Using the Work of
Other Auditors—
A Public Sector Perspective

ISSUED BY THE
INTERNATIONAL FEDERATION OF ACCOUNTANTS
This Study was prepared by the Public Sector Committee of the International Federation of Accountants.

Member bodies are encouraged to publicize, reprint in appropriate local publications, or otherwise make this Study available to their individual members.
The objective of the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) is to develop programs aimed at improving public sector financial management and accountability. To that end, the PSC issues Guidelines, Statements on Practice and Studies. Studies are undertaken by the Committee to provide information that contributes to public sector financial reporting, accounting or auditing knowledge.

In July 1990, the PSC issued International Public Sector Guideline (IPSG) 2 "Applicability of International Auditing Guidelines to Audits of Financial Statements of Government Business Enterprises". That guideline states that the audit of financial statements of government business enterprises should conform, in all material respects, with International Auditing Guidelines (now called International Standards on Auditing or ISAs).

In February 1992, the PSC issued International Public Sector Guideline 3 "Applicability of International Standards on Auditing to the Audit of Financial Statements of Governments and Other Non-Business Public Sector Entities". That guideline stated that since ISAs set out the basic principles and related practices and procedures, they should apply to audits of the financial statements of governments and other public sector entities. However, the application of certain ISAs may need to be clarified or supplemented to accommodate a public sector perspective (PSP). The PSC set out in Appendix 3 to IPSG 3 the nature of potential matters for clarification or supplementation.

In July 1994, the PSC provided the International Auditing Practices Committee (IAPC) with revised PSPs to be included in the codified set of the revised ISAs. These public sector perspectives are now set out at the end of the ISAs, while IPSG 3 mentioned above has consequently been withdrawn.

This Study provides a PSP to ISA 5 "Using the Work of Another Auditor" and ISA 10 "Considering the Work of Internal Auditing". It should accordingly be read in conjunction with those ISAs.
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CHAPTER 1

INTRODUCTION

Purpose of this Study

The IFAC Public Sector Committee (PSC) recently provided a public sector perspective (PSP) for the International Standards on Auditing (ISAs). The tenor of the public sector perspectives is that ISAs apply to the public sector, but that they may in some cases need to be clarified or supplemented. In some cases, this perspective can be dealt with relatively briefly, and has accordingly been provided in the PSP itself. In other cases, a separate publication is merited. The PSC deems this to be the case regarding ISA 5 "Using the Work of Another Auditor" and ISA 10 "Considering the Work of Internal Auditing".

The reasons for issuing a separate publication are twofold. One is that accountability in the public sector differs in some respects from accountability in the private sector. The second is that, in the public sector, using the work of other auditors often extends to audit responsibilities other than the audit of financial statements (attest engagements).

Background

Accountability can be considered as the obligation to answer for (or report on) a responsibility conferred. In a democratic system of government, accountability to the public, and particularly to its designated representatives, is an overriding aspect of the management of a public sector entity. The government must obtain the approval of the public’s representatives for the funds it wants and the purpose for which its resources are utilized. The public’s representatives have the right to demand an accounting for the funds they have voted and to seek assurance that public resources have been well managed.

In addition, governments and other public sector organisations may receive funds from other tiers of government, or from other national governments or international organisations. Often, there are conditions related to the use of those funds. In such cases, the entity receiving the funds is accountable for the use of those funds to the government or organisation providing them. Public sector accountability may, therefore, involve relationships between two or more tiers of government in a country, between two or more national governments, or between national governments and international organisations.

Public sector accountability obligations involve, among other things, the achievement of three separate, but closely linked objectives:

- the fair presentation in the financial statements of an entity of its financial position and the results of its operations;
- compliance with authorities; and
- the effective, economical and efficient achievement of the purposes for which the entity was created.
Auditing is an integral part of public sector accountability. In order to ascertain whether the accountability objectives have been met, three main types of audit are usually conducted at the various tiers of governments: financial statement, compliance and performance audits. Performance audits may also be referred to as value-for-money or operational audits.

