

## **GUIDELINE 2—APPLICABILITY OF INTERNATIONAL STANDARDS ON AUDITING TO AUDITS OF FINANCIAL STATEMENTS OF GOVERNMENT BUSINESS ENTERPRISES**

### **Introduction**

1. The Introduction to the International Public Sector Accounting Standards Board states that International Public Sector Accounting Standards Board (IPSASB) pronouncements are aimed at developing and harmonizing public sector<sup>1</sup> financial reporting, accounting, and auditing practices. The IPSASB will consider and make use of pronouncements issued by the International Auditing and Assurance Board IAASB (formerly known as International Auditing Practices Committee) to the extent they are applicable to the public sector. International Standards on Auditing (ISAs) issued by the IAASB and International Public Sector Guidelines (IPSGs) are not intended to, and do not, override authoritative national standards issued by governments, regulatory or professional accounting bodies.
2. The purpose of this Guideline is to describe the applicability of ISAs to audits of financial statements<sup>2</sup> of government business enterprises.

### **Government Business Enterprises**

3. This Guideline is applicable to such government business enterprises as national railroads, energy utilities, and communication services. Government business enterprises are normally required to operate commercially, that is, to make profits or to recoup, through user charges, a substantial proportion of their operating costs. In many countries, the public sector includes business enterprises that are owned or controlled by government. The principal activity of these government business enterprises is similar to that of private sector business enterprises, that is, to sell goods or services to individuals and nongovernment organizations as well as other public sector entities. Additional characteristics which government business enterprises usually possess are set out in IPSG 1, “Financial Reporting by Government Business Enterprises” (paragraphs 5 to 7).

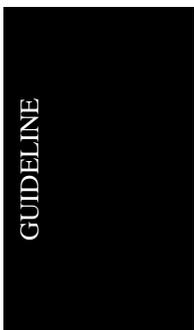
---

<sup>1</sup> As described in the Introduction to the IPSASB, “the term ‘public sector’ refers to national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises).”

<sup>2</sup> The term “financial statements,” as defined in the Preface to Statements of International Accounting Standards, covers balance sheets, income statements or profit and loss accounts, statements of changes in financial position, notes and other statements and explanatory material which are identified as being part of the financial statements.

## Requirements for Audits of Financial Statements

4. Government business enterprises prepare financial statements for the use of legislators and government departments, outside investors, employees, lenders, the public and other users. Auditors are often required to express an opinion on such financial statements. IAASB has developed ISAs for auditors to use whenever an independent audit of financial statements is carried out.
5. The audit objectives for auditing and reporting on financial statements of government business enterprises are similar to those for private sector entities. As such, the same standards should apply regardless of the nature of the enterprise. Users of financial statements are entitled to a uniform quality of assurance and would not be well served by the application of differing standards. Therefore, audits of financial statements of government business enterprises should conform, in all material respects, with ISAs.
6. ISAs describe:
  - The basic principles which govern the auditor's professional responsibilities.
  - The qualifications or essential characteristics of auditors (e.g., adequate training, independence, and due care in performing audits of financial statements).
  - The standards and practices for performing audits of financial statements (e.g., adequate planning and supervision, the assessments of inherent and control risks and their impact on substantive procedures, and the process by which the auditor determines the procedures to be performed when carrying out the audit).
  - The form and content of audit reports.
7. Financial statements of government business enterprises may include information that is different from, or in addition to, that contained in the financial statements of business enterprises in the private sector (e.g., comparison of expenditures in the period with limits established by legislation). In such circumstances, appropriate modifications may be required to the nature, timing and extent of audit procedures, and the auditor's report.
8. Some government business enterprises employ resources to achieve a variety of nonfinancial or social objectives in addition to their commercial objectives. While their audited financial statements provide an accounting of their financial position, results of operations and changes in financial position, these financial statements, by themselves, may not adequately report on the results of their non-commercial activities. Auditors may be required to audit and report on information relating to:



- Compliance with legislation and regulatory requirements (including applicable local public sector pronouncements);
- The adequacy of the enterprise's internal control structure; and
- Economy, efficiency, and effectiveness of programs, projects and activities.

This information may either be included in, or may be in addition to, the enterprise's financial statements. The audit of such information may require auditors to perform work that is in addition to that required solely for the purpose of auditing and reporting on the financial statements.

9. Some government business enterprises may include in their annual reports information on performance in terms of achieving objectives as measured by specified financial or other indicators. Auditors may also be required to audit and report on this additional performance information.
10. This Guideline is not specifically designed to apply to the audit of the information set out in paragraphs 7 to 9; however, this Guideline and ISAs may be useful.
11. A Public Sector Perspective (PSP) on the applicability of ISAs to the audit of financial statements of public sector entities other than government business enterprises is included at the end of each ISA. Where no PSP is added the ISA is applicable in all material respects to the public sector.
12. The application of ISAs in the public sector was previously dealt with in International Public Sector Guideline 3.