenario 2** Strengthening the PSC	**Scenario 3** Building common solutions within INTOSAI	**Scenario 4** A professional standard setter	**Scenario 5** A separate ISSAI organisation
1. Overall coordination	Helps	Helps	**Solved**	Helps	Unsolved
2. Develop the ISSAI Framework	Helps	Helps	**Solved**	**Solved**	**Solved**
3. Continuity and institutional memory	Unsolved	Unsolved	Helps	**Solved**	**Solved**
4. Decision making	Unsolved	Helps	**Solved**	**Solved**	**Solved**
5. Quality assurance	Unsolved	Helps	Helps	**Solved**	**Solved**
6. Wider external recognition	Unsolved	Helps	Helps	**Solved**	Helps
7. Feedback mechanisms	Unsolved	Helps	**Solved**	Helps	Helps
8. Competences and resources	Unsolved	Unsolved	**Solved**	**Solved**	**Solved**
9. Implementation	Unsolved	Unsolved	Helps	Helps	Helps
10. Alignment with INTOSAI's culture	Unsolved	Unsolved	Helps	Unsolved	Unsolved

As the table illustrates, scenario 3 and scenario 4 both address many of the challenges.

Scenario 3 is, however, better aligned with the established INTOSAI culture; the existing subcommittees, and other groups based on open and voluntary membership, are preserved in their current form and it will continue to be up to the individual groups under the PSC, CBC and KSC (or any similar committees established by the strategic plan) to decide the extent to which they wish to take on projects to develop professional standards. It has been the experience so far that some subcommittees like, for instance, PAS and CAS within the PSC, may wish to take a very active role. Other groups like, for instance, the working group on environmental audit under the KSC has so far decided to use their resources in other ways. The measures proposed under scenario 3 will provide the permanent institutional set-up that is needed to support all groups and facilitate continued diversity where different groups can be relied upon in a flexible way dependent the interest and resources of each group. Scenario 4 provides more ambitious measures to address the challenges of ensuring continuity and institutional memory, providing stronger quality assurance and consistent standards and promote wider recognition among external stakeholders. However, scenario 3, also provides important measures in these areas, which can be further developed in the years to come.

Our assessment has included also the possibilities of providing adequate financing for the suggested measures. Some of the measures require a solid source of financing on a permanent basis while others can be financed on an ad hoc basis. We have therefore looked at the different mechanisms through which INTOSAI currently gets its resources and we have assessed the extent to which they are relevant for the measures proposed. These are explained in table 3.

Table 3 – Possible sources of financing

Engaged SAIs A main source of financing is the active engagement of SAIs in INTOSAI's work where each SAI finances its own engagement, i.e. - fora with fixed representation, e.g. the three goal steering committees - fora with open and voluntary membership, e.g. the various subcommittees and working groups
Chairing SAIs The INTOSAI community may – formally or informally – consider it a requirement that SAIs taking on the role of chair of the PSC or one of its subcommittees should provide support to INTOSAI's work on development and implementation of standards, e.g. by establishing a standards secretariat. This practice represents a source of financing for 6-9 years until the rotating chairmanship ends.
Fixed contributions Resources provided by a SAI for a certain period of time on the basis of a mutual agreement with INTOSAI. Contributions of this nature may take the form of - In-kind contributions. As an example, the position as INTOSAI's Strategic Director is financed by the SAIs of the three directors that have served in this position since 2005. Secondments also provide a fixed contribution. In-kind contributions are sometimes provided by SAIs on the condition that certain direct costs are financed in other ways as was the case with the INTOSAI Strategic Director in 2010-2016 and the SAI experts that were selected by the Financial Auditing Subcommittee in the years 2004-2010. - Since 2013, INTOSAI has provided for the possibility that SAIs make voluntary financial contributions to specific purposes. In 2014, the SAI of Saudi Arabia announced a donation for a fixed period of three years for standard setting and implementation. If INTOSAI can attract more donations of this nature, such voluntary contributions may become a new means of covering direct costs (e.g. travelling) in combination with in-kind contributions.
Project donations Donations made to specific standards-developing projects. The project on developing the financial auditing guidelines was supported by external donors in 2004-2013. In 2014, the SAI of Norway made a donation to the development of ISSAIs 1000-4999 including standards for performance and compliance auditing.
New sources INTOSAI may also look for new sources of income like, for instance training and education, as SAIs are increasingly demanding support for implementation of the ISSAIs. Sale of publications or copyright could also become a future source of income in pace with the increasing interest and number of visits on the issai website.
The INTOSAI budget The activities of goal 1 – establishment of the Framework and Due Process for INTOSAI Professional Standards, and development of the ISSAIs and INTOSAI GOVs – have so far not received any means from the INTOSAI budget. INTOSAI's financial rules specify that these means are distributed for a number of specified purposes in accordance with a fixed share. Including development and implementation of standards among the activities that are financed by INTOSAI would represent a new source of income.

Because the development of the standards has so far been based on in-kind contributions from a large number of SAIs, we have only had access to limited information on the amount of resources that have been

invested in developing the existing 87 ISSAIs and INTOSAI GOVs. We have, however, estimated that the work performed by the members of various subcommittees and working groups through the years represents an investment of at least 15 million euros. To this should be added that the chairs within the PSC have used substantial resources to support the work and drive the development of the overall framework and Due Process for INTOSAI Professional Standards through the years 2005-2014.

The total costs that will have to be borne – in one way or another – by the INTOSAI community vary only marginally between the scenarios. The large differences are found in the way these costs are financed.