To maximise efficiency, any duplication of audit effort should be minimised. This may be achieved by the principal auditor (reporting auditor) utilizing the work of other external auditors or of internal auditors to the extent possible. One approach is for the principal auditor to plan and organize an audit with other auditors to achieve specific audit objectives. In doing this the principal auditor must communicate to the other auditors the applicable auditing and accounting standards required of the reporting auditor. The principal auditor should then take appropriate steps to assure that these standards are in fact applied by the other auditors in achieving the audit objectives.

**Scope**

This Study addresses using the work of other auditors, including both other external auditors and internal auditors, in financial statement attest and compliance audits. Using the work of another auditor is viewed as providing a form of audit evidence. If the principal auditor uses another auditor’s work, the nature, extent and timing of his/her own work can be modified.

This Study does not address using the work of another auditor, or a specialist, in a performance audit. The Committee plans to address the topic of performance auditing in a future study because of factors such as:

- the multidisciplinary approach typically required to carry out performance audits;
- the lack of a single measure of performance that is quantifiable in financial terms; and
- the complexity of the auditor’s responsibilities in such engagements.

This Study also does not address the relationships between joint auditors nor those with predecessor auditors. The reader may find appropriate guidance in relevant ethical guidance.

The particular distinctiveness of auditing in the public sector lies in the emphasis upon compliance and performance auditing. An essential difference between these two features of public sector auditing, for the purposes of this Study, lies in the extent, or the degree, to which the auditor may have to draw on a range of other skills. With performance auditing a wider range of other skills are typically required to carry out the auditing. That is not normally so with compliance auditing. Compliance auditing has thus been included within the scope of this Study but performance auditing has not.

Chapter 2 of this Study considers the matters an auditor has to take into consideration when using the work of another auditor (based on the principles laid down in ISA 5). In addition to quoting pertinent sections of ISA 5, chapter 2 provides a public sector perspective on quoted sections of the standard. Chapter 3 considers the same matters for considering the work of internal auditing.

Chapter 4 builds on chapters 2 and 3 by describing a number of characteristics of audit in the public sector.
sector which affect use of the work of another auditor. Relevant sections of ISA 5 and 10 are referred to. Particular attention is paid to using the work of private sector auditors. Furthermore, certain areas deserving special attention are highlighted such as the autonomy of different tiers of government, the differing mandates of Higher Audit Institutions (HAI), and the particular problems surrounding using the work of other auditors in an international context.
CHAPTER 2

USING THE WORK OF ANOTHER AUDITOR: ISA 5 AND ITS APPLICABILITY

Guidance in ISA 5

ISA 5 "Using the Work of Another Auditor" states the conditions to be met and the procedures to be followed when contemplating using the work of another auditor in the private sector:

"The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance when an auditor, reporting on the financial statements of an entity, uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity. This ISA does not deal with those instances where two or more auditors are appointed as joint auditors nor does it deal with the auditor's relationship with a predecessor auditor. Further, when the principal auditor concludes that the financial statements of a component are immaterial, the standards in this ISA do not apply. When, however, several components, immaterial in themselves, are together material, the procedures outlined in this ISA would need to be considered." (paragraph 1)

"When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit." (paragraph 2)

In summary, ISA 5 requires that both the principal auditor and the other auditor meet certain requirements. The principal auditor should consider whether his/her own participation is sufficient to enable him/her to act as the principal auditor. Regarding the other auditor three aspects should be noted. Firstly, the principal auditor should consider the professional competence and independence of the other auditor. Secondly, the principal auditor should perform procedures to obtain reasonable assurance that the work of the other auditor is adequate for the principal auditor’s purpose. Thirdly, the principal auditor should consider the significant findings of the other auditor and the impact on his/her audit opinion. The following paragraphs quote pertinent parts of ISA 5, in so far as it applies to using the work of other auditors in the public sector.

