Project for Improvement of Financial Reporting and Auditing (PIFRA)
Audit Component – Credit #2921 PAK

AUDIT COMPONENT No. 100

Financial Audit Manual

Prepared for:
The Department of the Auditor-General of Pakistan

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1. ORGANISATION AND PURPOSE OF THE MANUAL

1.1 Purpose of the Audit Manual

The purpose of this Audit Manual is to provide DAGP auditors with a set of modern auditing standards, concepts, techniques, and quality assurance arrangements that are consistent with international standards, for auditing entities in the Government of Pakistan. The Manual covers the entire audit cycle from planning to follow up.

This Audit Manual lays out what is expected of the auditors of the Department of the Auditor-General of Pakistan (DAGP). It provides the standards by which the audits are to be conducted. It provides guidance with regard to the methods and approaches to audit that can be applied by the auditors in carrying out their duties.

1.2 Types of audits dealt with

This Manual focuses on regulatory audit, as defined by INTOSAI Auditing Standards, which have been adopted by the Department of the Office of the Auditor-General of Pakistan.

Regulatory audit embraces:

- Attestation of financial accountability of accountable entities, involving examination of financial records and expression of opinions on financial statements;
- Attestation of financial accountability of the government administration as a whole;
- Audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations;
- Audit of internal controls and internal audit functions;
- Audit of the probity and propriety of administrative decisions taken within the audited entity; and,
- Reporting of any other matters arising from or relating to the audit that DAGP considers should be disclosed.

1.3 Audit entities dealt with

DAGP’s mandate includes the audit of federal, provincial and district government accounts which encompass government ministries, departments and agencies, self-accounting entities and exempt entities. The types of entities being audited include financial institutions, commercial entities, public utilities, and tax-collating entities.

1.4 Accounting Responsibility Structure of the Government of Pakistan

The following is a brief summary of the accounting structure of the Pakistan government.

Federal government. The Controller General of Accounts (CGA) has primary responsibility for the completeness and accuracy of the Federation’s financial statements. Reporting to the CGA, the Accountant General Pakistan Revenues (AGPR) is responsible for the centralised
accounting and reporting of federal transactions. Additionally the AGPR is responsible for the consolidation of summarised financial information prepared by federal self-accounting entities.

The AGPR receives accounts and reports from the sub-offices of the AGPR, district accounts officers, principal accounting officers of self accounting entities, federal treasuries and the State Bank of Pakistan/National Bank of Pakistan. The AGPR, in turn, provides annual accounts to the CGA.

There are AGPR sub-offices in each of the provinces that act as the district accounts officers in respect of federal government transactions.

Provincial governments. The CGA also has primary responsibility for the completeness and accuracy of the financial statements of the provincial governments.

Reporting to the CGA, the accountant general of each province is responsible for the centralised accounting and reporting functions within his/her respective province.

District governments. Each province is divided into districts. The district coordination officer of each district is the principal accounting officer of that district. The district coordination officer is supported by executive district officers who, in turn, supervise offices headed by drawing and disbursing officers.

Principal Accounting Officers (PAOs). Each ministry and department has a PAO. For the self accounting entities, the PAOs have been delegated authority to maintain their own accounts. They provide monthly accounting data to the AGPR and to the accountant generals.

District Accounts Officers (DAOs). The DAOs are responsible for the accounting functions of the districts. They have authority to pre-audit bills, issue payments, and record government transactions at the district level. They receive reports from the drawing and disbursing officers and bank scrolls from the State Bank of Pakistan/National Bank of Pakistan. They report district and provincial transactions to the Accountant General responsible for the province in which their districts are located. They also report federal transactions to the AGPR.

Departmental treasuries. Departmental treasuries are established to record specific accounting transactions such as income and sales taxes and customs duties.

Drawing and Disbursing Officers (DDOs). The DDOs are responsible for the accounting, cash and personnel functions of specific entities. They submit bills for pre-audit to the district accounts officers, and report to the district coordination officer of each district. They also report to the principal accounting officer of their entity.

DAGP’s mandate includes the audit of the entire process described above.

1.5 Stages of audit work dealt with

This Manual covers the entire audit cycle for both the financial attestation and compliance with controls aspects of regulatory audits, including planning, fieldwork, evaluation of findings, reporting and follow up. While many of the same procedures apply to both attestation and compliance audit activities, sometimes different approaches are required to meet specific audit objectives. Where this is the case, the different approaches are described. This Manual also deals with such quality assurance techniques as supervision and review.
1.6 Organisation of the manual

The Manual begins with several Chapters that provide background material on audits in general, DAGP’s mandate, and the auditing standards adopted by DAGP.

This is followed by a discussion of DAGP’s management structure and the annual planning process by which DAGP establishes its departmental goals and resource needs.

The auditors’ responsibilities through the complete audit cycle - the planning, fieldwork, evaluation, reporting and follow-up of individual audits – are presented using a framework adopted, in one form or another, by many SAIs and private sector audit firms around the world. This framework integrates the auditing concepts for all phases of the audit.

Throughout the manual, various quality assurance procedures are introduced. The Manual concludes with a summary of these procedures.

The Manual also contains a number of annexes that provide additional details and guidance material on specific matters, as well as a glossary of the terms used.

1.7 Links to other guidance material

This manual is supported by a standard audit working paper kit and a set of tailored audit guidelines. This Manual also makes reference to other DAGP documentation in existence at the time that this Manual was produced.

1.8 Standard audit working paper kit

The kit includes standard audit programme guides, checklists and forms, and a table of contents that follows a suggested standard working paper indexing scheme.

The kit also includes samples of the various supervision instruments used in DAGP.

1.8.1 Audit guidelines for specialised areas

This Manual and the standard audit working paper kit are applicable to the regulatory audits of all audit areas. These documents are complemented by tailored audit guidelines that show how the concepts in the manual, and the programmes, checklists, forms and supervision instruments in the working paper kit, are applied to perform financial audits in certain specific audit areas.

1.9 Need for professional judgment

Despite the detailed guidance presented in this Manual, professional judgment is always required. It is not possible to present guidance material in sufficient detail to eliminate the need for professional judgment and general knowledge of auditing theory. Nor is it possible to select one audit approach and mandate its use in all circumstances.

There are many possible approaches to obtaining the required level of audit assurance, each appropriate in certain circumstances. The auditor must be prepared to consider the circumstances of each audit and determine the best approach.

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1.10 Updating the Audit Manual

DAGP’s work, like the work of any SAI, continues to evolve. Consequently, this Manual should be periodically updated to ensure that it reflects the current policies and procedures of the office and to provide the most appropriate assistance to the auditors. Each auditor is therefore encouraged to identify areas in which the Manual requires updating or enhancement.

With appropriate updating, this Manual will continue to provide a clear statement of the authorities, responsibilities and policies of DAGP and a practical guide to auditors as they carry out their responsibilities in a professional and conscientious manner.
2. ROLE OF THE AUDITOR-GENERAL

2.1 Parliamentary Control and Public Accountability

Accountability of elected officials and the public servants that implement their policies is a cornerstone of democratic government. In Pakistan, the government is formed of elected representatives of the people, and is required by the Constitution to seek a fresh mandate every five years.

To ensure the administrative machinery of the government performs its functions in accordance with the aspirations of the people, the National Assembly (lower house of the Parliament) and the four Provincial Assemblies constitute Standing Committees on Public Accounts (PACs). The PACs are mandated to oversee the implementation of government policies and programmes.

The Government departments and agencies are held accountable for any major departure from the approved budget and for significant violations of rules and regulations. The Auditor-General of Pakistan reviews the financial statements submitted by each Government department and agency and reports findings to the President and Provincial Governors who submit them to the National and Provincial Assemblies respectively. The legislatures assign these reports to the PACs for detailed scrutiny. Each PAC holds hearings at which secretaries of the ministry, divisions and departments submit their responses to the Auditor-General’s observations. Based on this testimony, each PAC then makes its recommendations to the National Assembly. This process ensures that departments and agencies are accountable to government for implementation of policies in accordance with regulations.

2.2 Introduction to Auditing

Auditing is the process by which the Auditor-General of Pakistan (or such officer of the department as may be authorised in this regard by general or special order) evaluates the financial statements that have been submitted for audit by the ministries, departments and agencies, against the government's accounting and financial administration policies to enable them to prepare a report or state an opinion on the financial statements.

Section 3.4 of DAGP’s Auditing Standards requires that a financial audit will include a test of compliance with applicable laws and regulations.

To ensure that an audit has value, it should be conducted in accordance with generally accepted auditing standards (GAAS). These standards have developed over many generations of auditors around the world to provide the basis for ensuring complete, accurate, honest and transparent reporting of financial operations.

2.3 Legislative Basis

The authority under which the Auditor-General of Pakistan conducts audits is given by Article 169 of the Constitution of the Islamic Republic of Pakistan. In addition, Articles 168 to 171 also relate to the work of the Auditor-General.

Until 1 July 2001, most of DAGP’s audit work was performed under Articles 168 to 171 of the Constitution, and the Pakistan (Audit and Accounts) Order, 1973.
Effective 1 July 2001, the Pakistan (Audit and Accounts) Order, 1973 was replaced by the following two ordinances:

- Auditor-General’s (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 (Auditor-General Ordinance); and

Among other things, these ordinances elaborate on the functions, powers and responsibilities of the Auditor-General of Pakistan in line with the provisions of Article 169 of the Constitution.

Section 7 of the Auditor-General’s (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 (Auditor-General Ordinance) states that “The Auditor-General shall, on the basis of such audit as he may consider appropriate and necessary, certify the accounts” … “of the Federation, of each Province and of each district”. A financial attestation audit leads to the certifications called for in Section 7 of the Auditor-General Ordinance.

In addition, Section 8 of the Auditor-General Ordinance mandates an audit of expenditures of the Federation and of each province and Section 12 of the Auditor-General Ordinance mandates an audit of the receipts of the Federal Government and of each Province and each district.

### 2.4 Vision, Mission and Values

DAGP has developed a set of guiding principles for the exercise of its mandate. These principles – the Vision, Mission and Values - are as follows:

**The Vision of DAGP** is to *add value to public resources.*

**The Mission of DAGP** is to *develop our auditing and accounting capabilities to establish ourselves as a credible professional institution that promotes good governance and public accountability.*

**The Values held by DAGP are:**

**Accountability**. DAGP holds itself accountable for the achievement of its vision, mission, and these stated values.

**Professionalism**. DAGP conducts all of its activities in an open, transparent, disciplined and highly ethical manner that is worthy of professional respect and trust.

**Integrity**. DAGP takes an objective, fair, honest and balanced approach to all of its activities.

**Excellence**. DAGP strives for excellence in all of its activities.

**Reliability**. DAGP produces high quality products that are timely, accurate, useful, clear and candid.

**Cooperative and constructive spirit.** DAGP works with parliamentarians and with its audit entities, staff, suppliers, consultants and other parties with whom it deals in a professional, cooperative and constructive manner.

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Innovative spirit. DAGP constantly looks for ways to improve its audit practices, operations and other activities.

Making a difference. DAGP constantly looks for ways to improve the operations of the entities that it audits.

Risk managers. DAGP managers and staff are encouraged to accept challenges, and to take and manage the risks required for DAGP to achieve its vision, mission and stated values.

Open communications. DAGP maintains open and timely communications with parliamentarians and with its audit entities, staff, suppliers, consultants and other parties with whom it deals.

A respectful workplace. DAGP provides a workplace in which a diverse workforce can strive for excellence and professional competence, and where individuals can realise their full career potential.
3. THE JOB OF THE AUDITOR

The auditor is a professional with a special role to play in ensuring the integrity of the operations of the Government of Pakistan and safeguarding its assets. As such the auditor must fulfil certain expectations with respect to performance of duties and ethical conduct. The auditor is employed pursuant to a set of formal conditions and should expect appropriate protection in the fulfilment of his or her responsibilities. These issues are outlined below.