The overview on the following page summarizes our estimation of the cost implications of the scenarios.

Estimated annual costs when all proposed measures have been fully implemented

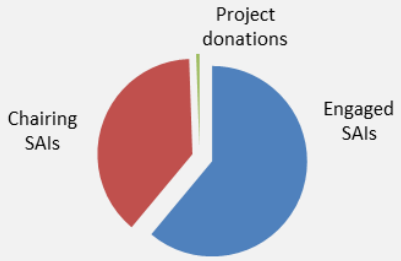
Scenario 0
Full stop at status quo

Estimated annual costs-1,969,000 euros
The current set-up depends on in-kind contributions for the establishment of secretarial functions from the chairs of the PSC and its subcommittees - especially FAS, CAS and PAS - at a level around 900,000 euros. The continued maintenance of the existing ISSAIs and INTOSAI GOVs by the responsible subcommittees and other groups in the PSC, CBC and KSC will require in-kind contributions estimated at 1,069,000 euros annually from engaged SAIs.

Scenario 1
Coordination by strong chairs

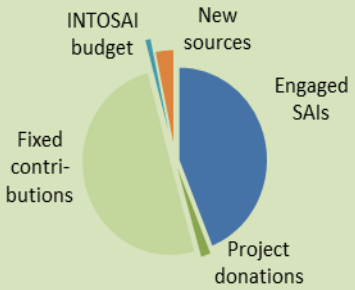
Estimated annual costs-2,046,000 euros
Increased coordination among the PSC, CBC and KSC chairs as well as between the subcommittee chairs within PSC will entail estimated additional costs of 77,000 euros. This amount is assumed to be donated in-kind by the future chairs of the three committees (or any similar committee structure under future strategic plans).

Scenario 2
Strengthening the PSC



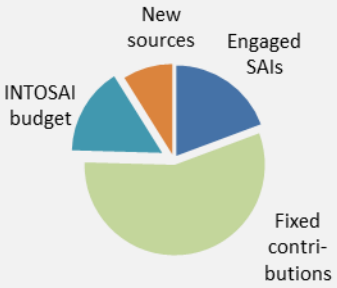
Estimated annual costs- 2,223,000 euros
In this scenario a stronger PSC Steering Committee supported by a technical group is financed by engaged SAIs (steering committee members). Compared with scenario 0, the value of this in-kind contribution is estimated at 293,000 euros. A future PSC chair is assumed to set-up a secretariat at a cost of around 700,000 euros to provide for unified support of all subcommittees. Project donations may be used as a supplementary measure to enhance key ISSAIs.

Scenario 3
Building common solutions within INTOSAI



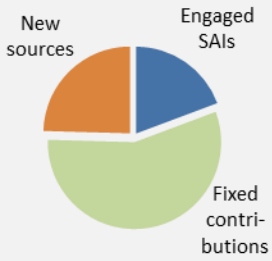
Estimated annual costs- 2,155,000 euros
The common solutions are based on fixed contributions from SAIs – estimated at 1,082,000 euros. Each member of the common forum for the Framework of Professional Standards commits to investing a number of working hours for three years. Common supporting functions are based on a mix of financial and in-kind contributions provided through 3-6 years contracts entered with individual SAIs. This practice may open up for new sources of income if, for instance, income generated through the provision of consulting services to support implementation, are considered common means. Chairing SAIs contribute through these mechanisms on an equal footing with other SAIs. Drafting will – as now – be done by engaged SAIs in voluntary groups. The INTOSAI budget provides 20,000 euro (7% of INTOSAI's means) to enable the solution.

Scenario 4
A professional standard setter



Estimated annual costs- 1,906,000 euros
A professional standard-setting function supported by a secretariat is estimated to require a minimum basis of funding through the INTOSAI budget of 298,000 euros. This income could be generated through a doubling of the current membership fee. This secretariat will be well positioned to generate income from new sources by providing professional support to ISSAI implementation (estimated at 170,000 euros). This income does not, however, suffice to provide a solid basis for the secretariat. The secretariat will depend also on fixed contributions – e.g. secondments from SAIs and the work of the members of the standard-setting board. These fixed contributions are estimated at 1,070,000 euros. The solution will – as the current one - depend on engaged SAIs willingness to participate in standards development (investment estimated at 368,000 euros).

Scenario 5
A separate ISSAI organisation



Estimated annual costs- 1,906,000 euros
A professional standard-setting function set up without means from the INTOSAI budget will require financing in the amount of 298,000 euros through a new stable source of income like, for instance, a separate membership fee paid by SAIs. All other sources of income assumed in scenario 4 will need to be preserved. The feasibility of this solution therefore needs to be carefully assessed by the group of interested SAIs before any initial steps in this direction are taken.

It is our assessment that scenario 3 provides the best prospect for ensuring the necessary resources to sustain the Framework of Professional Standards. While scenario 1 and 2 both depend heavily on resources from the future chairs in PSC, scenario 3 represents a more flexible solution that allows other SAIs to contribute by providing specific resources – financial or individuals with required competencies – for a fixed period of time. Scenario 4 would most likely be the most cost-efficient solution for the overall INTOSAI community, but its dependence on permanent financing through the INTOSAI budget is critical.

Table 4 shows the estimated costs of implementing scenario 3 in INTOSAI.