Acceptance as Principal Auditor

"The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor. For this purpose the principal auditor would consider:

(a) the materiality of the portion of the financial statements which the principal auditor audits;

(b) the principal auditor’s degree of knowledge regarding the business of the components;

(c) the risk of material misstatements in the financial statements of the components audited by the other auditor; and

(d) the performance of additional procedures as set out in this ISA regarding the components audited by the other auditor resulting in the principal auditor having significant participation
in such audit." (paragraph 6)

*The Principal Auditor's Procedures*

.016 With respect to assessing another auditor's competence, ISA 5 states:

"When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of the specific assignment. Some of the sources of information for this consideration could be common membership of a professional organization, common membership of, or affiliation, with another firm or reference to the professional organization to which the other auditor belongs. These sources can be supplemented when appropriate by inquiries with other auditors, bankers, etc. and by discussions with the other auditor." (paragraph 7)

.017 ISA 5 requires the principal auditor to obtain reasonable assurance that the work of the other auditor is adequate. It states that:

"The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment." (paragraph 8)

.018 Guidance on how this should be achieved is set out in paragraphs 9 to 14 of ISA 5:

9. The principal auditor would advise the other auditor of:

(a) the independence requirements regarding both the entity and the component and obtain written representation as to compliance with them;

(b) the use that is to be made of the other auditor's work and report and make sufficient arrangements for the coordination of their efforts at the initial planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of intercompany transactions that may require disclosure and the timetable for completion of the audit; and

(c) the accounting, auditing and reporting requirements and obtain written representation as to compliance with them.

10. The principal auditor might also, for example, discuss with the other auditor the audit procedures applied, review a written summary of the other auditor's procedures (which may be in the form of a questionnaire or checklist) or review working papers of the other auditor. The principal auditor may wish to perform these procedures during a visit to the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of previous audit work of the other auditor.

11. The principal auditor may conclude that it is not necessary to apply procedures such as those
described in paragraph 10 because of sufficient appropriate audit evidence previously obtained that acceptable quality control policies and procedures are complied with in the conduct of the other auditor's practice. For example, when they are affiliated firms the principal auditor and the other auditor may have a continuing, formal relationship providing for procedures that give that audit evidence such as periodic inter-firm review, tests of operating policies and procedures and review of working papers of selected audits.

12. **The principal auditor should consider the significant findings of the other auditor.**

13. The principal auditor may consider it appropriate to discuss with the other auditor and the management of the component, the audit findings or other matters affecting the financial information of the component and may also decide that supplementary tests of the records or the financial information of the component are necessary. Such tests may, depending on the circumstances, be performed by the principal auditor or the other auditor.

14. The principal auditor would document in the audit working papers the components whose financial information was audited by other auditors, their significance to the financial statements of the entity as a whole, the names of the other auditors and any conclusions reached that individual components are immaterial. The principal auditor would also document the procedures performed and the conclusions reached. For example, working papers of the other auditor that have been reviewed would be identified and the results of discussions with the other auditor would be recorded. However, the principal auditor need not document the reasons for limiting the procedures in the circumstances described in paragraph 11, provided those reasons are summarized elsewhere in documentation maintained by the principal auditor's firm."

**Cooperation Between Auditors**

.019 ISA 5 goes on explaining the cooperation between auditors:

"The other auditor, knowing the context in which the principal auditor will use the other auditor's work, should cooperate with the principal auditor. For example, the other auditor would bring to the principal auditor's attention any aspect of the other auditor's work that cannot be carried out as requested. Similarly, subject to legal and professional considerations, the other auditor will need to be advised of any matters that come to the attention of the principal auditor which may have an important bearing on the other auditor's work." (paragraph 15)

**Reporting Considerations**

.020 With respect to a decision whether or not to make use of the other auditor's work and the consequences this has for the audit opinion of the principal auditor, ISA 5 states:

