



1996

**GOVERNMENT AUDITING STANDARDS**

**OFFICE OF THE AUDITOR GENERAL**

**NEPAL**

## FOREWORD

The Office of the Auditor General (OAG) in the present day form was established in 1959 after the advent of democracy in 1951, however, the history of government auditing in Nepal is quite long. The Office since its inception has been playing its role in maintaining and promoting public accountability in accordance with the Constitutional provisions and democratic norms.

Timely and codified audit standard was a felt need for the office, which was previously using the procedures and practices drawn from various sources. The adoption of these audit standards is expected to improve the working procedures in the OAG. Efforts have been made to meet the contemporary needs of the office keeping in view the standards suggested by the International Organisation of Supreme Audit Institutions (INTOSAI) as far as possible. These standards should be viewed in the context of Constitutional and other legal provisions pertaining to the OAG.

The standards will have compulsory application for all the audit works of the Office as our efforts to the process of enhancing efficiency and quality. These standards are not supposed to limit the audit objectives and any work or effort towards enhancing the quality of audit. Being considered as living documents, standards will have to incorporate new issues, trends and concerns in audit methodology and practice that might emerge in course of time.

The suggestions provided by the Public Accounts Committee (PAC) of the House of Representatives has continuously inspired the OAG for the improvement of Government Auditing. The commendation letter received from the Honourable Chairman of the PAC in the adoption of the standards has encouraged the OAG.

The OAG is extremely happy to publish these standards for the first time on the auspicious occasion of silver jubilee of the accession to the throne by His Majesty King Birendra Bir Bikram Shahdeva and 38th anniversary of the Office itself.

Finally, I express my gratitude to all those who co-operated with us and spent their valuable time in studying the draft and contributed substantially by providing suggestions. I admire the contribution of the officers and staff of the OAG in preparing these standards.

June 29, 1996

**Bimal Raj Basnyat**

**Auditor General**

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## **LIST OF GOVERNMENT AUDITING STANDARDS**

- 1. In all matters relating to the audit work, the audit organization and the individual auditors must be free from personal or external impairments to independence; must be impartial and objective and shall maintain an independent attitude in fact as well as in appearance.**
- 2. Audits must be performed by or under the control of a person or persons who collectively have the technical and perceptive skills possessed by an experienced and competent auditor.**
- 3. Due professional care must be exercised in conducting the audit and in preparing the audit reports.**
- 4. The auditor should maintain permanently the confidentiality of information acquired verbally or in writing in the course of his work and should not disclose any information to a third party without specific authority or unless there is a legal or professional duty to disclose.**
- 5. Audits by the Office of the Auditor General should be reviewed annually on a sample basis to assess and report on their compliance with auditing standards.**
- 6. The Auditor General shall prepare an annual audit plan for the work of the Office.**
- 7. The auditor should evaluate the existing internal control systems of the entity being audited through the use of questionnaires, work flow charts, observation and inquiry, for the purpose of determining if the accounting system is adequate and if the controls ensure that all accounting information which should be recorded has in fact been recorded. Results of the evaluation shall be duly analyzed to determine the extent to which the auditor can rely on the internal control systems and the extension of the audit tests and procedures to be subsequently applied.**
- 8. 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.**
- 9. The Office of the Auditor General should rely wherever practicable on the work of the internal auditors after reviewing their audit programs, working paper files and reports. Also the Office should rely upon the work of outside auditors and specialists engaged for specific audits after ensuring their professional reputation for competence and reviewing their work programs, files and reports.**
- 10. Audits should be managed and controlled so as to ensure a high quality of work as well as due regard to economy, efficiency and effectiveness.**
- 11. The audit work should be properly supervised and reviewed by the senior auditor.**