Table 4. Scenario 3 - Building common solutions within INTOSAI - estimated costs 2015-2019

Euros	2015	2016	2017	2018	2019
Permanent committee for professional matters					
▪ Financed by committee members (engaged SAIs – in-kind)	-	-	74,750	74,750	74,750
Common forum for the Framework of Professional Standards					
▪ Financed by the SAIs of expert members (fixed contributions - in-kind)	-	168,000	292,000	292,000	292,000
▪ Financed by hosts of meetings (engaged SAIs – in-kind)	-	24,000	36,000	36,000	36,000
Separate advisory board					
▪ Draft ISSAIs to be presented to the board at an extra meeting day (engaged SAIs – in-kind)	-	28,000	28,000	28,000	28,000
Common supporting functions					
▪ To be financed by SAIs through longer term donations, secondments and commitment of staff (fixed contributions - financial and/or in-kind)	2,500 *)	120,000	320,000	520,000	770,000
▪ Services to SAIs against payments (new sources of income - financial)	-	-	-	12,000	70,000
▪ Donations earmarked for specific ISSAIs – used in corporation with the relevant subcommittees (project donations - financial)	10,000**)	12,500	12,500	25,000	37,500
To be financed as a share of INTOSAI's budget	-	***20,000***	***20,000***	***20,000***	***20,000***
Existing components *)**					
Current chairs					
▪ The PSC Secretariat in Copenhagen – will be closed by INCOSAI 2016	200,000	200,000	-	-	-
▪ Secretariats established by current chairs of PSC subcommittees	500,000	500,000	-	-	-
Future chairs 2016-2019					
▪ Continued need for secretariats until sufficient common functions have been established	-	-	300,000	200,000	-
Development of draft professional standards					
▪ Maintenance of ISSAIs and INTOSAI GOVs financed by members of subcommittees and other voluntary groups (engaged SAIs – in-kind)	948,600	948,600	806,310	806,310	806,310

*) A fixed contribution of USD 3,500 (2.500 euro) yearly in 2014, 2015 and 2016 has been announced by the SAI of Saudi Arabia.
**) A donation of Euro 10.000 to development of ISSAIs 1000-4999 has been received from the SAI of Norway.
***) Only the most costly components are included in this overview. Current costs regarding other elements may be found on the PSC website.

It should be recognized that the possibilities of building the required *common supporting functions* depend on the availability of sufficient resources based on fixed contributions. The basis of recruitment will be broadened if such functions can rely on contributions provided for three to six years, and it will also be much easier for the SAIs to make high-qualified people available for the functions. Future chairs of the PSC and its subcommittees (or any similar groups under the new strategic plan) might choose to provide some of the resources needed, but other SAIs are also encouraged to contribute. The success of efforts made to find the necessary resources through fixed contributions will – in our assessment – require that a moderate share of the INTOSAI budget is used to provide an initial basis of permanent financing and ensure common ownership. It will be difficult to promote and encourage a wider recognition among SAIs and external stakeholders of the ISSAIs as INTOSAI's standards for public-sector auditing without some element of INTOSAI's financing.

The annual costs of 20,000 euros provided through the INTOSAI budget as well as any contributions made by individual SAIs will have to be justified by the benefits for the overall INTOSAI community of implementing scenario 3. The main benefits of building common solutions within INTOSAI can be summed up as follows:

Benefits for INTOSAI and its members – scenario 3

Independence and transparency of standard setting:

- Increased independence and impartiality through less dependence on secretariats established by individual SAIs.

Clarity and consistency of INTOSAI's professional standards:

- One common body with overview of the entire framework.
- Common technical issues are addressed across the framework.
- Joint decisions on issues affecting the entire framework.
- Pool of experts can be drawn upon by INTOSAI's members.

Continuous development and maintenance of standards:

- Provides the element of sustainability required from an international standard setter.
- Ensures that decisions on development of standards incorporate also strategic considerations.
- Provides a long-term perspective on INTOSAI's standard-setting activities and promotes consistency in all standards
- Brings together the standard-setting expertise of INTOSAI in a body with responsibility for the entire framework.

Perception of INTOSAI as a standard setter:

- Having representatives of external stakeholders including auditors and users of audit reports on regional and global level providing feedback, adds legitimacy to INTOSAI's standard setting.
- Provides link between standard setting and implementation.
- Provides one point of access to guidance on interpretation of standards.
- Allows INTOSAI to develop its standard setting with a long-term strategic perspective.

Credibility and quality assurance in respect to the standards:

- A body possessing technical expertise and with cross-cutting overview of the framework will add credibility and quality to the standards.
- Decisions to re-organise the framework to meet the changing requirements of auditors can be taken by one body with the competences and authority to do so.
- Feedback on new/revised standards provided also by the users of audit reports will add credibility to the standards.