"When the principal auditor concludes that the work of the other auditor cannot be used
and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation in the scope of the audit." (paragraph 16)

'If the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor would consider whether the subject of the modification is of such a nature and significance, in relation to the financial statements of the entity on which the principal auditor is reporting, that a modification of the principal auditor's report is required.' (paragraph 17)

Applicability of ISA 5 to the Public Sector

.021 The scope of ISA 5 is limited to financial statement audits and, as noted previously, the ISA was prepared primarily for the private sector. Financial statement audits in the public sector may differ from those in the private sector in certain respects. One possible difference is that certain public sector entities may use a different basis of accounting (e.g., cash basis). Differences, however, typically relate more to the environment in which the audited entity functions than to the actual audit itself (in terms of procedures). Although ISA 5 was prepared primarily for private sector financial statements and may not cover all aspects of public sector auditing, the principles contained within it are generally applicable to all public sector financial statements irrespective of the basis on which they are prepared.

.022 The applicability of ISA 5 is less clear, however, when considering using the work of other auditors for the purpose of compliance auditing in the public sector. This type of audit covers a range of activities which differ from those typically covered by financial statement audits. Notwithstanding these differences, chapter 4 will demonstrate that ISA 5 still provides relevant guidance on the performance of compliance audits. The International Auditing Practices Committee (IAPC) also plans to release a separate document on compliance auditing.

.023 Auditor independence (refer to paragraph 9 of ISA 5 quoted above) is usually defined as independence from the auditee "in fact and appearance". It is the quality which permits the auditor to apply unbiased judgment and objective consideration to established facts in arriving at an opinion or a decision. Concerning the independence of an external government auditor, it should be noted that, in some cases, the auditor may not "in fact" be independent of the audited governmental entity, since he/she is a government official. In this case, independence is normally established by legislative action, which makes the auditor functionally independent. However, the principal auditor should in any event consider the independence of the other auditor. The principal auditor could, for example, consider the following:

(a) ascertaining the reporting hierarchy of the other auditor within the organisation; and

(b) assessing the response to reports prepared by the other auditor.

.024 ISA 5 states that it applies to the use by a principal auditor of another auditor’s work on the financial statements of one or more components included in the financial statements of the entity. In the public sector, a practical example is that the auditor of a Higher Audit Institution (HAI) uses the work of other external auditors reporting on the financial statements of tiers of government that are included in the HAI’s mandate and those of related governmental entities, e.g., agencies, boards, commissions and enterprises.
In the public sector, however, (mandated) use of the work of other auditors is also sometimes necessary regarding what in fact are other autonomous entities. This will be the case when a principal auditor requires assurance on the management of certain funds that were allocated to other tiers of government, subsidised institutions or independent agencies, the audit of which is not included in his/her mandate, or in cases where there is a dual certification requirement. In these cases, using the work of another auditor is more complex and will necessitate the performance of additional procedures. This subject will be considered further in chapter 4.
CHAPTER 3

CONSIDERING THE WORK OF INTERNAL AUDITING: ISA 10 AND ITS APPLICABILITY

Guidance in ISA 10

ISA 10 "Considering the Work of Internal Auditing" states the conditions to be met and the procedures to be followed when considering the work of internal auditing:

"The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance to external auditors in considering the work of internal auditing. This ISA does not deal with instances when personnel from internal auditing assist the external auditor in carrying out external audit procedures. The procedures noted in this ISA need only be applied to internal auditing activities which are relevant to the audit of the financial statements." (paragraph 1)

"The external auditor should consider the activities of internal auditing and their effect, if any, on external audit procedures." (paragraph 2)

The following paragraphs quote pertinent parts of ISA 10, in so far as it applies to considering the work of internal auditing in the public sector.