12. The auditor shall obtain sufficient evidence to afford himself a reasonable basis for his opinions, judgments, conclusions and recommendations by such means as inspection, observation, inquiries, confirmations, computation and analysis. This evidence will be fully documented in audit working papers.
13. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on the financial statements.
14. In the course of audit, tests should be made of compliance with applicable laws, rules and regulations to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a material effect on the financial statements.
15. The auditor shall discuss all irregularities and audit observations with the appropriate level of management of the entity being audited and issue the observations in a written management memorandum requesting a written response within a specified time prior to the issue of the audit report.
16. The audit working papers will be reviewed by senior personnel of the Office of the Auditor General to determine that the audit has been completed in a thorough and conscientious manner in accordance with the audit standards and procedures; that all material findings and observations have been adequately documented, and that the observations, conclusions and judgments in the audit report are adequately supported by the facts and details in the working papers.
17. The auditor should assess the conclusions drawn from the audit evidence obtained as the basis for the expression of his opinion where necessary, on the financial and other related information. This review and assessment involves forming an overall conclusion as to whether:
  - the financial statement has been prepared using acceptable accounting policies, which have been consistently applied;
  - the financial statement complies with relevant regulations and statutory requirements;
  - there is adequate disclosure of all matters relevant to the proper presentation of the financial statement;

- the view presented by the financial statement as a whole is consistent with the auditor's knowledge of the business of the entity.

- The audit report shall contain among other things a clear written expression of the opinion on the financial statement. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters dealt with in the previous paragraph. When a qualification of opinion, adverse opinion or a disclaimer of opinion is given, the audit report should state in a clear and informative manner all the reasons therefor.
18. The auditor should prepare written audit reports communicating the results of each audit.

## **1. INTRODUCTION**

### **1.1 Mandate**

The Auditor General (AG) is a constitutional body. It derives its mandate from the Constitution of the Kingdom of Nepal, 1990 and the Audit Act, 1991.

### **1.2 Audit Objectives and Functions**

The Auditor General (AG), through its impartial and independent audit and evaluation of the use of public resources, promote and uphold the public accountability. The audits and evaluations performed by the AG assesses whether expenditures made and revenues collected are in full compliance with existing rules and regulations and reflect due regard to economy, efficiency, effectiveness and propriety. The AG performs the following functions to achieve the above objectives.

**1.2.1 Audits all government offices and agencies mentioned in the article 100 sub-article (1) of the Constitution as well as any other agencies, institutions and offices that are subject to audit by the AG, under the existing statute and laws.**

**1.2.2 Prescribes accounting formats to be followed by all government offices.**

**1.2.3 Issues directives from time to time, updating the requirements to all auditees.**

**1.2.4 Submits an annual report on its work to His Majesty the King, which is later presented to Parliament.**

### **1.3 Types of Audit**

The AG conducts mainly two types of audit:

1.3.1 Financial Audits: It includes Financial Statement audits, finance related audits, and regularity audits;

1.3.2 Performance Audits: It considers aspects of Economy, Efficiency, Effectiveness and propriety.

1.3.3 Application of Standard: The standards mentioned in this booklet are applicable in both types of audits.

### **1.4 Audit Scope**

The Auditor General, with due regard to the regularity, economy, efficiency, effectiveness and propriety, shall audit following matters to ascertain whether:

1.4.1 The amount appropriated in the concerned heads and sub-heads by the Appropriation Act for respective services and tasks have been expended for the specified purposes of designated services or tasks within the approved limit;

1.4.2 The financial transactions comply with the existing laws and the evidence relating to items of income and expenditure are sufficient;

1.4.3 The accounts have been maintained in the prescribed form and such accounts fairly represent the position of the transactions;