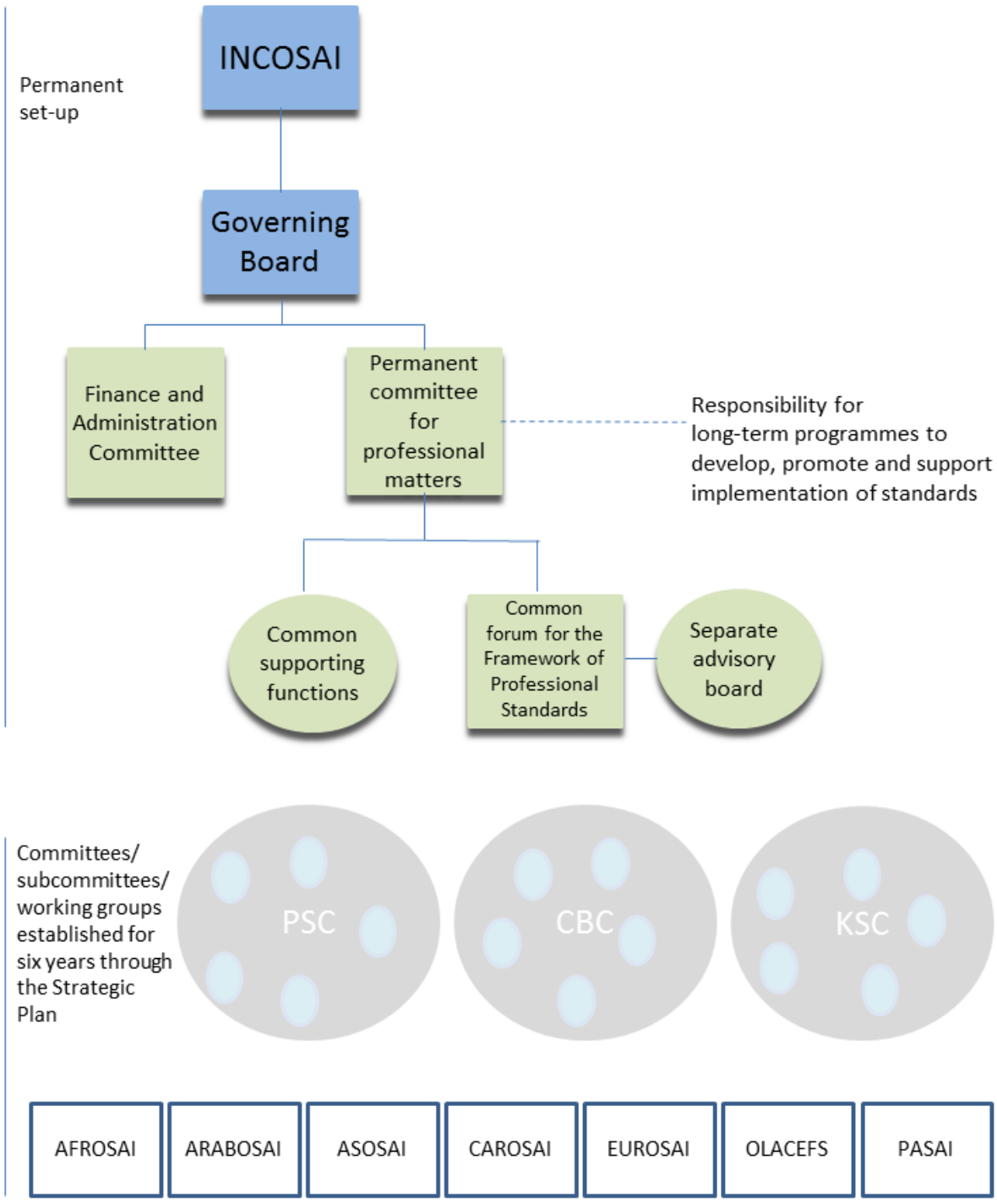
Cost efficiency of standard-setting activities:

- Standards will be developed on the basis of established needs.
- The burden of costs imposed on SAIs will be reduced through consideration of costs of implementation and maintenance before development projects are launched.
- The risk of duplication of work will be reduced when the responsibility for the development of the entire framework is placed on one body.

3 Six recommendations to improve INTOSAI's standard setting

Based on the evaluation presented in chapter 2, the PSC Chair has developed six recommendations on how INTOSAI may proceed to improve its standard setting and ensure that the ISSAI Framework and Due Process of Professional Standards are developed for the future. These are presented in the following sections of this chapter.

The organisation chart below illustrates the structure that will result from the suggested recommendations.



3.1 Recommendation 1 - Permanent committee for professional matters

INTOSAI's standard setting is one among a range of INTOSAI activities that aim to address the needs of the public sector auditing profession. INTOSAI's various activities within development, promotion and implementation of standards and the related efforts of capacity building, donor cooperation, training and professional development are all closely interlinked. The standard-setting activities therefore depend on and bear upon the strength of INTOSAI as an organisation and its ability to generate membership-engagement, attract resources for its work, meet the needs of its members and contribute to the development of public-sector auditing.

INTOSAI's Statutes provides that the Governing Board appoints a Financial and Administration Committee with responsibilities for the implementation of the INTOSAI budget. INTOSAI has so far not had a similar organ with responsibilities for professional matters. There is therefore only limited overall coordination of INTOSAI's development, promotion and implementation of standards for public-sector auditing and any related activities that draws on the content of the standards such as training, certification and SAI performance measurement. It is likely that such programs will in the coming years gain in relative importance for INTOSAI. Standard setting might become a *means* for these efforts of professional development rather than the goal.

It is one of INTOSAI's key strengths that the standard-setting draws on a very wide range of specialized working groups. This means that INTOSAI's joint resources are significantly larger than the membership fees which are channelled through the INTOSAI budget. In the absence of overall coordination the production of ISSAIs is, however, essentially driven by the *supply-side*: It is to a wide extent up to each of the standards-developing groups within INTOSAI to develop any standards they are able to provide and maintain. This also means that there is limited consideration of the needs of INTOSAI's various implementation initiatives, the costs required for SAIs to implement the standards or the costs of audits conducted in accordance with the standards. To achieve a more *demand*-driven production an overall coordinating body will be needed.