Relationship Between Internal Auditing and the External Auditor

ISA 10 describes the role and objectives of both internal auditing and the external auditor:

6. The role of internal auditing is determined by management, and its objectives differ from those of the external auditor who is appointed to report independently on the financial statements. The internal audit function's objectives vary according to management's requirements. The external auditor's primary concern is whether the financial statements are free of material misstatements.

7. Nevertheless some of the means of achieving their respective objectives are often similar and thus certain aspects of internal auditing may be useful in determining the nature, timing and extent of external audit procedures.

8. Internal auditing is part of the entity. Irrespective of the degree of autonomy and objectivity of internal auditing it cannot achieve the same degree of independence as required of the external auditor when expressing an opinion on the financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by any use made of internal auditing. All judgments relating to the audit of the financial statements are those of the external auditor."
Understanding and Preliminary Assessment of Internal Auditing

ISA 10 requires the external auditor to obtain sufficient understanding of internal audit activities. It states that:

"The external auditor should obtain a sufficient understanding of internal audit activities to assist in planning the audit and developing an effective audit approach." (paragraph 9)

Guidance on how this should be achieved is set out in paragraphs 10 to 13 of ISA 10:

"10. Effective internal auditing will often allow a modification in the nature and timing, and a reduction in the extent of procedures performed by the external auditor but cannot eliminate them entirely. In some cases however, having considered the activities of internal auditing, the external auditor may decide that internal auditing will have no effect on external audit procedures.

11. During the course of planning the audit the external auditor should perform a preliminary assessment of the internal audit function when it appears that internal auditing is relevant to the external audit of the financial statements in specific audit areas.

12. The external auditor's preliminary assessment of the internal audit function will influence the external auditor's judgment about the use which may be made of internal auditing in modifying the nature, timing and extent of external audit procedures.

13. When obtaining an understanding and performing a preliminary assessment of the internal audit function, the important criteria are:

(a) Organizational Status: specific status of internal auditing in the entity and the effect this has on its ability to be objective. In the ideal situation, internal auditing will report to the highest level of management and be free of any other operating responsibility. Any constraints or restrictions placed on internal auditing by management would need to be carefully considered. In particular, the internal auditors will need to be free to communicate fully with the external auditor.

(b) Scope of Function: the nature and extent of internal auditing assignments performed. The external auditor would also need to consider whether management acts on internal audit recommendations and how this is evidenced.

(c) Technical Competence: whether internal auditing is performed by persons having adequate technical training and proficiency as internal auditors. The external auditor may, for example, review the policies for hiring and training the internal auditing staff and their experience and professional qualifications.

(d) Due Professional Care: whether internal auditing is properly planned, supervised, reviewed and documented. The existence of adequate audit manuals, work programs and working papers would be considered."
Evaluating and Testing the Work of Internal Auditing

With respect to the decision whether or not to make use of the specific work of internal auditing, ISA 10 states:

"When the external auditor intends to use specific work of internal auditing, the external auditor should evaluate and test that work to confirm its adequacy for the external auditor's purposes." (paragraph 16)

"The evaluation of specific work of internal auditing involves consideration of the adequacy of the scope of work and related programs and whether the preliminary assessment of the internal auditing remains appropriate. This evaluation may include consideration of whether:

(a) the work is performed by persons having adequate technical training and proficiency as internal auditors and the work of assistants is properly supervised, reviewed and documented;

(b) sufficient appropriate audit evidence is obtained to afford a reasonable basis for the conclusions reached;

(c) conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and

(d) any exceptions or unusual matters disclosed by internal auditing are properly resolved." (paragraph 17)

"The nature, timing and extent of the testing of the specific work of internal auditing will depend on the external's auditor's judgment as to the risk and materiality of the area concerned, the preliminary assessment of the internal auditing and the evaluation of the specific work by internal auditing. Such tests may include examination of items already examined by internal auditing, examination of other similar items and observation of internal auditing procedures." (paragraph 18)

Applicability of ISA 10 to the Public Sector

It is common to find a situation in which a HAI serves as the external auditor reporting to the legislative body, whereas the government itself may employ internal auditors. The role of the internal auditors will be determined by the government entity itself but may include the review of internal control systems and provide assurance that the financial reports give a true and fair view. It may also extend to a review of the economy, efficiency and effectiveness of the entity's performance and, thus, the external auditor may also be able to use the work of internal auditing in carrying out performance audits.