3.1 Expectations

Auditors work in teams. Audit teams perform their work in accordance with DAGP’s Auditing Standards, which are described in detail in Chapter 4. The audit teams should fulfil a number of general expectations in performing their duties:

- At least one auditor within the audit team should be fully conversant with the rules and regulations concerning the accounts to be audited.
- The audit team should subject the audit entity to a complete and thorough check according to the audit programme within the constraints of the time available. Any failure to complete the prescribed audit programme must be reported clearly and fully to the Audit Manager.
- Each auditor is expected to use professional judgment in carrying out all aspects of an audit programme.
- Although it is not the responsibility of the auditor to detect fraud, every auditor is expected to take appropriate action wherever a situation of fraud is suspected.

3.2 Conditions of Employment

The conditions of employment of auditors within DAGP have been formally and extensively documented in the Auditor-General’s Manual of Standing Orders. Please refer to the Manual of Standing Orders for details.

3.3 Code of Ethics

Introduction

Concept, Background and Purpose of the Code of Ethics

1. The Auditor General of Pakistan (AGP) has deemed it essential to establish a Code of Ethics for auditors in the public sector.

2. This Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors. The independence, powers and responsibilities of the public sector auditor place high ethical demands on the Department of the Auditor General of Pakistan and the staff deployed on audit work. This code of ethics for auditors in the public sector outlines the ethical precepts of civil servants in general and the particular requirement of auditors, including the latter’s professional obligations.
3. With the Lima Declaration of Guidelines on Auditing Precepts as its foundation, this Code of Ethics should be seen as a necessary complement, reinforcing the Auditing Standards issued by the Auditor General of Pakistan in June 2002 in line with INTOSAI Code of Ethics and Auditing Standards.

4. The Code Ethics is directed at the individual auditor, the Auditor-General of Pakistan, executive officers and all individuals working for or on behalf of the AGP who are involved in audit work.

   It is the responsibility of the AGP to ensure that all its auditors acquaint themselves with the values and principles contained in this Code of Ethics and act accordingly.

5. The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, The Department of AGP that they represent, and the quality and validity of their audit work, in an unfavourable light, and may raise doubts about the reliability and competence of the Department of the AGP itself. This code of ethics for auditors should promote trust and confidence in the auditors and their work.

6. It is of fundamental importance that the Department of the AGP is looked upon with trust, confidence and credibility. The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key words Integrity, Independence and Objectivity, Confidentiality and Competence.

Trust, Confidence and Credibility

7. The legislative and/or executive authority, the general public and the audited entities are entitled to expect the conduct and approach of the officers and the staff of the Department of the AGP to be above suspicion and reproach and worthy of respect and trust.

8. Auditors should conduct themselves in a manner which promotes co-operation and good relations among themselves and within the profession. The support of the profession by its members and their co-operation with one another are essential elements of professional character. The public confidence and respect that an auditor enjoys is largely the result of the cumulative accomplishments of all auditors, past and present. It is therefore in the interest of auditors, and the public, for auditors to conduct themselves in a fair and balanced way.

9. The legislative and/or executive authority, the general public and the audited entities should be fully assured of the fairness and impartiality of all the work the Department of the AGP.

10. In all parts of society there is a need for credibility. It is therefore essential that the reports and opinions of the Department of the AGP are considered to be thoroughly accurate and reliable by knowledgeable third parties.

11. All work performed by the Department of the AGP must stand the test of legislative and executive scrutiny, public judgments on propriety, and examination against this Code of Ethics.

Integrity
12. Integrity is the core value of this Code of Ethics. Auditors have a duty to adhere to high standards of behaviour (e.g. honesty and candidness) in the course of their work and in their relationships with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach.

13. Integrity, including financial, moral, and intellectual integrity, can be measured in terms of what is right and just. Integrity requires auditors to observe both the form and the spirit of auditing and ethical standards. Integrity also requires auditors to observe the principles of independence and objectivity, maintain irreproachable standards professional conduct, make decisions with the public interest in mind, and apply absolute honesty in carrying out their work and in handling the resources of the Department of the AGP.

**Independence, Objectivity and Impartiality**

14. Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence.

15. Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review.

16. It is essential that auditors are independent and impartial, not only in fact but also in appearance.

17. In all matters relating to the audit work, the independence of auditors should not be impaired by personal or external influence. Independence may be impaired, for example, by external pressure or influence on auditors; prejudices held by auditors about individuals, audited entities, projects or programmes; recent previous employment with the audited entity; or personal or financial dealings which might cause conflicts of loyalties or of interests. Auditors have an obligation to refrain from becoming involved in all matters in which they have a vested interest.

18. There is need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should, therefore, be based exclusively on evidence obtained and assembled in accordance with the auditing standards of the Department of the AGP.

19. Auditors should make use of information brought forward by the audited entity and other parties. This information is to be taken into account in the opinions expressed by the auditors in an impartial way. The auditor should also gather information about the views of the audited entity and other parties. However, the auditor’s own conclusions should not be affected by such views.

**Political neutrality**

20. It is important to maintain both the actual and perceived political neutrality of the Department of the AGP. Therefore, it is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way. This is relevant for auditors since Department of the AGP works closely with the legislative authorities, which is empowered by law to consider the reports of the AGP.

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Conflicts of interest

21. When auditors are permitted to provide advice or services other than audit to an audited entity, care should be taken that these services do not lead to a conflict of interest. In particular, auditors should ensure that such advice or services do not include management responsibilities or powers, which must remain firmly with the management of the audited entity.

22. Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities that could influence or be perceived as influencing their independence and integrity. Government servants, Conduct Rules, 1964 shall also apply in this regard.

23. Auditors should avoid all relationships with managers and staff in the audited entity and other parties that may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.

24. Auditors should not use their official position for private purposes and should avoid relationships that involve the risk of corruption or may raise doubts about their objectivity and independence.

25. Auditors should not use information received in the performance of their duties as a means of securing personal benefit for themselves or for others. Neither should they divulge information that would provide unfair or unreasonable advantage to other individuals or organisations, nor should they use such information as means for harming others.

Professional Secrecy

26. Auditors should not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purposes of meeting the statutory or other identified responsibilities of the Department of the AGP as part of its normal procedures or in accordance with relevant laws.

Competence

27. Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality.

28. Auditors must not undertake work they are not competent to perform.

29. Auditors should know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices. Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity.

Professional Development

30. Auditors should exercise due professional care in conducting and supervising the audit and in preparing related reports.
31. Auditors should use methods and practices of the highest possible quality in their audits. In the conduct of the audit and the issue of reports, auditors have a duty to adhere to basic principles and generally accepted auditing standards.

32. The Department of the AGP has a continuous obligation to update and improve the skills of officers and staff in the discharge of their professional responsibilities.

Glossary

The terms used in this Code of Ethics have the same interpretation or definition as those used in the Auditing Standards.

3.4 Protection of the Auditor

Auditors must have the freedom to carry out audits in a conscientious and thorough manner. There is an onus on the auditor to carry out the audits in a fair, objective and courteous manner (and comply with the Code of Ethics presented in the Section above). In turn, the auditor expects to receive cooperation and courtesy from those being audited.

Any serious attempts to hinder or impede the conduct of the audit should be brought to the attention of the Audit Manager. Any concern of possible intimidation or threat to the auditor must be taken seriously both by the auditor and the management of DAGP. A formal process should be followed wherever the auditor, or the conduct of the audit, is threatened, or a risk of impediment is perceived. This process involves the following steps:

- Whenever the auditor senses any problems in the conduct of the audit, he/she should ensure that all meetings are held with at least two auditors present and that notes of these meetings are clearly documented;
- The auditor should inform his/her supervisor or Audit Manager in writing of any serious incidents or concerns with specific details of what transpired;
- A course of action is proposed by the Audit Manager, if necessary, in consultation with senior management within DAGP;
- Depending on the seriousness of the situation, and the nature of the problem, one or more of the following courses of action should be implemented:
  * The Audit Manager raises the issue with the Principal Accounting Officer, or equivalent;
  * A letter, signed by the Auditor-General or Deputy Auditor-General, is submitted to the Principal Accounting Officer, or equivalent, and/or sent to the Controller General;
  * The composition of the audit team is changed;
  * If necessary, after consultation with the Auditor-General, seek a legal opinion or other course of action; and
- Whenever an individual auditor is not satisfied with the action taken, they have the right to report their concern to the Assistant Auditor-General, Personnel, a Deputy Auditor-General or the Auditor-General.

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4. **DAGP AUDIT STANDARDS**

4.1 **Basic Principles in Government Auditing**

4.1.1 The general framework of the auditing standards of the Auditor General of Pakistan is based on the principles of the latest INTOSAI Auditing Standards.

4.1.2 The INTOSAI auditing standards consist of four parts.

a) Basic principles

b) General standards

c) Field standards

d) Reporting standards

These standards have been developed to provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit, including audits of computer-based systems. They should be viewed in the context of the particular constitutional and legal provisions applicable to the Department of the Auditor General of Pakistan.

4.1.3 The basic principles for auditing standards are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the auditors in forming their opinions and reports, particularly in cases where no specific standards apply.

4.1.4 Auditing standards should be consistent with the principles of auditing: They also provide guidance for the auditor that helps determine the extent of auditing steps and procedures that should be applied in the audit. Auditing Standards constitute the criteria or yardsticks against which the quality of the audit results are evaluated.

4.1.5 Interpretations, explanation and amendments of these standards are the prerogative and responsibility of the AGP.

4.1.6 The basic principles are:

a) The Department of the AGP will ensure compliance with the auditing standards in all matters that are deemed material. These standards will be applied to ensure that the work is of consistently high quality.

b) The Department of the AGP shall apply its own judgment to the diverse situations that arise in the course of government auditing (see paragraph 4.1.14)

c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively (see paragraph 4.1.19)

d) Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information (see paragraph 4.1.21)
e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the need of the government, and audited entities should develop specific and measurable objectives and performance targets (see paragraph 4.1.23)

f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations (see paragraph 4.1.26)

g) The existence of an adequate system of internal control minimises the risk of errors and irregularities (see paragraph 4.1.28)

h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (see paragraph 4.1.30)

i) All audit activities should be within the audit mandate of the Auditor General of Pakistan (see paragraph 4.1.32)

j) The Department of the AGP shall work towards improving techniques for auditing the validity of performance measures (see paragraph 4.1.41)

4.1.7 The following paragraphs discuss the importance of the basic principles for auditing.

4.1.8 The basic auditing principles stipulate that:

The Department of the AGP shall ensure compliance with the auditing standards in all matters that are defined as material. These standards will be applied to ensure that the work is of consistently high quality.

4.1.9 In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report.

4.1.10 Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material—for example, where the law or regulation requires it to be disclosed separately regardless of the amount involved.

4.1.11 In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to:

a) The overall view given to the financial information;

b) The total of which it forms a part;

c) Associated terms and issues;

d) The corresponding amount in previous years.

4.1.12 Sometimes the Department of the AGP carries out activities that by strict definition do not qualify as audits, but which contribute to better government, e.g., (a) gathering
data without conducting substantial analysis, (b) legal work, (c) an assistance mission for members of the elected Assemblies as regards investigations and consultations of files of the Department of the AGP. These non-audit activities provide valuable information to decision-makers and should be of consistently high quality.

4.1.13 To ensure that high quality work is done, appropriate standards must be followed. The objectives of the particular type of work or the particular assignment should dictate the specific standards that are followed. The Department of the AGP shall establish a policy for implementing these standards to ensure that the work and products are of high quality.

4.1.14 The basic auditing principles stipulate that:

The Department of the AGP shall apply its own judgment to the diverse situations that arise in the course of government auditing (see paragraph 4.1.6b)

4.1.15 Audit evidence plays an important part in the auditor’s decision concerning the selection of issues and areas for the audit and the nature, timing and extent of audit tests and procedures.

