

IDI's expert opinion on external confirmation procedures performed by Audit Service Sierra Leone

The IDI has been requested to provide interpretations over certain provisions in the auditing standards related to an alleged case of "professional misconduct" against officials from the Audit Service Sierra Leone (ASSL). With the IDI's background and exposure to auditing standards and best audit practices in the public sector, and with external references/consultations from relevant professional bodies, the IDI hereby concluded on the circumstances based solely on, and is strictly limited to, the known facts as described below:

On the type of engagement and standards applicable to the audit

We have been informed that the audit in question was a compliance audit. The officials from ASSL has confirmed that an audit engagement letter was prepared and signed by the Deputy Auditor General for Auditor General of ASSL and the representative of the audited entity to establish the terms for this compliance audit engagement.

Given the type of the engagement (i.e., compliance audit) and the function of ASSL vested through Section 11(2)(c) under *The Audit Service Act of 2014* (i.e., to ensure compliance with auditing standards and code of ethics established by the International Organisation of Supreme Audit Institutions (INTOSAI)), the ISSAI 4000 – *Compliance Audit Standard* serves an appropriate reference to set the requirements for the audit. Signatures of both parties in the audit engagement letter would signify confirmation of the understanding, and agreement of the parties on the terms of the audit engagement.

On audit procedures performed and authority of Supreme Audit Institutions

In the course of gathering audit evidence, the involved officials claimed that they found doubts regarding the authenticity of some of the evidence needed to ascertain whether the related subject matter is in compliance with the compliance audit criteria. According to those involved, confirmation with third party was performed to ascertain the validity/authenticity of the audit evidence in question, and that allegation against them was charged for not seeking permission from the audited entity before sending the confirmation letter.

Paragraph 62 of ISSAI 4000 states that when suspected fraud has been identified, the auditor takes action to ensure that they respond appropriately according to the SAI's mandate and the particular circumstances. In relation thereto, Section 11(2)(b) of *The Audit Service Act of 2014* provides authority to the ASSL to **carry out special audits and investigations or any other audit for the purpose of ascertaining dishonesty, fraud or corruption**.

This supports Section 10(1) of INTOSAI-P 1 – *The Lima Declaration* which states that **SAI shall have access to all records and documents relating to financial management and shall be empowered to request, orally or in writing, any information deemed**

necessary by the SAI; and Principle 4 of INTOSAI-P 10 – *Mexico Declaration on SAI Independence* which states **that SAIs should have adequate powers to obtain timely, unfettered, direct, and free access to all the necessary documents and information, for the proper discharge of their statutory responsibilities.**

While paragraph 164 of ISSAI 4000 describes what an external confirmation is, it is noteworthy to mention that there are no specific requirements in ISSAI 4000 that will dictate the particular steps, procedures or design when using external confirmation.

As such, we believe that the design of such confirmation will depend on the ultimate objective the procedure is aiming to achieve. For this purpose, Section 119(6) of *The Constitution of Sierra Leone of 1991* states that in the exercise of his functions under the Constitution or any other law, the **Auditor-General shall not be subject to the direction or control of any person or authority.**

We recognize that in some audit practices, authorization from audited entity is sometimes sought. This practice is normally applied to improve the response rate since the confirming party may not be willing to respond or provide information about the audited entity if it is not coming from the latter. On this particular case, nonetheless, we were informed that the officials were successful in getting the needed information from the third party despite the absence of the authorization.

Getting authorization from the audited entity may not be common in public sector audit due to the mandate and power of the Supreme Audit Institutions (SAIs) as compared with the private sector audit where audits are not mandated. With the knowledge of the authority of the SAIs, third parties normally provide the requested information to the SAIs even without the audited entity's authorization. Exception may be found when the requested information is subject to confidentiality or secrecy law or regulations. For instance, SAIs may still need authorization when confirming large deposit liabilities of a government bank from the depositors due to the bank secrecy law (or the procedure may not be totally feasible).

Therefore, we believe that the procedures followed by the ASSL comply with the requirements of the ISSAI 4000.