The internal auditing function is of course part of the entity's control environment, but the HAI will also need to determine whether (and if so to what extent) it is possible to consider the work of internal auditing. The same of course applies with respect to internal auditing of another tier of government or an international organisation. The fact that most government entities do have internal auditing functions means that internal auditing work is potentially an important source of evidence.
When considering using the work of internal auditing specific attention should be paid to those auditors’ functional independence, mandate, education and training, experience, reporting arrangements and the timing of the work performed. These factors necessitate the principal auditor to thoroughly evaluate the internal auditing function prior to using any work performed. The important criteria for this general evaluation, as stated in paragraph 13 of ISA 10, are: organisational status, scope of function, technical competence and due professional care. Following this evaluation, the principal auditor will need to decide on the scope and nature of the consideration to be placed on the internal auditor’s work. This may consist of reliance solely on the operation of the system of internal controls or also the results of substantive testing. In this latter case, these tests may be carried out by internal auditors at the specific request of the principal auditor.

It is necessary that the principal auditor have full access to the internal auditor’s files and to the audited entity’s administration. This may not represent a difficulty within one level of government but it may limit the principal auditors use of the work of an internal auditor employed by another tier of government or an independent entity. The feasibility of using the work of an internal auditor will therefore also depend on the form of the principal auditor’s mandate.

Where the testing indicates that the work of the internal auditor is not adequate for the principal auditor’s purposes, the principal auditor will need to extend his/her procedures beyond those originally planned to ensure that sufficient and appropriate evidence is obtained to support the conclusions reached.

If the principal auditor identifies weaknesses in the internal audit function, he or she is not precluded from using specific internal audit work. However, the principal auditor may need to perform a more detailed evaluation and corroboration of that work.
Chapter 4 discusses some of the particular issues identified in Chapters 2 and 3 when a principal auditor in the public sector considers using the work of another auditor.

The Importance of Compliance Auditing

When comparing accountability in the public and private sectors, the emphasis given to compliance stands out as one of the foremost differentiating factors. Compliance with authorities is the responsibility of any organisation’s management but it takes on added significance in the public sector. Legislation and other authorities are a primary mean by which legislators control the raising and spending of money by governments. Public sector entities are usually established by legislation and their operations are governed by various authorities derived from the legislation; they are accountable for operating in accordance with those authorities.

Mandates for auditing compliance with authorities vary considerably. Generally speaking, four variants can be distinguished. Some mandates require the auditor to express a professional opinion on whether the entity has complied with specified authorities or whether the entity’s transactions were carried out in compliance with specified authorities. Other mandates require the auditor to express an opinion on whether the transactions that have come to the auditor’s attention in the course of discharging other audit responsibilities were carried out in compliance with specified authorities. Yet other mandates require the auditor to report in detail on instances of non-compliance with authorities that have been observed when discharging audit responsibilities. Finally, in some jurisdictions auditors express an opinion on assertions made by management as to compliance with authority.

The significance of compliance with authorities in the public sector has consequences for the practice of using the work of another auditor. The first problem a principal auditor considering making use of another auditor’s compliance auditing work may encounter, is the need to establish the level of significance of non-compliance which, given the public accountability of the entity, may be lower than in the private sector. This requires thorough knowledge of the legal framework within which the entity operates.