4.1.16 The terms of the audit mandate with which the Department of the AGP is endowed override any accounting or auditing conventions with which they conflict, and hence have a crucial bearing on the auditing standards that the Department applies.

4.1.17 The Department of the AGP must judge the extent to which external auditing standards are compatible with the fulfilment of its mandate.

4.1.18 For some elements of the mandate of the AGP, particularly in regard to the audit of financial statements, the audit objectives may be akin to the objectives of audits in the private sector. Correspondingly, private sector standards for the financial statements auditing which are promulgated by official regulatory bodies might be applicable to the government auditor.

4.1.19 The basic auditing principles stipulate that:

With increased public consciousness, the demand for the public accountability of persons or entities managing resources has become increasingly evident so that there is a greater need for the accountability process to be in place and operating effectively (see paragraph 4.1.6c)

4.1.20 Public enterprises are also required to fulfil public accountability obligations. Public enterprises may include commercial undertakings, e.g. entities established by statute or executive order or in which the Government has a controlling interest. Irrespective of the manner in which they are constituted, their functions, degree of autonomy or funding arrangements, such entities are ultimately accountable to the respective legislature.

4.1.21 The basic auditing principles stipulate that:

Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for
correctness and sufficiency of the form and content of the financial reports and other information (see paragraph 4.1.6d)

4.1.22 The correctness and sufficiency of the financial reports and statements are the entity’s expression of the financial position and the results of operations. It is also the entity’s obligation to design a practical system which will provide relevant and reliable information.

4.1.23 The basic auditing principles stipulate that:

Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets (see paragraph 4.1.6e)

4.1.24 The Department of the AGP shall work with the accounting standards setting organisations to help ensure that proper accounting standards are issued for the government.

4.1.25 The Department of the AGP shall also recommend to the audited entities that measurable and clearly stated objectives be established and that performance targets be set for these objectives.

4.1.26 The basic auditing principles stipulate that:

Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations (see paragraph 4.1.6f)

4.1.27 The assumption that consistency in application of accounting standards is a prerequisite of fairness means that an audited entity must comply with accounting standards appropriate in the circumstances, as well as the requirements of applying such accounting standards in a consistent manner. An auditor should not consider compliance with accounting standards in a consistent manner as a definitive proof of presenting fairly the various financial reports. Fairness is an expression of an auditor’s opinion that goes beyond the limits of consistent application of accounting standards. Such an assumption emphasises that the auditing standards are no more than the minimum requirements for an auditor’s obligation. Going beyond that minimum is for the auditor’s judgment.

4.1.28 The basic auditing principles stipulate that:

The existence of an adequate system of internal control minimises the risk of errors or irregularities (see paragraph 4.1.6g)

4.1.29 It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is not the auditor’s responsibility. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision making. However, this does not relieve the auditor from submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing.
4.1.30 The Basic auditing principles stipulate that:

**Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (see paragraph 4.1.6h)**

4.1.31 The Department of the AGP must have access to the sources of information and data as well as access to officials and employees of the audited entity in order to carry out properly its audit responsibilities. Enactment of legislative requirements for access by the auditor to such information and personnel will help minimise future problems in this area.

4.1.32 The basic auditing principles stipulate that:

**All audit activities should be within the audit mandate of the AGP (see paragraph 4.1.6i)**

4.1.33 The essential function of the department of the AGP is to uphold and promote public accountability. This jurisdictional function requires the Department to make sure that whoever is charged with dealing with public funds is accountable to it and is in this regard subject to its jurisdiction.

4.1.34 There exists an important complementarity between this jurisdictional authority and the other characteristics of audit. This characteristic should be viewed as a part of the logic of the general objective pursued by external audit and more particularly those which relate to accounting management.

4.1.35 The full scope of government auditing includes regularity and performance audit.

4.1.36 Regularity audit embraces:

a) Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions of financial statements;

b) Attestation of financial accountability of the government administration as a whole;

c) Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;

d) Audit of internal control and audit functions;

e) Audit of the probity of administrative decisions taken within the audited entity; and

f) Reporting of any other matters arising from or relating to the audit that the Department of the AGP considers should be disclosed.

4.1.37 Performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces:

a) Audit of the economy of administrative activities in accordance with sound administrative principle and practices, and management policies;
b) Audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remediying identified deficiencies; and

c) Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

4.1.38 In practice there can be an overlap between regularity and performance auditing, and in such cases classification of a particular audit will depend on the primary purpose of that audit.

4.1.39 The mandate of the Department of the AGP shall clearly delineate its powers and responsibilities in relation to performance auditing in all areas of government activity, among other things to facilitate the application of appropriate auditing standards.

4.1.40 Public accountability will be more effectively promoted where the mandate enables the Department of the AGP to conduct, or direct the conduct of, regularity and performance auditing of all public enterprises.

4.1.41 The general auditing principles stipulate that

The Department of the AGP shall work towards improving techniques for auditing the validity of performance measures (see paragraph 4.1.6j)

4.1.42 The expanding audit role of the auditors will require them to improve and develop new techniques and methodologies to assess whether reasonable and valid performance measures are used by the audited entity. The auditors should avail themselves of techniques and methodologies of other disciplines.

4.1.43 The scope of the audit mandate will determine the scope of the standards to be applied by the Department of the AGP.

4.2 General standards in Government Auditing

4.2.1 This section deals with general standards in government auditing. The general auditing standards describe the qualifications of the auditor and/or the auditing institution so that they may carry out the tasks related to field and reporting standards in a competent and effective manner.

4.2.2 The general auditing standards are that the Department of the AGP shall adopt policies and procedures to:

a) Recruit personnel with suitable qualifications (see paragraph 4.2.3)

b) Develop and train employees of the Department of the AGP to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff (see paragraph 4.2.5)

c) Prepare manual and other written guidance and instructions concerning the conduct of audit (see paragraph 4.2.13).
d) Support the skills and experience available within the Department of the AGP and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 4.2.15)

e) Review the efficiency and effectiveness of the Department internal standards and procedures (see paragraph 4.2.25)

4.2.3 The general standards for Department of the AGP include:

The Department shall frame policies and develop procedures to recruit personnel with suitable qualifications (see paragraph 4.2.2a)

The following paragraph explains recruitment as an auditing standard.

4.2.4 Personnel of the Department of the AGP shall possess suitable academic qualifications and be equipped with appropriate training and experience. The Department shall establish, and regularly review, minimum educational requirements for the appointment of auditors.

4.2.5 The general standards include:

The Department shall frame policies and procedures to develop and train its employees to enable them to perform their tasks effectively and to define the basis for the advancement of auditors and other staff (see paragraph 4.2.2b)

The following paragraphs explain training and development as an auditing standard.

4.2.6 The Department shall take adequate steps to provide for continuing professional development of its personnel, including, as appropriate, provision of in-house training and encouragement of attendance at external courses.

4.2.7 The Department shall maintain an inventory of skills of personnel to assist in the planning of audits as well as to identify professional development needs.

4.2.8 The Department shall establish and regularly review criteria, including educational requirements, for the advancement of auditors and other staff of the SAI.

4.2.9 The Department shall also establish and maintain policies and procedures for the professional development of audit staff regarding the audit techniques and methodologies applicable to the range of audits it undertakes.

4.2.10 Personnel of the Department of the AGP shall have a good understanding of the government environment, including such aspects as the role of the legislature, the legal and institutional arrangements governing the operations of the executive and the charters of the public enterprises. Likewise, trained audit staff must possess an adequate knowledge of the Department’s auditing standards, policies, procedures and practices.
4.2.11 Audit of financial systems, accounting records and financial statements requires training in accounting and related disciplines as well as a knowledge of applicable legislation and executive orders affecting the accountability of the audited entity. Further, the conduct of performance audits may require, in addition to the above, training in such areas as administration, management, economics and the social sciences.

4.2.12 The Department shall encourage its personnel to become members of a professional body relevant to their work and to participate in that body’s activities.

4.2.13 The general standards include:

The Department shall adopt policies and develop procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits (see paragraph 4.2.2c)

The following paragraph explains written guidance as an auditing standard.

4.2.14 Communication to staff of the Department of the AGP by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out its policies, standards and practices, is important in maintaining the quality of audits.

4.2.15 The general standards include:

The Department shall frame policies and develop procedures to support the skills and experience available within the Department and identify those skills which are absent; provide a good distribution of skills to auditing tasks and a sufficient number of persons for the audit and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 4.2.2d)

The following paragraphs explain the use of skills as an auditing standard.

4.2.16 Resources required to undertake each audit need to be assessed so that suitably skilled staff may be assigned to the work and a control placed on staff resources to be applied to the audit.

4.2.17 The extent to which academic attainment should be related specifically to the audit task varies with the type of auditing undertaken. It is not necessary that each auditor possess competence in all aspects of the audit mandate. However, policies and procedures governing the assignment of personnel to audit tasks should aim at deploying personnel who have the auditing skills required by the nature of the audit task so that the team involved on a particular audit collectively possesses the necessary skills and expertise.

4.2.18 It shall be open to the Department of the AGP to acquire specialised skills from external sources if the successful conduct of an audit so requires in order that the audit findings, conclusions and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is for the Department of the AGP to judge, in its particular circumstances, to what extent its requirements are best met by in-house expertise as against employment of outside experts.
4.2.19 Policies and procedures governing supervision of audits are important factors in the performance of the SAI’s role at an appropriate level of competence. The Department of the AGP shall ensure that audits are planned and supervised by auditors who are competent, knowledgeable in the standards and methodologies, and equipped with an understanding of the specialities and peculiarities of the environment.

4.2.20 For the audit of financial statements which cover the executive branch of government as a whole, the audit teams deployed shall be equipped to undertake a co-ordinated evaluation of departmental accounting systems, as well as of central agency co-ordination arrangement and control mechanisms. Teams will require a knowledge of the relevant government accounting and control systems, and an adequate expertise in the auditing techniques applied by the Department to this type of audit.

4.2.21 Unless the Department is equipped to undertake, within a reasonable time-scale, all relevant audits, including performance audits covering the whole of every audited entity’s operations, criteria shall be needed for determining the range of audit activities which, within the audit period or cycle, will give the maximum practicable assurance regarding performance of public accountability obligations by each audited entity.

4.2.22 In determining the allocation of its resources among different audit activities, the Department shall give priority to any audit tasks which must, by law, be completed within a specified time frame. Careful attention shall be given to strategic planning so as to identify an appropriate order of priority for discretionary audits to be undertaken.

4.2.23 Assignment of priorities compatible with maintaining the quality of performance across the mandate involve the exercise of judgment by the Department of the AGP in the light of available information. Maintenance of a portfolio of data pertaining to the structure, functions and operations of audited entities will assist the department in identifying areas of materiality and vulnerability and areas holding potential for improvements in administration.

4.2.24 Before each audit is undertaken proper authorisation for its commencement shall be given by designated personnel within the Department of the AGP. This authorisation shall include a clear statement of the objectives of the audit, its scope and focus, resources to be applied to the audit in terms of skills and quantum, arrangements for reviews of progress at appropriate points, and the dates by which fieldwork is to be completed and a report on the audit is to be provided.

4.2.25 The general standards include:

The Department of the AGP shall frame polices and develop procedures to review the efficiency and effectiveness of its internal standards and procedures (see paragraph 4.2.2e)

The following paragraphs explain quality assurance reviews as an auditing standard.

4.2.26 Because of the importance of ensuring a high standard of work by the Department of the AGP it shall pay particular attention to quality assurance programmes in order to improve audit performance and results. The benefits to be derived from such programmes make it essential for appropriate resources to be available for this purpose. It is important that the use of these resources be matched against the benefits to be obtained.
4.2.27 The Department of the AGP shall establish systems and procedures to:

a) Confirm that integral quality assurance processes have operated satisfactorily.

b) Ensure the quality of the audit report; and

c) Secure improvements and avoid repetition of weaknesses.