For INTOSAI's members it is highly important that any advice and professional requirements that are promulgated through INTOSAI implementation initiatives are fully in line with the principles, requirements and further guidance provided through INTOSAI's professional standards. Standard setting and the related programmes and activities to support implementation represent a long-term commitment towards INTOSAI members and auditors that extends beyond the strategic planning periods and the normal terms of rotating chairs. Such programmes require that overall assessments are made with regard to INTOSAI's professional abilities and priorities before they are launched and they need to be based on an overall leadership commitment to ensure that all activities are carried through in an effective and coordinated way.

Regardless of how INTOSAI's many working groups will be organized into committees and subcommittees by future strategic plans there will be a need for a permanent body that can ensure coordinated leadership for any long-term programs to develop the public-sector auditing profession. The relevant body would need to have sufficient legitimacy and authority within the full INTOSAI community to coordinate these efforts effectively. The body would therefore need to be composed of SAI leaders rather than specialists and it should be well embedded in INTOSAI's organizational structures.

Recommendation 1 - Permanent committee for professional matters

It is recommended that:

A permanent committee for professional matters is established under the INTOSAI Governing Board

This will serve to:

- Ensure united leadership for INTOSAI's professional matters including the independent standard-setting as well as any related programs to promote recognition, support implementation and develop the public-sector auditing profession, e.g. through existing and future initiatives in the field of training and certification of auditors.
- Provide for programs and activities that are based on professional expertise and requires an adequate institutional set-up that extends beyond the 6-years strategic planning periods as well as the 6-9 years terms of rotating chairs.
- Support strategic decisions by the Governing Board and ensure that the long-term commitments and perspectives of members and partners are thoroughly considered when new initiatives are launched.
- Ensure that programs and activities are well aligned and provide an attractive offering to INTOSAI's members based on INTOSAI's common concepts and principles of public-sector auditing, and a high level of expertise.
- Gather representation at SAI-leadership level from all regions, any relevant committees established under the strategic plan as well as relevant expertise in public-sector auditing.

Further process:

- A joint group including, e.g. the chairs of FAC, PSC, CBC, KSC, TFSP and IDI elaborate a joint proposal for a provision in INTOSAI's statutes on the committee for professional matters. The proposal is decided on by INCOSAI in 2016.
- The committee for professional matters will be recognized in INTOSAI's statues in line with the FAC, but will have responsibilities for professional matters only.
- It will be for the TFSP to consider whether the more general activities of INTOSAI driven by voluntary groups should continue in the next planning period to be organized in the PSC, CBC and KSC or a new set-up is needed.

3.2 Recommendation 2 - Common forum for the Framework of Professional Standards

INTOSAI will also need a common forum that can drive the overall development of the INTOSAI Framework of Professional Standards and the standards for public-sector auditing it provides. The PSC Steering Committee has at its meetings in the last three to five years discussed a range of cross-cutting issues that cannot be addressed through the individual standards-developing projects. These include:

- The need to ensure that the relevant professional issues are thoroughly considered before the PSC Steering Committee approves the ISSAIs.
- The need to provide more effective INTOSAI input to the work of other standard-setters.
- The need to build a stronger common understanding among members of various subcommittees of key concepts of INTOSAI standard setting.
- The need to ensure a higher degree of consistency and, for instance, establish drafting conventions for all levels of the framework.
- The need to find mechanisms to ensure that the requirements defined through the ISSAIs are pitched at a suitable level that is generally supportive for all INTOSAI members.
- The need to find mechanisms to ensure that the implementation initiatives such as the 3i-programme and performance measurement tool draw on the requirements defined through the ISSAIs and do not develop into an alternative or additional set of requirements that INTOSAI expects members to live up to.

The PSC has already taken initiative to start addressing some of these issues within this committee's own remits. The chairs of three of the PSC's subcommittees – FAS, PAS and CAS – have established a cooperation agreement regarding the ISSAIs 1000-4999 and the PSC Steering Committee may at its next meeting take initiative to establish a wider cross-cutting group that can deal with more overall issues.

For INTOSAI it will however be important that such cross-cutting issues regarding the overall Framework of Professional Standards are not only solved as an internal matter within the PSC. The various groups within the KSC and CBC that are actively engaged in the development of standards should be included on an equal footing. For the users of the ISSAIs it will also be important that any common solutions found are not restricted to documents produced by the PSC. Common solutions need to be defined for the full framework. A common group for the full framework is therefore needed.

The results of the survey conducted among persons who have previously been engaged in the development of ISSAIs and INTOSAI GOVs reflect that there are now 40-50 persons within INTOSAI with a good level of knowledge and experience in the field. A common group of experts established by the PSC, CBC and KSC would be the best way for INTOSAI to further build upon and elaborate these competences in standard-setting and ensure common solutions for the full framework.

Recommendation 2 - Common forum for the Framework of Professional Standards

It is recommended that:

A common group of experts drawn from PSC, CBC, KSC and INTOSAI's regions is established to consider common issues and drive the overall development of the INTOSAI Framework of Professional Standards.

The development of the individual draft ISSAIs/INTOSAI GOVs will continue to be based on committees, subcommittees or other specialized groups based on voluntary resources from SAIs.