On the inapplicability of ISA 505/ISSAI 2505

We were also informed that the issue on lack of authorization was rooted from ISA 505/ISSAI 2505 – *External Confirmations*. With the type and the objective of this particular audit which is a compliance audit, we believe that ISA 505/ISSAI 2505 is not applicable as authoritative standard. Take note that paragraph 11 of the *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncement (see IAASB 2022 Handbook Volume I)* clarifies the authority of ISA (or referred to as ISSAI in the public sector) which states that ISAs are written in the context of an audit of financial statements (ie., financial audit rather than compliance audit).

Nonetheless, despite that ISA 505/ISSAI 2505 is not applicable since it is supposedly used for financial audit, we still believe that the involved auditors have no contravention with the said standards arising from the lack of authorization from the audited entity over the confirmation as further described on the next page.

The ISAs/ISSAIs have different sections:

- **REQUIREMENTS Section.** These are the mandatory requirements that the auditors need to follow at the minimum (i.e., authoritative standards), unless the requirements are not applicable or relevant in the engagement. These are expressed in "shall" statements. See paragraph A63 of ISA 200/ ISSAI 2200 for reference.

Contents of the ISAs (Ref: Para. 19)

A63. In addition to objectives and requirements (requirements are expressed in the ISAs using "shall"), an ISA contains related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context relevant to a proper understanding of the ISA, and definitions. The entire text of an ISA, therefore, is relevant to an understanding of the objectives stated in an ISA and the proper application of the requirements of an ISA.

- **APPLICATION & OTHER EXPLANATORY MATERIALS Section.** These are NOT mandatory and do NOT carry the same authority as the requirements section. Auditors are NOT required to implement these paragraphs as these only serve as supplemental information that can be useful in implementing the requirements. Thus, auditors may have other better approaches in implementing the standards which could be different from these paragraphs. These are expressed in paragraph reference of "A" combined with paragraph number. See A64 of ISA 200/ ISSAI 2200 for reference.

A64. Where necessary, the application and other explanatory material provides further explanation of the requirements of an ISA and guidance for carrying them out. In particular, it may:

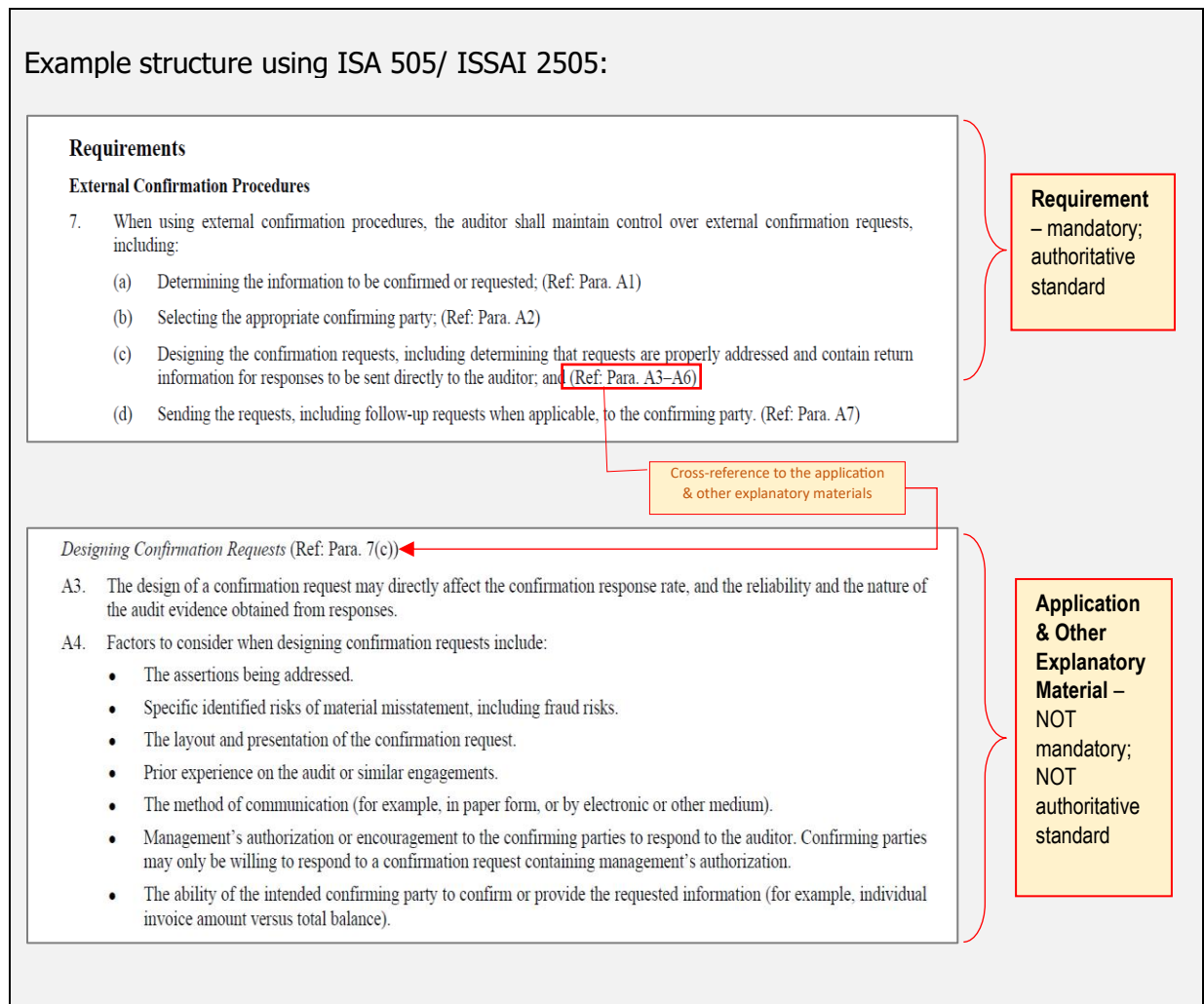
- Explain more precisely what a requirement means or is intended to cover, including in some ISAs such as ISA 315 (Revised 2019), why a procedure is required.
- Include examples of procedures that may be appropriate in the circumstances. In some ISAs, such as ISA 315 (Revised 2019), examples are presented in boxes.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an ISA. The application and other explanatory material may also provide background information on matters addressed in an ISA.

Paragraph 7 of ISA 505/ISSAI 2505 states that the auditor shall maintain control over external confirmation requests, including designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor, among others. None of this provision, nor from other "shall" statements, require the auditor to seek authorization from the audited entity.

With reference to paragraph A4 of ISA 505/ISSAI 2505 (i.e., an application and explanatory material which does not carry the same authority as the requirement), management's authorization was mentioned. However, such was only included as one of the factors that are considered when designing the confirmation but are not necessarily required for each

confirmation procedure. Again, such paragraph is not a requirement, but only an explanation to the main requirement, and that it explains such practice can help in getting good response rate.



Since ISSAI 4000 does not define the specific actions to be taken which will need to be within the mandate and particular circumstances, we understand that the involved auditors to establish reasonable basis for further audit actions, referred to ISA 240/ISSAI 2240 – *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*. Paragraph 14 states that if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.

The related application guidance in paragraph A10 states that when the auditor identifies conditions that cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, possible procedures to investigate further may include:

- Confirming directly with the third party
- Using the work of an expert to assess the document’s authenticity.

Again, there is no provision herewith requiring auditors to ask permission when sending confirmation. Due to the nature and sensitivity of the investigation on potential instance of fraud, seeking authorization from the audited entity will diminish the effectiveness of such procedure (i.e., to avoid evidence tampering), which justifies why seeking authorization is not reasonable in the circumstances.

We hope that this interpretation serves its intended purpose.

A handwritten signature in blue ink, appearing to read "Einar Gørrissen".

Einar Gørrissen
Director General
INTOSAI Development Initiative