4.2.28 As a further means of ensuring quality of performance, additional to the review of audit activity by personnel having line responsibility for the audits concerned, the Department shall establish its own quality assurance arrangements. That is, planning, conduct and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified personnel of the Department not involved in those audits, in consultation with the relevant audit line management regarding the outcome of the internal quality assurance arrangements and periodic reporting to the top management of the Department.

4.2.29 It is appropriate for the Department of the AGP to institute their own internal audit function with a wide charter to assist it to achieve effective management of its own operations and sustain the quality of its performance.

4.2.30 The quality of the work of the Department shall be enhanced by strengthening internal review and by independent appraisal of its work.

4.2.31 The Department shall ensure that applicable standards are followed on all audits and that deviations from the standards which are determined to be appropriate are documented.

4.3 Standards with Ethical Significance

4.3.1 The general auditing standards include

a) The auditor and the Department of the AGP must be independent (see paragraph 4.3.2)

b) The Department of the AGP shall avoid conflict of interest between the auditor and the entity under audit (see paragraph 4.3.28)

c) The auditor and the Department of the AGP must possess the required competence (see paragraph 4.3.30)

d) The auditor and the department of the AGP must exercise due care and concern in complying with these auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 4.3.36)

4.3.1 Independence

4.3.2 The general standards for the auditor and the Department of the AGP include:

The auditor and the Department must be independent (see paragraph 4.3.1a)
4.3.3 Whatever the form of government, the need for independence and objectivity in audits is vital. An adequate degree of independence from both the legislature and the executive branch of government is essential to the conduct of audit and to the credibility of its results.

4.3.4 The legislature is one of the main users of the services of the Department of the Auditor General of Pakistan. It is from the Constitution and the legislation that the SAI derives its mandate, and a frequent feature of the Department’s function is its reporting to the legislature. The SAI can be expected to work closely with the legislature, including with any committees empowered by the legislature to consider its reports. Such liaison can contribute to effective follow-up of the Department’s work.

4.3.5 The important results of audits of the carrying-out of the budget and of administration and disputes and disagreements with audited administrations shall be brought to the attention of the legislative body by way of report or special communication.

4.3.6 Special committees created within the legislative body may be charged with examining, in the presence of delegates from the audited services and other representatives, the comments in the reports and special communications of the Department of the AGP.

4.3.7 The Department of the AGP may give members of the legislature factual briefings on audit reports, but it is important that it maintains its independence from political influence, in order to preserve an impartial approach to its audit responsibilities. This implies that the Department of the AGP shall not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests.

4.3.8 While the Department of the AGP observes the laws enacted by the legislature, adequate independence requires that it not otherwise be subject to direction by the legislature in the programming, planning and conduct of its work in accordance with its mandate and adopt methodologies appropriate to audits. The Department of the AGP needs freedom to set priorities and programme the audits to be undertaken.

4.3.9 In cases where the legislature requests the AGP to undertake any audit, the Department of the AGP shall be free to determine the manner in which it conducts its work, including those tasks requested by the legislature.

4.3.10 It is appropriate for the legislation to specify minimum reporting requirements, including the matters to be subject to an audit opinion and a reasonable time within which reports should be made. Apart from that, flexible arrangements for the Department’s reporting to the legislature, without restriction on content or timing of reports, would support the maintenance of independence.

4.3.11 It is necessary that the Department of the AGP is provided with sufficient resources, for the effective exercise of its mandate.

4.3.12 The executive branch of the government and the SAI do have common interests in the promotion of public accountability. But the essential relationship with the executive is that of external auditor. As such the reports of the AGP are expected to assist the executive by drawing attention to deficiencies in administration and recommending improvements. Care should be taken to avoid participation in the executive’s functions of the kind that would militate against the independence and objectivity of the Department of the AGP in the discharge of its mandate.
4.3.13 It is important for the independence of the Department of the AGP that there be no power of direction by the executive in relation to the Department’s performance of its mandate. The Department shall not be obliged to carry out, modify or refrain from carrying out, an audit or suppress or modify audit findings, conclusions and recommendations.

4.3.14 A degree of co-operation between the Department of the AGP and the executive is desirable in some areas. The SAI shall be ready to advise the executive in such matters as accounting standards and policies and the form of financial statements. The Department must ensure that in giving such advice it avoids any explicit or implied commitment that would impair the independent exercise of its audit mandate.

4.3.15 Maintenance of the independence of the Department of the AGP does not preclude requests by the executive proposing matters for audits. But to enjoy adequate independence, the Department shall have the discretion to decline any such request. It is fundamental to the concept of SAI independence that decisions as to the audit tasks comprising the programme shall rest finally with the Department of the AGP.

4.3.16 A sensitive area in relationships between the Department of the AGP and the executive concerns provision of resources to the Department. In varying degrees, reflecting constitutional and institutional differences, arrangements for the SAI’s resource provision may be related to the executive branch of government’s financial situation and general expenditure policies. As against that, effective promotion of public accountability requires that the Department of the AGP be provided with sufficient resources to enable it to discharge its responsibilities in a reasonable manner.

4.3.17 Any imposition of resource or other restriction by the executive which would constrain the exercise of its mandate by the Department of the AGP would be an appropriate matter for report by the Department to the legislature.

4.3.18 The legal mandate should provide for full and free access by the Department of the AGP to all premises and records relevant to audited entities and their operations and should provide adequate powers for the Department to obtain relevant information from persons or entities possessing it.

4.3.19 Unless specifically prevented by law, the executive shall permit access by the Department of the AGP to sensitive information which is necessary and relevant to the discharge of the responsibilities of the Department.

4.3.20 The Department of the AGP shall ensure that its mandate and its independent status is well understood in the community. The Department shall, as appropriate opportunities arise, undertake an educational role in that regard.

4.3.21 Functional independence of the Department of the AGP need not preclude arrangements with executive entities in regard to its administration in matters such as personnel management, property management or common purchasing of equipment and stores, though executive entities shall not be in a position to take decisions that would jeopardise the independence of the Department in discharging its mandate.

4.3.22 The Department of the AGP must remain independent from audited entities. It shall, however, seek to create among audited entities an understanding of its role and function, with a view to maintaining amicable relationships with them. Good relationships can help the department to obtain information freely and frankly and to
conduct discussions in an atmosphere of mutual respect and understanding. In this spirit, the Department while retaining its independence, can agree to be associated with reforms which are planned by the Administration in areas such as public accounts or financial legislation or agree to be consulted about the preparation of draft laws or rules affecting its competence or its authority. In these cases it is not, however, a matter of the Department interfering in administrative management but a matter of co-operating with certain administrative services by giving them technical assistance or by putting financial management experience of the Department at their disposition.

4.3.23 In contrast to private sector audit, where the auditor’s agreed task is specified in an engagement letter, the audited entity is not in a client relationship with the Department of the AGP. The Department has to discharge its mandate freely and impartially, taking management views into consideration in forming audit opinions, conclusions and recommendations, but owing no responsibility to the management of the audited entity for the scope or nature of the audits undertaken.

4.3.24 The Department of the AGP shall not participate in the management or operations of an audited entity. Audit personnel should not become members of management committees and, if audit advice is to be given, it shall be conveyed as audit advice or recommendation and acknowledged clearly as such.

4.3.25 Any personnel of the Department of the AGP having close affiliations with the management of an audited entity, such as social, kinship or other relationship conducive to a lessening of objectivity, shall not be assigned to audit that entity.

4.3.26 Personnel of the Department of the AGP should not become involved in instructing personnel of an audited entity as to their duties. In those instances where the Department decides to establish a resident office at the audited entity with the purpose of facilitating the ongoing review of its operations, programmes and activities, personnel of the Department of the AGP shall not engage in any decision making or approval process which is considered the auditee’s management responsibilities.

4.3.27 The Department of the AGP may co-operate with academic institutions and enter formal relationships with professional bodies, provided the relationships do not inhibit its independence and objectivity, in order to avail itself of the advice of experienced members of the profession at large.

4.3.2 Conflict of interest

4.3.28 The Department of the AGP shall avoid conflict of interest between the auditor and the entity under audit (see paragraph 4.3.1b)

4.3.29 The Department of the AGP performs its role by carrying out audits of the accountable entities and reporting the results. To fulfil this role, the Department needs to maintain its independence and objectivity. The application of appropriate general auditing standards assists the Department to satisfy these requirements.
4.3.3 Competence

4.3.30 The general standards for the auditor and the Department of the AGP include:

**The auditor and the Department must possess the required competence (see paragraph 4.3.1c)**

The following paragraphs explain competence as an auditing standard.

4.3.31 The mandate of the Department of the AGP generally imposes a duty of forming and reporting audit opinions, conclusions and recommendations. This duty shall remain that of the heads of the Audit offices.

4.3.32 Discussions within the SAI promote the objectivity and authority of opinions and decisions. Decision and opinions as such relating to conclusions, findings and recommendations in the Audit reports are taken in the name of the AGP.

4.3.33 Since the duties and responsibilities thus borne by the Department of the AGP are crucial to the concept of public accountability, the Department must apply to its audits, methodologies and practices of the highest quality. It is incumbent upon it to formulate procedures to secure effective exercise of its responsibilities for audit reports, unimpaired by less than full adherence by personnel or external experts to its standards, planning procedures methodologies and supervision.

4.3.34 The Department of the AGP needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Whatever the nature of the audits to be undertaken under that mandate, the audit work shall be carried out by persons whose education and experience is commensurate with the nature, scope and complexities of the audit task. The department shall equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling and audit of automated information systems.

4.3.35 In view of the wide and discretionary nature of mandate of the Department of the AGP, the task of the ensuring quality of performance across the whole mandate becomes more complex. The Department shall, therefore, ensure, within itself, a high standard of management.

4.3.4 Due care

4.3.36 The general standards for the auditor and the Department of the AGP include

**The auditor and the Department must exercise due care and concern in complying with the auditing standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 4.3.1d)**

The following paragraphs explain due care as an auditing standard.

4.3.37 The Department of the AGP must be, and be seen to be, objective in its audit of entities and public enterprises. It should be fair in its evaluations and in its reporting of the outcome of audits.
4.3.38 Performance and exercise of technical skill should be of a quality appropriate to the complexities of a particular audit. Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorised operations, waste, inefficiency or lack of probity.

4.3.39 Where an authorised or recognised entity sets standards or guidelines for accounting and reporting by public enterprises, the Department of the AGP may use such guidelines in the course of its examination.

4.3.40 If the department of the AGP employs external experts as consultants it must exercise due care to assure itself of the consultants’ competence and aptitude for the particular tasks involved. This standard applies also where outside auditors are engaged on contract with the Department. In addition care must be taken to ensure that audit contracts include adequate provision for the SAI to determine the planning, the audit scope, the performing, and the reporting on the audit.

4.3.41 Should the Department of the AGP, in the performance of its functions, need to seek advice from specialists external to the Department, the standards for exercise of due care in such arrangements have a bearing also on the maintenance of quality of performance. Obtaining advice from an external expert does not relieve the Department of responsibility for the opinions formed or conclusions reached on the audit task.

4.3.42 When the Department of the AGP uses the work of another auditor(s), it must apply adequate procedures to provide assurance that the other auditor(s) has exercised due care and complied with relevant auditing standards, and may review the work of the other auditor(s) to satisfy itself as to the quality of that work.

4.3.43 Information about an audited entity acquired in course of the auditor’s work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor’s responsibilities. It is essential that the Department of the AGP maintain confidentiality regarding audit matters and information arising from its audit task. However, the Department must be entitled to report offences against the law to proper prosecuting authorities.

4.4 Field Standards in Government Auditing

4.4.1 The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. These steps and actions represent the rules of research that the auditor, as a seeker of audit evidence, implements to achieve a specific result.