This will serve to:

- Provide a forum for discussion and coordination of technical matters and content across the full Framework of Professional Standards.
- Ensure that the growing competencies and experiences in standard-setting which has been built in different steering committees and subcommittees in the past 3-9 years is leveraged on and further developed.
- Establish a 'single way of entry' for any new documents which the various groups within INTOSAI may wish to include among the ISSAIs or INTOSAI GOVs or in any additional categories of documents that may be defined in the Framework of Professional Standards in the future.
- Enable INTOSAI to maintain the current principle that the development of each draft is carried out on the basis of the approved project proposal, which may refer the responsibility for the project to an existing subcommittee or working group or establish a special project group for the purpose.
- Address cross-cutting issues regarding content and presentation in ISSAIs and INTOSAI GOVs that may affect all groups that contributes to the Framework of Professional Standards and which would otherwise have to be considered and decided on by the PSC. Issues to address include:
  - The need to further develop the definitions of the levels and the different categories of documents in the Framework of Professional Standards and provide for clearer

distinctions between auditing standards and other guidance.

- The need to provide a better basis for approval, inclusion and classification of documents into the framework and ensure the content of the ISSAIs is based on fundamental principles of public-sector auditing and defines auditing requirements at an adequate level.
- The need for common mechanisms to provide answers to questions on the status and interpretation of the ISSAIs and define common INTOSAI positions on standards-related issues, e.g. on matters considered by other standard-setting bodies.

Further process:

- The common group of experts is established by the chairs of the PSC, CBC and KSC during 2015 so it can assume its work in preparation for INCOSAI in 2016. In the initial phase the group will work on the basis of a list of tasks agreed between the chairs of PSC, CBC and KSC without affecting the competencies of the 3 Steering Committees.
- Dependent on the initial experiences the group may later assume further responsibilities in order to unite some or all of the functions of approval, inclusion and classification into the framework which are currently divided between the PSC Chair and the 3 Steering Committees.

3.3 Recommendation 3 - Separate advisory board

The PSC Steering Committee at present includes observers from IFAC, The IIA and the World Bank, who provide valuable external input to the PSC Steering Committee's standard-setting work. The advantage of further including the perspectives of users and other important stakeholders was discussed at the main committee meeting of the PSC in connection with INCOSAI 2013. The PSC is currently looking into the possibility of extending the feedback to include users and other important stakeholders by separating the observers out in an advisory board with representation from a broader segment of external stakeholders.

An advisory board with broader representation would serve as a vehicle for providing more systematized feedback to the standard-setting work and would strengthen the quality of the standards and raise the legitimacy of the standard-setting processes among external stakeholders. Separating the observers out in an advisory board would also make it possible for other INTOSAI bodies involved in standard-setting to meet without external parties present if relevant.

The feedback from the advisory board would, however, not only be relevant for ISSAIs developed under goal 1 by the PSC, but would be equally relevant for the whole Framework of Professional Standards.

Recommendation 3 - Separate advisory board

It is recommended that:

Continued efforts are made to establish a separate advisory board which – in addition to the current external observers in the PSC Steering Committee – should include representation of auditors and users of audit reports from the regional or global level.

This will serve to:

- Strengthen INTOSAI's standard-setting by providing feed-back on the content and usability of the standards from public-sector auditors, external experts and users of SAI audit reports.

- Contribute to wider recognition of the ISSAIs among external stakeholders.
- Provide for the possibility that other INTOSAI bodies involved in standard-setting can meet in sessions without external parties, arrange joint meetings with the advisory board or consult with the individual board members as relevant.

Further process:

- The PSC Chair will make inquiries among potential advisory board members and other relevant parties and report on the results to the PSC Steering Committee and the Governing Board in 2015.

- Dependent on the outcome of these consultations the current observers of the PSC Steering committee may be separated out in an independent advisory board. It has been normal practice that the three external observers (IFAC, The IIA and the World Bank) participate fully in the PSC Steering Committee's meetings in line with (other) steering committee members. In the initial phase it may be feasible only to establish an advisory board for the PSC Steering Committee.

- When a common forum for the Framework of Professional Standards has been established and a common group of experts have assumed their work (cf. recommendation 2) this group may further consider how the advisory board can best contribute to its work and provide feedback and advice on the further development of the full set of professional standards in the future.

3.4 Recommendation 4 - Strengthening the Due Process for INTOSAI Professional Standards

The Governing Board oversees that the due process is followed for all professional standards. Upon the assurance of the committees that the due process has been adhered to in the development, revising or withdrawal of the ISSAIs and INTOSAI GOVs, the Governing Board will refer the relevant documents for endorsement at INCOSAI. The Governing Board is also – in consultation with the PSC - responsible for resolving any questions and issues in relation to the application of the due process.

Ensuring that the principles and procedures laid down in the Due Process for INTOSAI Professional Standards are reflecting the needs and requirements of INTOSAI's members and external stakeholders is a key priority. Since the current version of the due process was endorsed in 2010, it has on various occasions been demonstrated that it can be enhanced in some areas, and the Governing Board may wish to consider how they can perform the oversight function in a more effective and independent manner.

The weaknesses of the current version of the due process include, but are not restricted to the following.

In the current set-up the PSC, CBC and KSC all develop content for the Framework of Professional Standards and are responsible for approving the standards developed by their respective subcommittees and/or working groups, including initial project proposal, exposure draft and final ISSAI or INTOSAI GOV. Moreover, the current due process prescribes that the PSC Chair decides on the classification and numbering of proposed documents on the basis of the classification principles that were endorsed at INCOSAI in 2007.