- 1.4.4 The inventory of the government assets is accurate and up to-date, and the arrangement for protection and management of governmental property is adequate;
- 1.4.5 The arrangements for internal audit and internal control of cash, kind and other governmental property against any loss, damage and abuse are adequate and if so, are they pursued;
- 1.4.6 The accounts of revenue, all other incomes and deposit are correct and the rules relating to the evaluation, realization and methods of book keeping are adequate and if so, are they followed;
- 1.4.7 The accounts relating to public debt, security, deposit, Debt Relief Fund and the amounts set aside for debt services and repayment of debts are accurate;
- 1.4.8 The accounts of income and expenditure of the industrial and business services, and their balance in cash and kind, and the arrangement and rules relating to their financial transactions are adequate and if so, are they observed;
- 1.4.9 The organization, management and job allocation of the office are sufficient and proper, and are they operating accordingly;
- 1.4.10 Any function is being unnecessarily performed in duplication by any employee or agency or any essential function is being omitted;
- 1.4.11 The available resources, means and assets are properly utilized and maintenance and protection thereof against any loss or damage has been properly arranged;
- 1.4.12 The progress has been achieved within scheduled time and the quality and quantity of the work is satisfactory;
- 1.4.13 The objective and policy of the office is explicit and the program is delineated conforming to the specified objective and policy;
- 1.4.14 The program is being implemented within the limits of approved cost estimate and the proceeds received in comparison of the cost is reasonable;
- 1.4.15 The arrangements for maintaining data relating to target, progress and cost are adequate and reliable;
- 1.4.16 On the propriety of any expenditure and its authorization, if in the opinion of the Auditor General such expenditure is a reckless one or is an abuse of national property, whether fixed or current, despite that the expenditure conforms to the authorization;
- 1.4.17 On the propriety of all authorizations issued in respect of any grant of national property whether fixed or current, or underwriting of any revenue, or any contract, license or permits relating to mining, forest, water resources, etc. and any other act of abandoning fixed or current assets of the nation.

## **1.5 Methods of Audit**

The method, scope and extent of audit of an entity's financial transactions, programs, projects and operations are decided by the AG. Sampling is employed where appropriate and reliance is placed on the work of internal audit wherever possible. AG reports to entity management include recommendations addressing the root causes of the irregularities disclosed. These observations and recommendations are incorporated in the annual report.

## **1.6 Objectives and Functions of General Audit Divisions**

Each audit division:

- Prepares annual audit plans and programs;
- Conducts audits according to approved plans and programmes;
- Incorporates audit observations in the Annual Report;
- Follows-up action on irregularities;
- Participates in the proceedings of the Public Accounts Committee as needed; and,
- Follows up on the decisions of the Public Accounts Committee.

## **1.7 Auditing Standards**

Standards are generalized statements of audit principles and professional conduct expected from auditors. They also provide criteria against which the quality of audit results are evaluated.

The auditing standards described in this booklet are broadly grouped under four categories:

### **1.7.1 General Standards**

These standards relate to:

- the audit organization's and individual auditor's independence and objectivity;
- the qualifications of staff;
- the exercise of due care in conducting the audit and in preparing related reports;
- the confidentiality of information; and,
- quality controls

### **1.7.2 Planning Standards**

These standards relate to several levels of planning:

- preparation of an annual audit plan by identifying the entities to be audited in a given period;
- planning audit assignments
- consideration of internal control systems in the audited entity; and,
- evaluation of the possible relationships with other Auditors and Specialists.

### 1.7.3 Operational Standards

These standards also referred to as field work standards for audits, prescribe the standards of field work needed to satisfy the unique needs of government audits. The standards that relate to the conduct of audit in the field are as follows:

- management of audits;
- supervision and review of audit work;
- evidence and documentation of audits;
- financial statements analysis; and,
- compliance with laws and regulations

### 1.7.4 Reporting Standards

The results of an audit are generally given in the form of a formal written report. Before and after such a final report is prepared and sent to the auditee and others, the auditor may have to take a number of steps to conclude the audit. The steps include communications with the auditee, obtaining responses, holding a final meeting and verifying the implementation of the report. These standards consist of:

- Concluding the audit work;
- Review of audit working paper files;
- Reporting standards

## 2. GENERAL STANDARDS

### 2.1 Independence and Objectivity

#### Statement of standard

**In all matters relating to the audit work, the audit organization and the individual auditors must be free from personal or external impairments to independence; must be impartial and objective and shall maintain an independent attitude in fact as well as in appearance.**