4.4.2 The field standards establish the framework for conducting and managing audit work. They are related to the general auditing standards, which set out the basic requirements for undertaking the tasks covered by the field standards. They are also related to the reporting standards, which cover the communication aspect of auditing, as the result of carrying out the field standards constitute the main source for the contents of the opinion or report.
4.4.3 The field standards applicable to all types of audit are:

a) The auditor shall plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

b) The work of the audit staff at each level and audit phase shall be properly supervised during the audit; and documented work shall be reviewed by a senior member of the audit staff.

c) The auditor, in determining the extent and scope of the audit, shall study and evaluate the reliability of internal control.

d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

Any indications that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions.

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the Department of the AGP is to make sure, by all the means put at its disposal, that the Government budget and accounts are complete and valid. This will provide legislature and other users of the audit report with assurance about the size and development of the financial obligations of the Government. To achieve this objective the Department will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of an unqualified certificate.

e) Competent, reliable, relevant and reasonable evidence should be obtained to support the auditor’s judgment and conclusion regarding the organisation, programme, activity or function under audit.

f) In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.
4.4.1 Planning

4.4.4 The field standards include:

The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

The following paragraphs explain planning as an auditing standard.

4.4.5 The Department of the AGP shall give priority to any audit tasks which must be undertaken by law and assess priorities for discretionary areas within mandate of the AGP.

4.4.6 In planning an audit, the auditor should:

a) Identify important aspects of the environment in which the audited entity operates;

b) Develop an understanding of the accountability relationships;

c) Consider the form, content and users of audit opinions, conclusions or reports;

d) Specify the audit objectives and the tests necessary to meet them;

e) Identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weakness;

f) Determine the materiality of matters to be considered;

g) Review the internal audit of the audited entity and its work programme;

h) Assess the extent of the reliance that might be placed on other auditors, for example, internal audit;

i) Determine the most efficient and effective audit approach;

j) Provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and

k) Provide for appropriate documentation of the audit plan and for the proposed fieldwork.

4.4.7 The following planning steps are normally included in an audit;

a) Collect information about the audited entity and its organisation in order to assess risk and to determine materiality;

b) Define the objective and scope of the audit;

c) Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;

d) Highlight special problems foreseen when planning the audit;
e) Prepare a budget and a schedule for the audit;

f) Identify staff requirements and a team for the audit; and

g) Familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

The SAI may revise the plan during the audit when necessary.

4.4.2 Supervision and Review

4.4.8 The field standards include:

The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff

The following paragraphs explain supervision and review as an auditing standard.

4.4.9 Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of the individual auditors.

4.4.10 Supervision should be directed both to the substance and to the method of auditing. It involves ensuring that:

a) The members of the audit team have a clear and consistent understanding of the audit plan;

b) The audit is carried out in accordance with the auditing standards and practices of the Department of the AGP.

c) The audit plan and action steps specified in that plan are followed unless a variation is authorised;

d) Working papers contain evidence adequately supporting all conclusions, recommendations and opinions;

e) The auditor achieves the stated audit objectives; and

f) The audit report includes the audit conclusions, recommendations and opinions, as appropriate.

4.4.11 All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgment to the audit task and should ensure that:

a) All evaluations and conclusions are soundly based and are supported by competent, reliable, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;

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b) all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of the more senior officer(s) of the department; and

c) changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities

4.4.3 Study and Evaluation of Internal Control

4.4.12 The field standards include

The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of the internal control

The following paragraphs explain internal control as an auditing standard.

4.4.13 The study and evaluation of internal control should be carried out according to the type of audit undertaken. In the case of a regularity (financial) audit, study and evaluation are made mainly on controls that assist in safeguarding assets and resources, and assure the accuracy and completeness of accounting records. In the case of regularity (compliance) audit, study and evaluation are made mainly on controls that assist management in complying with laws and regulations. In the case of performance audit, they are made on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner, ensuring adherence to management policies, and producing timely and reliable financial and management information.

4.4.14 The extent of the study and evaluation of internal control depends on the objectives of the audit and on the degree of reliance intended.

4.4.15 Where accounting or other information systems are computerised, the auditor should determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data, and the information system.

4.4.4 Compliance With Applicable Laws and Regulations

4.4.16 The field standards include:

In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor should also be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on audit results.
The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the Department of the AGP is to make sure, by all the means put at its disposal, that the Government budget and accounts are complete and valid. This will provide legislatures and other users of the audit report with assurance about the size and development of the financial obligations of the Government. To achieve this objective the Department will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of an unqualified certificate.

The following paragraphs explain compliance as an auditing standard.

4.4.17 Reviewing compliance with laws and regulations is especially important when auditing government programmes because decision makers need to know if the laws and regulations are being followed, whether they are having the desired results, and, if not, what revisions are necessary. Additionally government organisation, programmes, services, activities, and functions are created by laws and are subject to more specific rules and regulations.

4.4.18 Those planning the audit need to be knowledgeable of the compliance requirements that apply to the entity being audited. Because the laws and regulations that may apply to a specific audit are often numerous, the auditors need to exercise professional judgment in determining those laws and regulations that might have a significant impact on the audit objectives.

4.4.19 The auditor should also be alert to situations or transactions that could be indicative of illegal acts that may indirectly impact the results of the audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor shall determine the extent to which these acts affect the audit results.

4.4.20 In conducting audits in accordance with this standard, the auditors should choose and perform audit steps and procedures that, in their professional judgment, are appropriate in the circumstances. These audit steps and procedures should be designed to obtain sufficient, competent, reliable, and relevant evidence that will provide a reasonable basis for their judgments and conclusions.

4.4.21 Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, auditors should evaluate the entity’s internal controls and assess the risk that the control structure might not prevent or detect non-compliance.

4.4.22 Without affecting the independence of the Department of the AGP, the auditors should exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include consulting appropriate legal counsel and the applicable law enforcement organisation/agencies to determine the audit steps and procedures to be followed.
4.4.5 Audit Evidence

4.4.23 The field standards include:

**Competent, reliable, relevant and reasonable evidence should be obtained to support the auditor’s judgment and conclusions regarding the organisation, programme, activity or function under audit**

The following paragraphs explain the audit evidence as an auditing standard.

4.4.24 The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer-based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant.

4.4.25 Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence. The Department of the AGP shall ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.

4.4.26 In choosing approaches and procedures, consideration should be given to the quality of evidence, i.e., the evidence should be competent, reliable, relevant and reasonable.

4.4.27 Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.

4.4.28 Adequate documentation is important for several reasons. It will:

a) Confirm and support the auditor’s opinions and reports;

b) Increase the efficiency and effectiveness of the audit;

c) Serve as a source of information for preparing reports or answering any enquiries from the audited entity, legislature and its committees or from any other party;

d) Serve as evidence of the auditor’s compliance with Auditing Standards;

e) Facilitate planning and supervision;

f) Help the auditor’s professional development;

g) Help to ensure that delegated work has been satisfactorily performed; and

h) Provide evidence of work done for future reference.

4.4.29 The auditor should bear in mind that the content and arrangement of the working papers reflect the degree of the auditor’s proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.
4.4.6 Analysis of Financial Statements

4.4.30 The field standards include:

In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements shall be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

The following paragraphs explain analysis of financial statements as an auditing standard.

4.4.31 Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual trends. The auditor should therefore thoroughly analyse the financial statements and ascertain whether:

a) Financial statements are prepared in accordance with acceptable accounting standards;

b) Financial statements are presented with due consideration to the circumstances of the audited entity;

c) Sufficient disclosures are presented about various elements of financial statements; and

d) The various elements of financial statements are properly evaluated, measured and presented.

4.4.32 The methods and techniques of financial analysis depend to a large degree on the nature, scope and objective of the audit, and on the knowledge and judgment of the auditor.

4.4.33 If required to report on the execution of budgetary laws, audit by the Department of the AGP shall include:

a) For revenue accounts, ascertaining whether forecasts are those of the initial budget, and whether the audits of taxes and duties recorded, and imputed receipts, can be carried out by comparison with the annual financial statements of the audited activity;

b) For expenditure accounts, verifying credits to assist budgets, adjustment laws and, for carryovers, the previous year’s financial statements.

4.5 Reporting Standards in Government Auditing

4.5.1 It is not practical to lay down a rule for reporting on every special situation. This standard is to assist and not to supersede the prudent judgment of the auditor in making an opinion or report.
4.5.2 The expression “reporting” embraces both the auditor’s opinion and other remarks on a set of financial statements as a result of a regularity (financial) audit and the auditor’s report on completion of a performance audit.

4.5.3 The auditor’s opinion on a set of financial statements shall generally be in concise, standardised format to reflect the results of a wide range of tests and other audit work. There is a requirement to report as to the compliance of transactions with laws and regulations and to report on matters such as inadequate systems of control, illegal acts and fraud. The constitutional or statutory obligations require the AGP to report specifically on the execution of budgetary laws, reconciling budgetary estimates and authorisation to the results set out in the financial statements.

4.5.4 In a performance audit, the auditor reports on the economy and efficiency with which resources are required and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example, covering whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements.

4.5.5 In order to recognise reasonable user needs, the auditor’s report in both regularity and performance auditing may need to have regard to expanded reporting periods or cycles and relevant and appropriate disclosure requirements.

4.5.6 For ease of reference in this chapter, the word “opinion” is used to mean the auditor’s conclusions as a result of a regularity (financial) audit, and may embrace the matters described in paragraph 4.4.3; the word “report” is used to mean the auditor’s conclusions following a performance audit, as described in paragraph 4.4.4

4.5.7 The reporting standards are:

a) At the end of each audit the auditor shall prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent, reliable, and relevant audit evidence, and be independent, objective, fair and constructive.

b) It is for the Department of the AGP to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

With regards to regularity audits, the auditor shall prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the test of compliance with applicable laws and regulations. The report shall contain a statement of positive assurance on those tested for compliance and negative assurance on those items not tested.

With regard to performance audits, the report shall include all significant instances of non-compliance that are pertinent to the audit objectives.

4.5.8 The form and content of all audit opinions and reports are founded on the following general principles.
a) **Title.** The opinion or report shall be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.

b) **Signature and date.** The opinion or reports shall be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).

c) **Objectives and scope.** The opinion or report shall include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

d) **Completeness.** Opinions shall be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor’s opinions and reports shall be presented as prepared by the auditor. In exercising its independence the Department shall be able to include whatever it sees fit, but it may acquire information from time to time which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor retains a responsibility for considering the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.

e) **Addressee.** The opinion or report shall be addressed as per requirements of applicable laws and procedures.

f) **Identification of subject matter.** The opinion or report shall identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.

g) **Legal basis.** Audited opinions and reports shall identify the legislation or other authority providing for the audit.

h) **Compliance with standards:** Audit opinions and reports shall indicate the auditing standards or practices followed in conducting the audits, thus providing the reader with an assurance the audit has been carried out in accordance with generally accepted procedures.

i) **Timelines:** The audit opinion or report shall be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

4.5.9 An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion shall indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.
4.5.10 An unqualified opinion is given when the auditor is satisfied in all material respects that:

a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;

b) The statements comply with statutory requirements and relevant regulations;

c) The view presented by the financial statements is consistent with the auditor’s knowledge of the audited entity; and

d) There is adequate disclosure of all material matters relevant to the financial statements.

4.5.11 Emphasis of Matter. In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as “emphasis of matter” are contained in a separate paragraph from the opinion. However, the auditor shall not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

4.5.12 An auditor may not be able to express an unqualified opinion when any of the following circumstances exist and, in the auditor’s judgment, their effect is or may be material to the financial statements:

a) There has been limitation on the scope of the audit;

b) The auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or

c) There is uncertainty affecting the financial statements.

4.5.13 Qualified Opinion. Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

4.5.14 Adverse Opinion. Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if
the financial effect on the financial statements is quantified where relevant and practicable.

4.5.15 **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

4.5.16 The auditor shall provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

4.5.17 In addition, regularity audits often require that reports are made where weaknesses exist in systems of financial control or accounting (as distinct from performance audit aspects). This may occur not only where weaknesses affect the audited entity’s own procedures but also where they relate to its control over the activities of others. The auditor shall also report on significant irregularities, whether perceived or potential, on inconsistency of application of regulations or on fraud and corrupt practices.