The fact that there are several gateways into the Framework of Professional Standards makes it difficult to plan and coordinate the development of high-quality professional standards, and the fact that principle

decisions on, for instance, classification and numbering of standards, are taken by the PSC Chair alone is, in effect, incompatible with the key characteristics of an independent standard setter, as decided on by INCOSAI in 2010 (cf. INTOSAI GOV 9200).

Recommendation 4 - Strengthening the Due Process for INTOSAI Professional Standards

It is recommended that:

The standard-setting process is improved through a revision of the *Due Process for INTOSAI Professional Standards.*

Governing Board's oversight function is strengthened so members and external parties are provided with more independent assurance that the due process is followed by all bodies that are involved in the development and approval of standards.

This will serve to:

- Provide an updated version of the due process that is not dependent on any specific committee structures decided on through the 6-year strategic planning cycles.
- Address the weaknesses of the current process such as the need to provide a transition period when important new ISSAIs are introduced and the PSC Chair's personal decision on inclusion and classification in the Framework of Professional Standards.
- Provide for a better mechanism of resolution of issues of dispute over due process.
- Ensure that the distinctions between the oversight function, approval of content and development of draft standards which was introduced in 2010 is maintained and further clarified.
- Ensure more independent standard setting in line with the recommendations endorsed by INCOSAI in 2010 on the Importance of an Independent Standard Setting Process (cf. INTOSAI GOV 9200).
- Carry through any consequences resulting from recommendation 2 and 3.

Further process:

- The proposal will be developed in accordance with the provisions on amendment provided in the due process endorsed by INCOSAI in 2010. The PSC will however ensure close cooperation with the KSC and CBC.
- A draft is presented for comments in connection with the Governing Board meeting 2015 so a final proposal is ready for INCOSAI 2016. The Governing Board debates how the oversight of the board can best be organized.

3.5 Recommendation 5 - Common supporting functions

As the scope of INTOSAI's standard-setting activities has developed, it has become increasingly important to ensure the impartiality and independence requested from a professional standard setter.

In the present set-up, some of the SAIs having chairing roles have established their own secretariats, like the SAIs of Denmark, Norway, Sweden and other former chairs. Securing the institutional memory, independence, effectiveness and credibility of INTOSAI's standard setting on a continuous basis will, however, require less dependency on such individual secretariats.

It is therefore proposed that INTOSAI takes the initial steps to set up an independent, permanent secretarial function. The function should be set up in a manner that does not jeopardise its independence and impartiality in relation to the membership of INTOSAI and the parties involved in INTOSAI's standard setting.

Initially, the scope and size of such a supporting function would have to be limited, but it should be allowed to grow in pace with the development of INTOSAI's standard-setting activities.

Recommendation 5 - Common supporting functions

It is recommended that:

Steps are taken to provide a common solution for secretarial support that can be drawn upon by all bodies.

Any such future supporting functions will refer to the permanent committee for professional matters (cf. recommendation 2) which ensures their effective operation and guarantees their independence and impartiality.

Initially the scope and size of this function will have to be limited. The function should however be allowed to grow in response to future demands and in line with the possibilities for staffing and financing such demand may generate.

This will serve to:

- Reduce the current dependency of INTOSAI's standard-setting on the various 'secretariats' and other functions that have been established by different SAIs that serve as chair for a limited time (PSC Secretariat, FAS Secretariat, CAS Secretariat and others).
- Allow INTOSAI to continue the current principle of rotating chairmanship and reinforce the basic proposition that all members should be eligible as chairs of any committees or other groups established to organize the voluntary work by members as a result of the strategic plan.
- Provide a 'single contact point' for INTOSAI standards that meet the expectations from members, partners, auditors and users of audit reports to INTOSAI's standard-setting organization.
- Promote the recognition of the ISSAIs and use of INTOSAI GOVs among external stakeholders.
- Support the various bodies and groups involved in the standard-setting with technical assistance and facilitate their coordination and cooperation.
- Ensure that the governance for such supporting functions that are based on common means and represents INTOSAI towards members and external parties is vested in a collective INTOSAI body.
- In the longer term such functions may in addition provide new opportunities for:
  - generating income from publication, copyright and donations or by providing consultancy or other services to INTOSAI members on standard-related matters, e.g. in the field of training and standards implementation
  - carrying out analysis of the various national conditions and practices of public-sector auditing and gather experiences that may help ensure better standards for INTOSAI's members.

Further process:

- A joint group including, e.g. the chairs of FAC, PSC, CBC, KSC, TFSP and IDI develops a proposal for consideration by FAC and the INTOSAI Governing Board in 2015 on the process of nomination and model for financing for a position as director for professional standards (or professional matters) to take effect from 2016. The sources of financing might initially resemble the model used for the INTOSAI strategic director.
- The group will further consider the feasibility of aiming to establish a common secretariat headed by the appointed director before 2019. This may e.g. be organised virtually or based on secondments from different SAIs.

3.6 Recommendation 6 - The long-term perspective

If the above recommendations are carried through by 2016 INTOSAI will have taken five realistic and important steps to improve its standard-setting processes. It should be recognized, however, that further steps may be needed in the future to ensure INTOSAI's importance and impact as a standard setter can continue to grow. It will therefore be relevant for INTOSAI to define a set of long-term development goals that clarifies INTOSAI's overall ambitions.