#### Explanatory Statements

- 2.1.1 This standard places responsibility on the auditor and the audit organization to maintain independence so that opinions, conclusions, judgments and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.
- 2.1.2 Auditors should consider not only whether they are independent and their attitudes and beliefs permit them to be independent, but also whether there is anything about their situation that might lead others to question their independence. All situations deserve consideration because it is essential not only that auditors are independent and impartial in fact, but also that knowledgeable third parties consider them so.
- 2.1.3 Government auditors, including consultants and internal experts and specialists, need to consider generally three general classes of impairments to independence.
- personal impairments,
  - external impairments, and
  - organizational impairments.
- 2.1.4 **Personal impairments** - They include but not limited to:
- official, professional, personal or financial relationships that might cause the auditor to limit the extent of inquiry, to limit disclosure, or to weaken audit findings in any way;
  - preconceived ideas towards individuals, groups, organizations or objectives of a particular program that could bias the audit;
  - previous involvement in a decision-making or management capacity that affect the current operations of the entity or the program being audited;
  - biases, including those induced by political or social convictions, that result from employment in, or loyalty to, a particular group, organization or level of government;
  - performance of an audit by the same individual who, for example, had previously approved invoices, payrolls, claims or other proposed payments;
  - subsequent performance of an audit by the same individual who had maintained the official accounting records;
  - financial interest, direct or indirect, in the audited entity or program.

2.1.5 **External impairments** - They include but not limited to:

- interference in the assignment of audit personnel;
- restrictions on funds or other resources dedicated to the audit organizations;
- authority to overrule or influence the auditor's judgment regarding the appropriate content of an audit report or selection of what is to be audited;
- influence that jeopardize the auditor's continued employment for reasons other than competency or the need for audit services.

2.1.6 **Organizational impairments**

Any entity should not be able to influence the audit objective, scope or reports that the Auditor General makes to His Majesty the King, either directly, through line authority over the Office, or indirectly through control over the Office's budget and staffing levels.

2.1.7 If one or more of these impairments affect an auditor's ability to do the work and report findings impartially, the auditor should either decline to perform the audit, or in those situations when the auditor cannot decline to perform the audit, the impairment(s) should be reported in the audit report.

2.1.8 Professional auditors also need to consider those personal and external impairments that might affect their ability to do their work and report their findings impartially. If their ability is adversely affected, they should decline to perform the audit. Professional auditors should also follow the code of professional ethics of their respective professional body and the rules and regulations of the Office of the Auditor General and the personal and external impairments included in this statement.

2.2 **Competence**

**Statement of Standard**

**Audits must be performed by or under the control of a person or persons who collectively have the technical and perceptive skills possessed by an experienced and competent auditor.**

**Explanatory Statements**

2.2.1 This standard places responsibility on the audit organization to ensure that the audit is conducted by staff who collectively have the knowledge and skills necessary for audit to be conducted.

2.2.2 Collective knowledge and skills mentioned herein apply to the knowledge and skills of the audit organization as a whole and not necessarily to every individual. If the OAG employs personnel, or hires outside consultants, with acceptable knowledge and skills in such areas as accounting, statistics, law, engineering, audit design and methodology, automatic data processing, public administration, economics, social sciences, and actuarial science, each individual staff member need not possess all these skills and knowledge.

2.2.3 The audit organization is responsible for establishing and implementing a program to ensure that auditors meet the continuing education and training requirements stated above. The organization should maintain documentation of the education and training completed by each individual auditor.

2.3 **Due Care**

**Statement of Standard**

**Due professional care must be exercised in conducting the audit and in preparing the**

### **Explanatory Statements**

- 2.3.1 This standard places responsibility on the auditor and the audit organization to follow all applicable standards in conducting government audits. Auditors should use sound professional judgment in determining the standards that are applicable to the work to be conducted, and therefore should be followed. Situations may occur where auditors are not able to follow applicable standards and are not able to withdraw from the audit. In these situations, the auditors should disclose in the scope of their report, the fact that an applicable standard was not followed, the reason therefor, and the known effect of not following the standard had on the results of the audit. The auditors' determination that certain standards do not apply to the audit should be documented in the working papers.
- 2.3.2 Exercising due care means using sound judgment in establishing the scope, selecting methodology, and choosing tests and procedures for the audit. The same sound judgment should be applied in conducting the tests and procedures and in evaluating and reporting on the audit results. At a minimum, the methodology to be used, and the extent of tests and procedures to be conducted requires consideration of:
- what is necessary to achieve the audit objectives;
  - materiality and/or significant matters to which the tests, procedures, and methodology are applied;
  - effectiveness and/or efficiency of internal controls;
  - cost versus benefits of the audit and the extent of the work being done (however, situations may occur in which an audit organization is required to conduct an audit even though the cost of the audit exceeds the benefits to be derived); and,
  - reporting time frames that must be met.
- 2.3.3 The quality of audit work and related reports generally depends upon the degree to which:
- the audit scope, methodology, and the tests and procedures used in audit are adequate to provide reasonable assurance that the audit objectives are accomplished;
  - findings and conclusions are based on an objective evaluation and fully supported by sufficient, competent and relevant audit evidence;
  - the audit process conforms with the planning, operational and reporting standards set forth in this statement; and,
  - a supervisory review is made of the work conducted, the judgments made in the audit, and the audit report.
- 2.3.4 While this standard places responsibility on the auditor and the audit organization to exercise due reasonable care in the performance of the audit, it does not imply unlimited responsibility in all situation.