4.5.18 In reporting on irregularities or instances of non-compliance with laws or regulations, the auditors should be careful to place their findings in the proper perspective. The extent of non-compliance can be related to the number of cases examined or quantified monetarily.

4.5.19 Reports on irregularities shall be prepared irrespective of a qualification of the auditor’s opinion. By their nature they tend to contain significant criticisms, but in order to be constructive they shall also address future remedial action by incorporating statements by the audited entity or by the auditor, including conclusions or recommendations.

4.5.20 In contrast to regularity audit, which is subject to fairly specific requirements and expectations, performance audit is wide-ranging in nature and is more open to judgment and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period; and it does not normally relate to particular financial or other statements. As a consequence performance audit reports are varied and contain more decisions and reasoned argument.

4.5.21 The performance audit report should state clearly the objectives and scope of the audit. Reports may include criticism (for example where, in the public interest or on grounds of public accountability, matters of serious waste, extravagance or inefficiency are drawn to attention) or may make no significant criticism but give independent information, advice or assurance as to whether and to what extent economy, efficiency and effectiveness are being or have been achieved.

4.5.22 The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to be done in relation to specific areas of entity’s activities, the auditor shall provide a report which describes the circumstances and arrives at a specific conclusion rather than a standardised statement. Where the audit is confined to consideration of whether
sufficient controls exist to secure economy, efficiency or effectiveness, the auditor shall provide a more general opinion.

4.5.23 Auditors should recognise that their judgments are being applied to actions resulting from past management decisions. Care should therefore be exercised in making such judgments, and the report should indicate the nature and extent of information reasonably available (or which ought to have been available) to the audited entity at the time the decisions were taken. By stating clearly the scope, objectives and findings of the audit, the report demonstrates to the reader that the auditor is being fair. Fairness also implies the presentation of weaknesses or critical findings in such a way as to encourage correction, and to improve systems and guidance within the audited entity. Accordingly the facts are generally agreed with the audited entity in order to ensure that they are complete, accurate and fairly presented in the audit report. There may also be a need to include the audited entity’s responses to the matters raised, either verbatim or in summary, especially where the Department of the AGP presents its own views or recommendations.

4.5.24 Performance reports should not concentrate solely on criticism of the past but should be constructive. The auditor’s conclusion and recommendations are an important aspect of the audit and, where appropriate, are written as a guide for action. Generally these recommendations suggest what improvements are needed rather than how to achieve them, though circumstances sometimes arise which warrant a specific recommendation, for example to correct a defect in the law in order to bring about an administrative improvement.

4.5.25 In formulating and following up recommendations, the auditor shall maintain objectivity and independence and thus focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted.

4.5.26 In formulating the audit opinion or report, the auditor shall have regard to the materiality of the matter in the context of the financial statements (regularity (financial) audit) or the nature of the audited entity or activity (performance audit).

4.5.27 For regularity (financial) audits, if the auditor concludes that, judged against the criteria most appropriate in the circumstances, the matter does not materially affect the view given by the financial statements, the opinion should not be qualified. Where the auditor decides that a matter is material the opinion should be qualified, having determined the type of qualification (paragraphs 4.4.12 – 4.4.15).

4.5.28 In the case of performance audits that judgment will be more subjective as the report does not relate so directly to financial or other statements. Consequently the auditor may find materiality by nature or by context is a more important consideration than materiality by amount.
5. DAGP’s Annual Planning Process

5.1 DAGP Strategic Audit Objectives

The Auditor-General’s mandate is established by legislation – Auditor-General’s (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 (Auditor General’s Ordinance). Two key sections are:

Section 7 of Auditor-General’s (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 (Auditor General’s Ordinance) states that “The Auditor-General shall, on the basis of such audit as he may consider appropriate and necessary, certify the accounts” … “of the Federation, of each Province and of each District”.

Section 8 of the Auditor-General Ordinance mandates an audit of expenditures of the Federation and of each Province, and Section 12 of the Auditor-General Ordinance mandates an audit of the receipts of the Federal Government and of each Province and District.

These sections establish the two primary objectives of DAGP audits: financial attest/certification audits and compliance with authority audits to ensure entities within all three levels of government properly comply with all rules and regulations pertaining to expenses and revenues.

Note that all attest/certification audits will include a compliance component in accordance with international auditing standards and that DAGP may also perform independent compliance with authority audits in any areas which the Auditor-General considers it important to review. Accordingly compliance audit activities will be a major aspect of DAGP plans for any given time period.

5.2 DAGP Audit Scope

In determining the scope of audit work the Auditor-General has wide discretion.

For certification audits required under Section 7 of the Auditor-General Ordinance, the entity to be audited will be defined by the applicable accounting policies of the government. For example, to certify the financial statements of the Federation, the entity to be audited is the aggregate of all of the ministries, departments, agencies, etc. that the accounting policies require to be included in the financial statements of the Federation. Whether to perform audit activities in every single entity within the federation is a matter for the Auditor-General to decide. At a minimum, audit activities should cover all entities whose operations are material in the context of the financial statements of the Federation. In addition, the Auditor-General may plan to extend the audit activities to any other entities he considers significant.

In the case of compliance with authority audits, the Auditor-General has complete discretion as to which entities (whether organisational entities, such as agencies, DAOs, DDOs etc., functional entities, such as the payroll function or the purchasing function; or accounting entities, such as objects of expenditure, grants or appropriations) will be subject to audit and how often audits will be conducted.
5.3 DAGP Strategic Audit Plans

The Auditor-General is responsible for deciding what audit work is necessary to fulfil his mandate. Under his direction, DAGP produces a multi-year strategic plan for DAGP audit activities. The audits included in the strategic plan will include:

*Mandatory and centrally led.* These are audits required by DAGP’s mandate to be performed each year, where the work performed by an individual directorate is part of a larger audit. An example of such an audit is the annual audit of the financial statements of the Federation.

*Not mandatory and centrally led.* These are audits where DAGP’s mandate does not require that they be performed each year, and the work performed by the directorate is part of a larger audit exercise. An example of this type of audit could be a government-wide audit of contracting.

*Mandatory and not centrally led.* Those audits that are required by DAGP’s mandate to be performed each year, where the work is not part of a larger audit. An example of such an audit is the annual audit of the financial statements of a specific commercial entity or a foreign-aided project for which the directorate is required to issue an audit opinion.

In these cases, the Auditor-General schedules the activities and delegates audit work to the audit directorates.

Consolidating the plans for all these audits produces the DAGP strategic audit programme.

5.4 The annual planning process

Each audit directorate is responsible for the audit of a pre-determined group of entities. The scheduling of this work is at the discretion of the audit directorates:

*Not mandatory and not centrally led.* These are audits that are not required by DAGP’s mandate to be performed each year, and which are not part of a larger audit. An example of such an audit is the compliance with authority work being performed by the directorate on the entities for which it is responsible.

Each directorate prepares an annual audit plan for its audit activities which includes the audit activities required by the Auditor-General, plus the discretionary audits planned by the directorate, and submits it to the Auditor-General for approval. Once approved, the annual plans from all directorates are consolidated into DAGP’s annual Corporate Audit Plan.

The annual audit plans contain:

(a) A summary of the directorate’s mandate.

(b) A status report on the current year indicating the extent to which the planned coverage for the current year is being achieved.

(c) A summary of the audits that the directorate intends to perform in the following year, categorised by:

- Financial audits (including related compliance with authority audit);
- Compliance with authority audits (where additional compliance with authority work is planned);
- Audits of internal controls;
- Audits of foreign-aided projects;
Performance audits;
Other functional, systems, programme and fraud audits; and
Special assignments.

(e) Details with respect to each of the planned audits for the following year. These details include, for each audit:
- The revenue and expenditure to be audited;
- The person days required;
- The staff members to be assigned to the audit (and any shortfall in the staffing);
- The travel and daily allowances that are required;
- A time schedule showing the dates by which each audit will be planned, executed, reported, etc.

(f) A summary of the unallocated resources available within the directorate or the audit work for which staff is not available.

Audit management software is useful for developing this plan.

With respect to centrally led audits, each directorate will estimate the number of hours required to perform the work, the staff to be assigned to the work, and the timing of the work, and provide this information to the responsible central team. The central team, in turn, will be responsible for the overall budget of the audit.

This process is discussed further in Section 5.6 below.

As noted, some audits are not required each year. This provides the audit teams with some flexibility in scheduling work, so work loads can be balanced to reflect the number of resources available after taking into account resource assignments to mandatory audit work.

For example, the nature, extent and timing of the work that DAGP performs on its compliance with authority audits is somewhat discretionary. DAGP auditors can decide to perform extensive tests of compliance with authorities or more limited tests. As such, the budget for a given compliance with authority audit can be increased or decreased as required to match the available resources.

When deciding on the nature, extent and timing of the work that each directorate performs on compliance with authority audits, audits of internal controls and performance audits, the directorate should take into consideration the annually required work that it is performing, and integrate the audits to the extent possible. This is discussed in more detail in below.

Each directorate should ensure that it has sufficient staff with necessary skills to accomplish the work required by the Auditor-General Ordinance to be performed each year. Only plans for the work that is not required to be performed each year may reflect staff shortfalls.

Where staffing shortages are evident, senior management within DAGP will attempt to match one directorate’s staff shortfall with unallocated staff in another directorate. Overall, though, the planned workload cannot exceed the available resources. Should the sum of the required resources exceed the available resources, the discretionary audit work must be decreased.
5.5 Integration of audit work

Under DAGP’s annual planning approach, each directorate has discretion over work that is not required by the Auditor-General Ordinance to be performed annually. The directorate can decide, for example, which entities it wishes to audit, and the types of audits it wishes to perform (compliance with authority, internal controls, performance, etc.). However, to improve the efficiency and effectiveness of the work, DAGP recommends that each directorate integrate its compliance with authority, internal control and performance audit work that is not required to be performed each year with the work being performed on the mandated annual audits, such as the annual audits of financial statements. This integration could include:

- Performing the work at the same time; and
- Re-using the sample items selected for the financial audit work when performing the compliance with authority, internal controls and performance audit work. (Additional items could be selected if considered necessary.)

Synchronising the timing of compliance with authority work and other discretionary work to better match the timing of financial audit work, would create the following benefits:

- Samples for financial audit and compliance with authority purposes could be integrated, reducing the total amount of audit work being performed.
- When doing the financial audit work, the auditors could rely on the normally larger amount of work done for compliance with authority purposes. When the compliance with authority audit work is done several years later, this reliance is not possible.
- With auditors performing compliance with authority audit work on Year 1 transactions in Year 4, there is a risk that the auditors could discover, in Year 4, significant errors with respect to the accounts for Year 1. DAGP could then be in the embarrassing position of having to amend and reissue its certificate on the Year 1 financial statements. Doing all of the work in Year 1 would eliminate this problem.

In addition to these benefits, doing the compliance with authority work more frequently, and covering fewer years during each audit, could benefit the compliance with authority work itself, as follows:

- There would be more timely identification of deficiencies, which could lead to a quicker improvement of the related controls. This, in turn, should significantly reduce compliance with authority violations in subsequent years;
- Having auditors on the premises provides a deterrence factor – entity officials are less likely to commit frauds or perform sloppy work when auditors are present. More frequent visits will multiply this effect.
- Entity officials would no longer be required to find vouchers and other documents that are several years old. This could make it easier for them to find the required documents.

There are some disadvantages to amending the rotational audit approach for compliance with authorities. The most significant one is that auditors will spend less time at each location during each visit. This could increase the coordination effort, travel time, start-up time, etc. Because of these disadvantages, and because directorates may have other very valid reasons for not following the recommended approach, that DAGP has chosen not to mandate any one approach. However, directorates not following the recommended approach may be asked to justify the reasons for not doing so.
5.6 Approval process for the budget of centrally-led audits

As noted above, the first two categories of audits are centrally led. Each directorate will need to discuss the number of hours required to perform the work, the staff to be assigned to the work, and the timing of the work, with the responsible central team. The central team, in turn, will be responsible for the overall budget of the audit.