Such long term development goals will help INTOSAI to build and preserve a high level of confidence in the continued step-wise process of building the capabilities and processes of an international standard-setter after 2016. For SAIs it is more attractive to commit people with key expertise to INTOSAI's work if the result of the effort made has a significant lasting impact that extends beyond the next congress. It is also more appealing for the SAIs to follow up on INTOSAI's repeated calls and implement the INTOSAI standards in their auditing practices and refer to standards in their audit reports, if the standards are widely recognized and their professional quality and long-term viability are not questioned. For members and external partners it is equally more attractive to channel their engagement and support for training activities, capacity building and development cooperation through INTOSAI, if that provides a solid guarantee that the activities will be based on generally recognized professional principles and standards for public-sector auditing.

Taking inspiration from the way the UN organisation defines and operationalizes development goals, it is suggested that INTOSAI adopts a set of standard-setting development goals for 2028. The year 2028 is chosen 1) because it will allow for further operationalization of the goals through the strategic planning process for 2017-2022, and 2) because the *ISSAI 100 - Fundamental Principles of Public Sector Auditing* as endorsed in Beijing 2013 – in accordance with the maintenance plan - is expected to remain in force until 2028 and thus provide guarantees to all INTOSAI members regarding the general content of the ISSAIs as well as the independence of each SAI to define its own auditing tasks on the basis of its mandate and adopt or develop national standards as appropriate.

The concept of development goals may also work to raise the role and profile of INCOSAI as a forum for driving the future development. Whereas formal INCOSAI decisions concern achievements of the past three years and the mandate for the following three years, the introduction of development goals might provide a new frame for continuous membership discussion of needs and expectations to the coming 6,9 and 12 years.

Recommendation 6 – Long-term development goals

It is recommended that:

INTOSAI defines a set of long-term development goals with key indicators and milestones for the continued improvement of its standard-setting function after 2016.

In light of the progress made since the efforts were launched in INCOSAI in 2004 it is further suggested that the following development goals would define a reasonable level of ambition for the coming 12 years following the next INCOSAI in 2016.

Development goals for INTOSAI's standard-setting

1. ***INTOSAI's standard-setting activities are supported by a strong organisational framework that meets the requirements of a professional standards-developing body.***
2. ***The ISSAIs are the preferred solution for SAIs and provides the basis for schemes of education and certification that define public-sector auditing as a profession***
3. ***The ISSAIs are widely recognized and ensure high-quality audits that add value to the public sector***

This will serve to:

- Clarify the long-term level of ambition for all members and partners
- Reflect a continued commitment that goes beyond the 6-year strategic planning periods as well as the normal 6-9 years rotation of committee and subcommittee chairs
- Provide INTOSAI members with a common mechanism to ensure that any remaining issues and challenges that will not be fully solved by 2016 as a result of the above recommendations will be addressed in the future
- Make it more attractive to implement the ISSAIs and refer to the ISSAIs in audit reports
- Provide a vehicle to invite more genuine debate at INCOSAI on longer term perspectives that extends beyond the mandate for the next 3 years.

Further process:

- The issue is further considered through the Task Force of Strategic Planning to ensure alignment between the strategic plan and any such longer term development goals for standards
- The organization of the envisaged membership engagement is also considered by the PSC and the 1. Vice chair (host) in connection with the organization of the next INCOSAI in 2016.

3.7 Overview of the proposed further process

Table 5 provides an overview of the proposed activities and further process that follow from the six recommendations. This planning will have to be further discussed and developed by the various parties and decided on by the Governing Board in connection with its meeting in 2014.

Table 5 - Summary of the activities following from the recommendations

Recommendation	Driven by	2015 (GB meeting)	2016 (INCOSAI)	2017 - 2019
1 - Permanent committee for professional matters	Joint group (E.g. the chairs of FAC, PSC, CBC, KSC, TFSP, IDI)	Joint group to present a first proposal for comments	The establishment of the committee for professional matters is decided on by INCOSAI through a new provision in INTOSAI's statutes	The committee for professional matters assumes leadership for standard-setting and any related programs of implementation
2 - Common forum for the Framework of Professional Standards	PSC, CBC , KSC	Common group of experts established with members from the PSC, CBC, KSC and the regions	Common group to assume work in connection with the deliveries for INCOSAI	The group of experts may assume further responsibilities for decisions which the current due process gave to the PSC Chair or the 3 Steering Committees Draft standards will continue to be developed by different voluntary groups (as organized by the new Strategic Plan)
3 - Separate advisory board	PSC with KSC and CBC	PSC to report on progress - current external observers of the PSC are separated out in an advisory board	Advisory board established with representation of auditors and users of audit report from the regional and global level	Advisory board provides input on the full set of professional standards
4 - Strengthening the due process	PSC with KSC and CBC GB	Draft proposal for revision of the due process is developed for comments GB discussion of oversight role of the due process	Proposed improvements in due process are presented for endorsement GB decision on the GB's oversight of the due process	The revised due process takes effect and safeguards independent standard-setting
5 - Common supporting functions	Joint Group (E.g. the chairs of FAC, PSC, CBC, KSC, TFSP, IDI)	Proposal on a financial model for an INTOSAI director for professional standards	Nomination of director for professional standards Initial steps to explore the feasibility of a common secretariat	The committee for professional matters may consider a common secretariat headed by the appointed director, e.g. based on secondments from different SAIs
6 – Long-term development goals	PSC TFSP 1. Vice-Chair of INTOSAI (host of INCOSAI 2016)	Suggested development goals for standard-setting to be further considered in the planning for the upcoming INCOSAI and by the TFSP	Possible debate on development goals, key indicators and milestones at INCOSAI	The committee for professional matters drives the continued realization of development goals towards 2028