## 2.4. Confidentiality of Information

### Statement of Standard

**The auditor should maintain permanently the confidentiality of information acquired verbally or in writing in the course of his work and should not disclose any information to a third party without specific authority or unless there is a legal or professional duty to disclose.**

### Explanatory statements

There should be no breach of confidentiality of information unless there is a legal or professional duty to do so and appropriate approval obtained. The auditor should not disclose any information about the audit organization and its management to any third party. No member of the Office of the Auditor General except the Auditor General or someone authorized by him is authorized to make media statements or to have any other work-related contact with the media.

## 2.5 Quality Controls

### Statement of Standard

**Audits by the Office of the Auditor General should be reviewed annually on a sample basis to assess and report on their compliance with auditing standards.**

### Explanatory Statements

- 2.5.1 An audit office regulates the conduct of audits by issuing rules and regulations for the guidance of auditors. The management of the Office of the Auditor General has to ensure that these rules and regulations are being observed in practice. Such rules and regulations should be documented in the form of manuals, guides, etc.
- 2.5.2 The Office of the Auditor General should implement a program to ensure that audits and audit activities conform to the standards established by it and to the policies and procedures set forth by the Office. The quality assurance program implies the following elements:
- supervision;
  - internal reviews;
  - external reviews.
- 2.5.3 The reviews of the audit operations and the quality checks of individual audits on a regular basis should identify shortcomings and provide recommendations for improvement.

### **3. PLANNING STANDARDS**

#### **3.1 Planning by the OAG**

##### **Statement of Standard**

**The Auditor General shall prepare an annual audit plan for the work of the Office.**

##### **Explanatory statements**

- 3.1.1 To fulfill its responsibilities, the Office of the Auditor General has to prepare plans so that it undertakes its audits of various agencies according to a designated cycle so that it uses its resources economically and efficiently.
- 3.1.2 Planning can also include the development of policies and procedures. The policies and procedures should be in the form of a formal manual and guidebook, and they should be sufficient to assure that the audits consistently comply with the Office's standard of performance.
- 3.1.3 A statement of planning by the Office of the Auditor General and its branches can serve a useful purpose in establishing a requirement that has to be met by the Office. The method of preparing plans and the criteria to be used for assigning priorities to different audits will also have to be specified in rules and orders if the standard is to be effectively implemented.

#### **3.2 Evaluation of Internal Control Systems**

##### **Statement of Standard**

**The auditor should evaluate the existing internal control systems of the entity being audited through the use of questionnaires, work flow charts observation and inquiry for the purpose of determining if the accounting system is adequate and if the controls ensure that all accounting information which should be recorded has in fact been recorded. Results of the evaluation shall be duly analyzed to determine the extent to which the auditor can rely on the internal control systems and the extension of the audit tests and procedures to be subsequently applied.**

##### **Explanatory Statements**

- 3.2.1 For financial audits, the auditor is primarily concerned with policies and procedures that pertain to the entity's ability to record, process, summarize, and report financial data consistent with the assertions embodied in the financial statements, financial related items and information to ensure compliance with laws and regulations. Other policies and procedures, however, may be relevant if they pertain to data the auditor uses in applying auditing procedures. This may include, for example, policies and procedures that pertain to non financial data that the auditor uses in analytical procedures.