One of the responsibilities of the central team is to set the budget (both person days and costs) and the deadline dates for this audit. To do so, the central team will adhere to the following process:

- first estimate the number of hours and costs required to perform the audit, and the approximate timing of the work.
- then allocate the estimated hours of work to the central team, and each audit directorate.
- meet with each directorate to ensure that the directorate can perform the work within the proposed budgets and by the required deadline dates. Obtain the list of staff members from the audit directorate who will perform the work, and the proposed scheduling for each of those staff members.
- following the discussions with each directorate, update the budget for each directorate, and the overall budget for the audit.
- obtain the approval of the Auditor General for this budget.
- once the central team has received the required approval, each directorate will set aside the agreed-upon person days, dates, and staff members for the performance of the audit.
5. The Audit Cycle

5.1 Introduction

Every audit assignment must be properly planned. The auditor has a professional duty to undertake each audit in a manner that ensures reliable and meaningful conclusions, which in turn lead to practical and useful audit recommendations. The auditor must therefore collect appropriate and sufficient evidence to arrive at such conclusions and recommendations. The efficient and effective collection of evidence depends on a clear audit plan. This audit plan should include a well-developed audit programme.

The audit plan should include:

- A clear statement of the audit objective(s);
- Statement of the magnitude of operations (expenditures, revenues, assets, personnel) and for an attest audit, the significant line items and accounts in the financial statements and significant financial statement assertions;
- Summary of significant issues and results of an initial risk assessment;
- Proposed audit scope, including:
  - Type(s) of audit activity (attest, compliance, effectiveness of internal controls, safeguarding of assets, fraud investigation, value-for-money, IT systems, or some combination thereof);
  - locations to be visited;
  - functions, activities, systems and procedures to be examined;
  - aspects of performance to be covered;
  - audit methods and tests; and
  - samples selected or methods of selecting samples;
- Budget and schedule;
- Audit steps; and
- Assigned audit responsibilities.

DAGP audit teams should plan to perform audits that encompass both financial attest and compliance components. These two audit components have much in common. Each requires the auditor to:

- Understand the audit entity;
- Conduct a risk assessment;
- Define audit objectives and scope;
- Develop an audit programme
- Test the controls;
- Determine sample size (for statistical or non-statistical);
- Conduct substantive tests;
- Report; and
- Follow up.
The audit cycle for an individual audit involves planning the audit, conducting the work, evaluating the results of the work, reporting the results of the work, and following up to see what the entity has done as a result of the work. (Sometimes the follow up is conducted as the first phase of the next audit of the entity, where the auditor determines what changes have occurred since the previous audit).

This Chapter describes the audit cycle for an individual audit performed in accordance with DAGP’s auditing standards. This Chapter also summarises the work that is performed at each phase of the cycle. This material is expanded upon in subsequent Chapters of this Manual.

The audit cycle is shown in Figure 6.1. It contains six basic phases:

1. General audit planning;
2. Detailed activity and resource planning;
3. Fieldwork;
4. Evaluation;
5. Reporting; and
6. Follow-up.

These phases are discussed in more detail below.

Because many financial statement audits are performed every year, much of the general and detailed planning for these audit activities will be limited to updating the planning decisions made in the previous year to reflect changes to the entity or desired changes to the audit approach. There will rarely be a need to start from scratch.

Changes to the audit approach will normally have been identified at the end of the previous year’s audit. The auditors will have identified significant issues that need to be revisited in the next audit, as well as areas requiring less audit effort, such as where the internal controls were found to be strong, allowing more reliance to be placed upon them. At that time, the auditors would have assessed the overall efficiency and effectiveness of their audit, and identified possible ways in which the efficiency and effectiveness could be improved. This process could include analysing the feedback obtained from entity officials, the PAC, and the media.

Audit management (providing advice, supervising, reviewing, approving, etc.) is not listed as a separate step in the audit cycle. This is because these activities need to occur throughout each phase of the process.

Creating good relations with entity officials is key to achieving an effective and efficient audit. The progress and outcomes of an audit will be enhanced if the audit team can obtain the cooperation of management and foster confidence by maintaining a fully professional approach during the course of the audit.

It is important for the auditor to avoid creating an adversarial relationship with entity officials. To facilitate good relations the auditor should:

- Be fully aware of all other audit activities being undertaken;
- Plan to minimise impact on the audit entity; and,
- Ensure that all discussions with entity officials take place at an appropriate and reasonable level, and at an appropriate and reasonable time.
Understand the entity’s business
Establish audit objectives and scopes
Assess materiality, planned precision, and audit risk
Understand the entity’s internal control structure
Determine components
Determine financial audit and compliance with authority objectives and error/irregularity conditions
Assess inherent and control risk
Determine mix of tests of internal control, analytical procedures and substantive tests of details
Develop audit programmes
Establish resource requirements and timing
Execute audit programmes
Conclude on results of work
Issue reports
Follow up matters in reports
5.2 General audit planning

The general audit planning phase is where most key planning decisions are made. It involves:

**Step 1** Establish audit objectives and scope;

**Step 2** Understand the entity’s business;

**Step 3** Assess materiality, planned precision and audit risk;

**Step 4** Understand the entity’s internal control structure;

**Step 5** Determine components;

**Step 6** Determine financial audit and compliance with authority objectives, and error/irregularity conditions;

**Step 7** Assess inherent risk and control risk; and

**Step 8** Determine mix of tests of internal control, analytical procedures and substantive tests of details.

These steps are introduced below, and are discussed in more detail in the next Chapter.

**Step 1 – Establish overall audit objectives and scope**

The audit objective should be a clear statement of what the auditor intends to examine and what is to be achieved by the audit. There should be clear audit objectives for every assertion, for each financial statement component and for each audit area to be examined.

One or more audit objectives should be defined for each component of a financial audit and for each line of inquiry. The audit objective is a statement of what is to be achieved by the audit.

The audit scope is a statement of what areas will be looked at, what work must be done and what will not be done and the methodology to be used to achieve the audit objectives(s).

The auditor should update the audit plan to reflect the mix of financial certification and control and compliance objectives established for the current year.

The scope of the audit will reflect the audit entity. For audits that are required under Section 7 of the Auditor-General Ordinance, the entity to be audited will be defined by the applicable accounting policies of the government. For example, for an audit of the financial statements of the Federation, the entity to be audited would be all of the ministries, departments, agencies, etc. that the accounting policies require to be included in the financial statements of the Federation.

**Step 2 – Understand entity’s business**

The auditor should assemble and review material that will enable the team to gain a sufficient knowledge of the business to assess materiality, determine components, identify error conditions, etc.
Step 3 – Assess materiality, planned precision, and audit risk

Materiality, planned precision and audit risk are key concepts when conducting an audit that will result in the Auditor-General expressing an opinion on the financial statements of an audit entity. The opinion paragraph of a standard unqualified auditor’s report commences, “In my opinion, these financial statements properly present, in all material respects, the financial position of [the entity] …”

Materiality. When the Auditor-General states that the financial statements “properly present, in all material respects”, he/she is stating that the financial statements are not materially misstated. An error (or the sum of the errors) is material if the error (or the sum of the errors) is big enough to influence the users of the financial statements. Therefore the auditor must determine what amount is considered material.

Planned precision. Planned precision is the auditor’s planned allowance for further possible errors. To determine it, the auditor first estimates the most likely error that will exist in the financial statements as a whole. This estimate is referred to as the “expected aggregate error.” The auditor then subtracts the expected aggregate error from the materiality amount to arrive at planned precision.

Audit risk. The opinion paragraph of the standard unqualified auditor’s report begins “In my opinion …” This means that the auditor is not stating that he/she is absolutely certain that the financial statements “properly present in all material respects” (i.e., are not materially misstated). Rather, the auditor is stating that he/she has some degree of assurance that is less than 100% that the financial statements are not materially misstated. GAAS refers to this degree of assurance as “reasonable assurance”.

The auditor should determine what level of confidence is required. If the auditor wants to be 95% confident that the financial statements are not materially misstated, this means that the auditor is prepared to take a 5% risk that he/she will fail to detect errors summing to more than the materiality amount. Audit risk in this case is therefore 5%.

Using a 5% audit risk and a Rs. 3,000,000 materiality amount, when the auditor states, “In my opinion, these financial statements present fairly, in all material respects …”, the auditor is stating, “I have 95% assurance that the financial statements are not misstated by more than Rs. 3,000,000”.

Step 4 – Understand entity’s internal control structure

GAAS require the auditor to have an up-to-date understanding of the entity’s internal control structure.

The required level of understanding depends on the extent to which the auditor intends to rely on the internal controls to reduce his/her substantive tests. Even when no reliance is intended, some knowledge is still required.

Step 5 – Determine components

Auditors normally do not plan audits for the financial statements as a whole. Rather, they divide the financial statements into parts and plan each part separately.
For an audit of financial statements, the most logical way of dividing up the financial statements is to consider each line item in the financial statements to be a separate component. Sometimes the financial statements include several different groupings of the same total amount. For example, expenditures may be grouped by:

- Organizational unit (the ministries, departments, agencies, etc. making up the reporting entity)
- Appropriation account;
- Economic function (general public services, defence affairs and services, etc.); and/or
- Object element (payroll expenditures, operating expenditures, civil works, etc.).

The auditor normally selects the grouping that makes it the easiest to plan, perform and evaluate the audit work.

If the financial statements group the expenditures by object element, the auditor might then plan the audit of each object element to obtain the desired assurance that errors in each object element do not sum to more than the materiality amount.

**Step 6 – Determine financial audit and compliance with authority objectives, and error/irregularity conditions**

Having divided the audit into components, the auditor needs to define attest and compliance objectives, as applicable, and define what is considered to be an error or irregularity.

**Specific financial audit objectives.** For a financial statement audit, a component is considered to be in error if:

- It is not valid (the asset or liability does not exist or the revenue or expenditure has not occurred) – the **existence** objective; or
- The statement of the asset, liability, revenue or expenditure is not complete – the **completeness** objective; or
- The asset is not owned by the entity, or the liability is not owed by the entity – the **regularity** objective; or
- The asset or liability is not properly valued or is misclassified, or the revenue or expenditure is not properly measured or is misclassified - the **valuation or measurement** objective; or
- The financial statement presentation is not proper – the **presentation** objective.

**Related compliance with authority objectives.** Section 3.4 of DAGP’s auditing standards states, "*In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations.*"

To comply with this standard, the auditor should test for compliance with those laws and regulations that are related to the audit of the financial statements.

The following compliance with authority objectives are considered to be applicable:

(a) **Spend:**

The services were performed or the goods received;

[Type here]
The expenditure was consistent with the nature of the appropriation to which it was charged; the expenditure is in accordance with applicable legislation and the rules and regulations issued by such legislation; and the expenditure does not result in the total approved expenditure being exceeded.

(b) **Borrow:**
- The amount and debt terms (period, interest rates, repayment schedule, etc.) are in accordance with applicable legislation, and related rules and regulations.

(c) **Raise revenue:**
- The cash received was for an approved tax or other approved source;
- The cash received is in accordance with applicable legislation and associated rules and regulations.

*Error conditions.* The last part to this step is to consider error conditions. The idea here is to consider possible ways in which an asset, liability, revenue or expenditure might not be valid, complete, compliant with applicable authorities etc. Put another way, the idea is to think of possible ways in which a monetary error can occur in the financial statements and the ways in which monetary amounts may not be in accordance with applicable authorities.

For example, to apply the validity and measurement objectives to the component “payroll expenditures”, the auditor should consider how payroll expenditures might not be complete.