Secondly, conflicting provisions in the applicable laws and regulations may exist and the other auditor’s handling of these findings will largely depend on his/her audit mandate. For example, when the audit is conducted by orders of another tier of government than that for which the principal auditor is responsible, or by the management of an independent entity, the assurance asked for will often relate primarily to another component of the compound whole of laws and regulations. This is not to say the investigation as to compliance with the remaining legislation will be neglected, it will just receive less extensive attention during the audit and therefore in the audit report. A principal auditor will, therefore, only be able to rely on the completeness of another auditor’s findings regarding compliance when he/she is in a position to ensure that the audit mandate is such that any specific information needs will be met. In other cases, the principal auditor may be able to use some of the work of the secondary auditor, where he/she has clearly established the secondary auditor’s mandate with regard to compliance and assessed the work undertaken in satisfaction of that mandate.
Thirdly, conflicts between legal compliance and generally accepted accounting principles can be identified during a compliance audit. The handling of such conflicts will depend on a number of factors including: the professional obligations of the auditor; his/her functional independence from government; and the statutory force of professional standards. The effective resolution of any such conflict may limit the extent to which the principal auditor may use another auditor’s work. Furthermore, the auditor will, in most cases, be a member of a HAI and not every HAI has the same approach (quite apart from the fact that certain HAI’s, due to their audit mandate, comprise a greater number of lawyers than of accountants). These differences may also, in some circumstances, affect the extent to which the other auditor’s work can be used.

Using the Work of Private Sector Auditors

Most state and national governments have a constitutionally established HAI, an independent external auditor of (central) government activities. Not all HAI’s undertake their task entirely with a staff of their own. Often, private sector auditors are engaged to assist in these audits. In the case of regional and local governments, the situation ranges from the existence of an external audit institution, on one hand, to full contracting out to private sector auditors on the other. In the context of using the work of other auditors, it is appropriate to discuss some specific issues which should be considered when private sector auditors are engaged.

The existence of consultancy assignments in the public sector has the potential to create conflicts of interest. The principal auditor, in using the work of other auditors, should have regard to the possibility that such conflicts may arise.

In general, the requirements of ISA 5 are relevant to a principal auditor’s use of the work of a private sector auditor. With respect to financial statement audits particular consideration may, however, need to be given to the other auditor’s skills and competence with respect to any applicable government accounting, financial reporting and auditing requirements. It is, however, primarily with respect to compliance auditing responsibilities that particular issues should be considered.

Compliance audits in the public sector require knowledge of the government environment and relevant technical expertise, acquired through study and practical experience. It is important that the principal auditor be satisfied that any private sector auditor has the necessary skills and competence to conduct the particular responsibilities of the other auditor concerning auditing compliance with authority. In addition, in some cases private sector auditors are appointed to audit public sector bodies which receive funding from government bodies which are audited by a HAI. In order to ensure that the private sector firm meets the requirements of such cases, its engagement letter should clearly set out its responsibilities to the HAI and the use that will be made of its reports.

Autonomy of Different Tiers of Government and Related Entities

The desire for audit efficiency results in the need (and in some countries the obligation) to make use of the work of auditors from other tiers of government and related entities. However, relations between levels of government differ substantially from the holding/subsidiary company relationships which underlie ISA 5. Though some hierarchical ties will exist between central government and lower tiers, the latter commonly have a high degree of administrative autonomy, which also finds expression in the process of accountability.
Lower tiers of government are accountable for the funds they receive from higher tiers, and auditing is an integral part of this accountability. The demand for an audit on the use of allotted funds is not problematic. The ability to use the work of another auditor, however, presupposes satisfactory working arrangements between the principal auditor and the other auditor and access to audit files. The principal auditor will wish to impose the standards for financial reporting which apply at the higher level as well as his/her audit criteria and, where applicable, influence the scope of compliance auditing. It is this intervention that may create difficulties and may be perceived as an encroachment upon autonomy. Some State and Federal Governments have a legal relationship more akin to one across national boundaries than one where accountability exists between the two tiers of government. The auditors concerned should examine the actual legal relationship between their government as well as those relating to the entities under audit to determine the extent of accountability that applies and the most suitable approach which should be taken to the audit.