3.2.2 The following are methods by which an auditee's system of internal control are generally reviewed:

- Review auditee's procedure manuals and organization charts;
- provide a narrative of the accounting system;
- use work flow charts to represent the flow of documents in the organization;
- use internal control questionnaires to gather information about the control system;
- use a walk-through test of a sample of one or more transactions to follow the document from its origin to its final destination;
- evaluate the weaknesses of the internal controls and estimate their possible effect on the financial statement presentation.

### 3.3 Planning of Audit Assignments

#### Statement of Standard

**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.**

#### Explanatory Statements

3.3.1 Plans should be made to cover, among other things:

- acquiring knowledge of the client's accounting system, policies and internal control procedures;
- developing an understanding of the accountability relationships in the audit entity;
- determining and programming the nature, timing, and extent of audit procedures to be performed; and,
- methods of coordinating the work to be performed and already performed by other auditors and specialists.

3.3.2 The plan must be reviewed in the course of the audit to allow the introduction of modifications and adjustments during the audit.

### 3.4 Relationships With Other Auditors and Specialists

#### Statement of Standard

**The Office of the Auditor General should rely wherever practicable on the work of the internal auditors after reviewing their audit programs working paper files and reports. Also the Office should rely upon the work of outside auditors and specialists engaged for specific audits after ensuring their professional reputation for competence and reviewing their work programs, files and reports.**

#### Explanatory Statements

3.4.1 Internal and external audit efforts should be coordinated so as to ensure appropriate audit coverage and to eliminate duplication. Coordination of such effort involves:

- periodic meetings to discuss audit matters;
- access to the internal audit programs and working papers;
- exchange of audit reports;
- common understanding of audit techniques, methods and terminology.

3.4.2 Should the OAG have the situation to employ professional auditors it should provide these auditors with instructions as to the audit standards as well as guidance as to the audit procedures and the scope of the audit and audit programs to be followed. In deciding how far to rely on the work done by the other auditors, the following should be kept in mind:

- the materiality of the financial information to be audited;
- the degree of audit risk associated with the financial information;
- the suitability of the audit criteria used;
- the scope of the examination conducted;
- mandate, competency, objectivity and professional qualifications of the other auditors;
- when the audit work was carried out; and,
- the extent of changes made as a result of recommendations made in previous reports.

3.4.3 Where the work of specialists is used, the Auditors engaging the specialist should:

- obtain reasonable assurance concerning the specialists' reputation for competence;
- satisfy themselves that, based on their knowledge of the business of the entity and the specialist's methods, assumptions and source data, the findings of the specialist appear reasonable in the circumstances;
- ensure that the data provided to the specialist are appropriate; and,
- ensure that the specialist's findings are supported by data available in the audit organization.

## **4. OPERATIONAL STANDARDS**

### **4.1 Management of Audits**

#### **Statement of Standard**

**Audits should be managed and controlled so as to ensure a high quality of work as well as due regard to economy, efficiency and effectiveness.**

#### **Explanatory Statements**

- 4.1.1 Work scheduling is one of the elements of planning in the Office of the Auditor General. The scheduling and the monitoring of the use of audit resources are essential parts of management of audit resources. The work schedules include:
- activities to be audited;
  - timing of the audit;
  - estimated time required for:
    - supervision,
    - staff,
    - specialists.
- 4.1.2 In the preparation of the schedule, the Office of the Auditor General must establish priorities for the work. These priorities can be based on:
- financial exposure;
  - potential loss and risk;
  - sensitive programs;
  - management interest;
  - history of problems; and
  - a new operation.
- 4.1.3 The monitoring of the activities of the Office of the Auditor General and the preparation of activity reports complete the process of the management of audit activity.