There are many possible reasons why payroll expenditures might not be valid or properly measured. However the chance of some of them occurring might be negligible. Similarly, the maximum possible error that could result from some of them might be insignificant. The idea is to identify the errors that have a real chance of occurring, and that could be relatively large in relation to the materiality amount.

For the validity and measurement objectives, the auditor may identify four error conditions, as follows:

(a) Services paid for are not performed;
(b) Employees are being paid more or less than they should be paid;
(c) Payroll expenditures are being charged to an incorrect account or appropriation; and
(d) The amounts in the payroll register are not included in the financial statements at the correct amount.

In addition, the auditor might also identify the following compliance with authority matters:

(a) the work being performed was not properly approved;
(b) the payments were not properly approved.

The auditor should then develop audit procedures to determine whether any of the possible errors or deviations have occurred.

**Step 7 – Assess inherent risk and control risk**

*Inherent risk.* Inherent risk is the chance of material error occurring in the first place assuming that there are no internal controls in place. “Material error” may be a single error or the sum of multiple smaller errors.
Inherent risk is assessed at this stage as it determines how much testing of internal controls and substantive testing (analytical procedures and substantive tests of details) the auditor needs to perform in total to achieve his/her desired level of reasonable assurance (95% in our illustration).

Control risk. Control risk is the chance that the entity’s internal controls will not prevent or detect material error. Again, “material error” may be one error or the sum of multiple smaller errors.

Control risk is assessed at this stage as it determines the amount of assurance that the auditor can obtain from his/her tests of internal control.

**Step 8 – Determine mix of tests of internal control, analytical procedures and substantive tests of details**

The auditor needs to select a combination of tests of internal control, analytical procedures and substantive tests of details that, in total, will provide the desired level of assurance that payroll expenditures are not incomplete by an amount greater than the materiality amount.

The auditor can obtain this assurance in a number of ways, for example by:

- reviewing the internal controls that the entity has in place to ensure the completeness of, using our payroll example, payroll expenditures, and then performing tests of internal control to ensure that the controls are functioning properly;
- performing such analytical procedures as comparing the payroll expenditures by month to each other and to the equivalent amounts in the previous year; and/or
- selecting a sample of payroll transactions and performing various substantive tests of details on those transactions.

These methods can be used in different combinations. For example the auditor can:

- Place a lot of reliance on the internal controls. Under this option, the auditor would perform a lot of tests of internal control, supplemented by only limited analytical procedures, and select a very small sample of payroll transactions for substantive tests of details; or,
- Place very little reliance on the internal controls. Under this option, the auditor would do fewer tests of internal control than in the first option, but would perform more rigorous analytical procedures or select a larger sample of payroll transactions for substantive tests of details.

When deciding which combination to use, the auditor should consider the cost of each combination in terms of audit resources.

### 5.3 Activity and Resource Planning

This phase primarily involves taking the decisions made during the general planning phase and using them to build the audit programmes that will be used during the fieldwork phase. It also involves establishing budgets, staffing requirements, the timing of the audit work, and the information to be obtained from the entity.

These steps are introduced below, and are discussed in more detail later.
Develop audit programmes

The audit programmes provide the auditor with a list of all the procedures to perform.

The auditor can use the error conditions identified during the general planning phase, or a previous audit programme for the entity, as a starting point for the development of the audit programmes.

The auditor should also determine what information the entity management are required to make available for the audit work.

Establish resource requirements and timing considerations

For each audit determine:

- the number of auditors with required level of seniority and skill sets;
- related out-of-pocket expense budgets; and,
- timing of the work.

The resource requirements are based on the audit programmes. Resource allocations from previous audits of the entity may provide a helpful starting point.

5.3.1 Fieldwork

During the fieldwork phase, the auditors complete the procedures that are contained in the audit programmes. The required evidence is gathered, and the work performed is documented in the working paper files.

Chapter 8 contains detailed guidance on this phase of the audit cycle.

5.3.2 Evaluation

During the evaluation phase, the results of the audit are summarised and conclusions are reached.

The auditor first concludes on the results of each test. The auditor then reaches a conclusion on each component. Finally, the auditor reaches a conclusion on the financial statements as a whole, or identifies specific irregularities and general systemic weaknesses based on compliance with authority tests.

Chapter 9 contains detailed guidance on this phase of the audit cycle.

5.3.3 Reporting

The reporting phase involves performing some final clearance procedures and issuing an audit certificate (opinion) on the financial statements. In this certificate, the auditor expresses an opinion as to whether:

(a) the financial statements properly present in all material respects, the entity’s financial position, the results of its operations, its cash flows and its expenditure and receipts by appropriation; and,
(b) the sums expended have been applied, in all material respects, for the purposes authorised by Parliament, and have, in all material respects, been booked to the relevant grants and appropriations.

Often, the reporting phase also involves issuing other reports dealing with internal controls, compliance with authorities, and performance matters that were identified as part of a financial audit, or in separate audits. These matters can be reported in a management report or in one of the Auditor-General’s reports to Parliament and the Public Accounts Committee.

Chapter 10 contains detailed guidance on this phase of the audit cycle.

5.3.4 Follow up

The follow-up phase involves returning to the entity at a later date to determine if entity management has:

- Corrected errors identified during the audit; and
- Implemented recommendations made by the auditors or by the Public Accounts Committee.

Chapter 11 contains detailed guidance on this phase of the audit cycle.

5.4 Roles and responsibilities

5.4.1 General roles and responsibilities

The general planning phase is where most of the key planning decisions are made. Many of these decisions have a significant impact on the nature, extent and timing of the work that is performed during the fieldwork phase. Because of this, general planning decisions should be made by the more senior and experienced members of the audit directorate.

Similarly, conclusions reached during the evaluation phase may have a significant impact on the type of audit report that is issued. The more senior and experienced members of the audit directorate also need to be directly involved in the evaluation process, and in the finalisation of the report.

It is not possible to lay down specific roles and responsibilities for all audits. Each audit is different – some are quite complex and difficult to plan and perform; others are relatively small and straightforward. In addition, there may be differences in the knowledge of the entity and audit skills possessed by different staff members within each directorate.

To encourage consistency, Figure 6.2 contains a chart that shows the suggested roles and responsibilities of individuals at each level, for the general tasks to be performed during the audit.

5.4.2 Centrally led audits

These are audits where a central team is responsible for the overall planning, performance, evaluation, reporting and follow up. An example of such an audit is the annual audit of the financial statements of the Federation.
With a centrally led audit, there will be a division of responsibilities between the central team and each directorate. For example, for the annual audit of the financial statements of the Federation, the central team is responsible for:

- Setting the basic planning parameters (materiality, planned precision, audit risk, components, etc.);
- Setting inherent risk, control risk, other substantive procedures risk and substantive test of details risk for each component and each specific financial audit objective and compliance with authority objective and error condition;
- Determining the optimum mix of tests of internal control, analytical procedures and substantive tests of details for each component and for each specific financial audit objective and related compliance with authority objective and error condition;
- Drafting the audit programmes, forms and checklists to be used by the audit teams performing the work;
- Performing the overall error evaluation; and
- Reporting the results of the audit.

The auditors from each of the directorates are, in turn, responsible for:

- Providing advice to assist the central team to plan the audit;
- Reviewing the material received from the central team to ensure audit programmes, forms and checklists reflect the optimum mix of tests for that particular directorate, and contain all the work required to obtain the required amount of overall assurance;
- Performing the audit work; and
- Reporting the results of the work, including individual errors and other matters of note, to the central team.

Regarding the above, the central team will likely not have the same detailed level of knowledge of a particular entity as the auditors from the applicable audit directorate. For example the central team may not be aware that the internal controls are weak and that the planned level of reliance on them is not possible. The auditors from the audit directorate must bring these matters to the attention of the central team and ensure necessary adjustments are made to the audit plan.

With a centrally led audit, some of the roles and responsibilities that, according to Figure 6.2, are to be performed by the Director General will be performed by the Director General responsible for the central team, while other roles and responsibilities will be performed by the Director General in charge of each directorate. The same applies to the other levels of staff shown in Figure 6.2.

To ensure that everyone is aware of their roles and responsibilities, the central team will provide a schedule similar to Figure 6.2 that clearly lays out the roles and responsibilities of individuals within the central team, and within each audit directorate.
### Figure 6.2: Roles and Responsibilities

<table>
<thead>
<tr>
<th>Step</th>
<th>Auditor-General</th>
<th>DAG (Senior) or DAG</th>
<th>Director General</th>
<th>Director</th>
<th>Deputy Director or Asst. Director</th>
<th>Audit Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Planning</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Update overall audit objectives and audit scope</td>
<td></td>
<td>A(^{(1)})</td>
<td>R(^{(1)})</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Update understanding of entity’s business</td>
<td></td>
<td>A(^{(1)})</td>
<td>R(^{(1)})</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Update assessment of materiality, planned precision, and audit risk</td>
<td></td>
<td>A(^{(1)})</td>
<td>R(^{(1)})</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Update understanding of the entity’s internal control structure</td>
<td></td>
<td>A(^{(1)})</td>
<td>R(^{(1)})</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Update determination of components</td>
<td></td>
<td>A(^{(1)})</td>
<td>R(^{(1)})</td>
<td>P</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(A\) = Approve  \quad R = Review  \quad S = Supervise
\(P\) = Responsible for performance of.

\(^{(1)}\) The review and approval would be done through a review and approval of the permanent file, planning file, audit planning memorandum, audit programmes, etc. produced at the end of the planning process.
<table>
<thead>
<tr>
<th>Step</th>
<th>Auditor-General</th>
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<th>Director</th>
<th>Deputy Director or Asst. Director</th>
<th>Audit Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Update determination of specific financial audit objectives, compliance with authority objectives and error conditions</td>
<td>A&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>R&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td></td>
<td>P</td>
<td></td>
<td></td>
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<tr>
<td>Update assessment of inherent risk and control risk</td>
<td>A&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>R&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td></td>
<td>P</td>
<td></td>
<td></td>
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<tr>
<td>Update optimum combination of procedures</td>
<td>A&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>R&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td></td>
<td>P</td>
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</table>

**Detailed Planning**

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<th>Director General</th>
<th>Director</th>
<th>Deputy Director or Asst. Director</th>
<th>Audit Officer</th>
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<tbody>
<tr>
<td>Update audit programmes</td>
<td>A&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>R&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td></td>
<td>S</td>
<td>P</td>
<td></td>
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<tr>
<td>Update budgets, staffing requirements, timing considerations, etc.</td>
<td>A&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>R&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td></td>
<td>S</td>
<td>P</td>
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**Fieldwork**

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<th>Director General</th>
<th>Director</th>
<th>Deputy Director or Asst. Director</th>
<th>Audit Officer</th>
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<tbody>
<tr>
<td>Complete audit programmes</td>
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<td></td>
<td></td>
<td>R</td>
<td>S</td>
<td>P</td>
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</tbody>
</table>

A = Approve  
R = Review  
S = Supervise  
P = Responsible for performance of.

<sup>(1)</sup> The review and approval would be done through a review and approval of the permanent file, planning file, audit planning memorandum, audit programmes, etc. produced at the end of the planning process.
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<th>Audit Officer</th>
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<td>Evaluation</td>
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<td>R</td>
<td>S</td>
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<tr>
<td>Conclude on results of work</td>
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**Reporting**

- Audit Opinions: A (2) A (2) R P
- Audit Reports: A (2) A (2) R P
- Management reports: A P

**Follow up**

<table>
<thead>
<tr>
<th>Follow up matters in reports</th>
<th>(3)</th>
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<th>(3)</th>
<th>(3)</th>
<th>(3)</th>
<th>(3)</th>
</tr>
</thead>
</table>

A = Approve
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(2) It is expected that the audit opinions and audit reports on the major entities would be approved by the Auditor-General; the other audit opinions and audit reports would be approved by the Deputy Auditor General (Senior) or a Deputy Auditor General.

(3) The roles and responsibilities would match those for the equivalent work performed during the audit itself.