It should be remembered that the audit mandates of HAI’s (and of private sector auditors employed by a government) can differ substantially. On the one hand, the mandate may not include compliance auditing and, even where it does, the scope may vary considerably. On the other hand, the authority of a principal auditor may range from access to all levels of government and their related entities, via restricted access to lower levels regarding specific funds or areas of policy, to access only to the central government level. In cases of restricted access, the possibility of cooperation between the principal auditor and the other auditor will usually be provided for, but access to the administrative data of the audited entity should not be presumed.

Limitations like these influence the extent to which work performed by auditors of different tiers of government can be used by principal auditors. In many cases, practical solutions will be found. Often, an audit agreement will be drafted, stating the needs and requirements of the principal auditor regarding a specific audit, and the other auditor’s commitment to comply with them. Nowadays, such an agreement will frequently be formally incorporated in new funding arrangements. Another widespread solution involves deliberations between the principal auditor and the other auditor in which information required by the principal auditor is supplied. In some countries, this procedure will take the form of written communications by way of questionnaires.

Using the Work of Another Auditor Across National Borders

Growing international cooperation and provision of financial support between governments and international organisations, justifies specific consideration of the problems of using the work of auditors employed by other governments or international organisations. Generally speaking, this will involve using the work of a foreign Supreme Audit Institution (SAI) or an independent Board of Auditors (BoA). The relationship between a supranational body like the European Union and its member states is excluded from the scope of this section, though some helpful guidance may be found.

A major problem created by national borders is that the right of access to data will, generally speaking, be very limited. Information can rarely be demanded. Confirmation of the SAI/BoA’s independence and competence will often have to be obtained from sources other than the institutions themselves.

In the technical field, notwithstanding the significant accomplishments of organisations such as INTOSAI, IASC, IFAC and others, government accounting standards and government auditing standards (if any) still differ widely. Another problem is that of legal requirements, e.g., concerning principles of valuation or reporting methods used by governments.

The audit mandates of SAI’s may differ considerably. A SAI or BoA, by its very nature, will have
an audit mandate that is tailored to the politically defined needs of the country concerned or of the organisation it is auditing. The principal auditor considering using the work of that other auditor needs to consider certain issues:

(a) Accessibility: A SAI has to consider if it has access to all levels of government or only to the central level;

(b) Constitution: A SAI needs to consider whether it has a constitutionally prescribed right of access to the auditee’s administration.

These matters significantly affect the extent of use of the other auditors’ work.

Substantial differences in the scope of audits may exist. Some differences may be overcome but others may hamper or even rule out the possibility of using other auditors’ work. A solution may be for both auditors to conclude an agreement, specifying the respective responsibilities of each SAI/BoA. An agreement of this type would not, however, mean that the principal auditor should report in a way implying a division of responsibilities. The ultimate responsibility remains that of the principal auditor.

Where a principal auditor is satisfied that the other auditor has the appropriate mandate, qualifications and independence, he/she must consider the question of access to that auditor’s working papers before the work of that other auditor can be used. Generally speaking, no SAI is obliged to supply information to a third party but it may choose to do so. In cases of bilateral or multilateral cooperation, the need to use the work of the other auditor will often prove mutual, thereby facilitating cooperation. With respect to audits of development and similar aid, access may be obtained by incorporating this as a condition of the grant scheme. Access to data of international organisations (and by these organisations in certain cases) will frequently be able to be arranged since the organisations were founded with common consent and their accountability procedures may be prescribed.

It is possible that, despite full cooperation from another auditor, a principal auditor may conclude that the work of the other auditor cannot be used. This will typically result from materially different mandates or audit scopes. Principal auditors should exercise sensitivity in reporting the fact of, and reasons for, not using the work of the other auditor to that auditor or to the government entity being audited.