## 4.2 Supervision and Review

### Statement of Standard

**The audit work should be properly supervised and reviewed by the senior auditor.**

### Explanatory Statements

- 4.2.1 The concept of proper supervision in auditing involves the elements of proper leadership, direction, and control at all stages to ensure competent and effective link between the activities, procedures and tests that are carried out and the aims to be achieved.
- 4.2.2 Proper supervision is one of the essential requirements of auditing and it includes:
- ascertaining the effectiveness and quality of auditing activities;
  - ascertaining adherence to auditing standards;
  - realizing the Office of the Auditor General objective of providing practical training to auditors;
  - facilitating the completion of required auditing procedures and other necessary tests within a reasonable period of time;
  - utilizing the judgment and experience of an experienced auditor in guiding and supervising the work of less experienced assistants;
  - considering the capabilities of auditors, their strengths and weaknesses, so as to reinforce their strong points and remove causes of their weaknesses; and,
  - ensuring working papers contain evidence adequately supporting all conclusions recommendations and opinions.
- 4.3.2 Specific assignments must be allocated commensurate with the individual abilities of auditors. Supervisory review should be directed to both the substance and the method of auditing. It should ensure that:
- the audit has conformed with the relevant auditing standards;
  - the audit plans and action packages were followed, unless a variation was authorized; and,
  - the audit has achieved the stated objectives.
- 4.2.4 All evaluations and conclusions must be soundly based and supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report
- 4.2.5 In conducting audits in accordance with the standards in this statement, the auditors choose and conduct auditing tests and procedures that, in their professional judgment, are appropriate in the circumstances to achieve the audit objectives. Such tests and procedures are designed to obtain sufficient, competent, and relevant evidence that will provide a reasonable basis for their opinions, judgments, and conclusions regarding the audit objectives.

## 4.3 Evidence and Documentation

### Statement of Standard

**The auditor shall obtain sufficient relevant and competent evidence to afford himself a reasonable basis for his opinions, judgments, conclusions and recommendations by such means as inspection, observation, inquiries, confirmations, computation and analysis. This evidence will be fully documented in audit working papers.**

### Explanatory Statements

- 4.3.1 The auditor should obtain sufficient appropriate audit evidence through compliance and substantive testing to enable him to draw reasonable conclusions therefrom on which to base his opinion on the financial information.
- 4.3.2 Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect.
- 4.3.3 Substantive test procedures are designed to obtain evidence as to completeness, accuracy and validity of the data produced by the accounting system. They are of two types:
- tests of details of transactions and balances;
  - analysis of significant ratios and trends with investigation of unusual fluctuation and items.
- 4.3.4 Adequate documentation should be in place to confirm and support the auditor's opinions and results.

## 4.4 Financial Statement Analysis

### Statement of Standard

**Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on the financial statements.**

### Explanatory Statements

- 4.4.1 In financial (regularity) audit, and in other types of audit when applicable, auditors should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with.
- 4.4.2 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 auditors should therefore analyze wherever possible the financial statements and ascertain whether:
- financial statements are prepared in accordance with acceptable accounting standards;
  - financial statements are presented with due consideration to the circumstances of the audited entity;
  - sufficient disclosures are presented about various elements of financial statements; and
  - the various elements of financial statements are properly evaluated, measured and presented.

4.4.3 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 application skill of the Auditor.

#### **4.5 Compliance With Laws And Regulations**

##### **Statement of Standard**

**In the course of audit tests should be made of compliance with applicable laws rules and regulations to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a material effect on the financial statements.**

##### **Explanatory Statement**

4.5.1 This standard places on the auditors the responsibility for determining whether the audited entity has complied with the laws and regulations that are applicable in the circumstances.

4.5.2 Compliance reviews are necessary in both financial and performance audits. Non-compliance disclosed in performance audits could result in program cancellation, the repayment of funds or legal sanctions against the auditee. Compliance is so important that, although it is usually considered an integral part of the financial audits, it may also be conducted as a unique audit itself.

4.5.3 In financial compliance auditing, the auditors are to test the financial transactions of the audited organization, program, activity or function to determine whether there is compliance with the laws and regulations that can materially affect the entity's financial statements.

4.5.4 The auditors need to exercise professional judgment in determining those laws and regulations that might have a significant impact on the audit objectives.

## **5. REPORTING STANDARDS**

### **5.1 Concluding the Audit**

#### **Statement of Standard**

**The auditor shall discuss all irregularities and audit observations with the appropriate level of management of the entity being audited and issue the observations in a written management memorandum requesting a written response within a specified time prior to the issue of the audit report.**

#### **Explanatory Statements**

##### **5.1.1 Concluding the audit may involve the following:**

- holding meeting(s) with officials of the audit entity wherever possible to communicate audit observations;
- obtaining their response to assess the validity of audit observations;

##### **5.1.2 At the conclusion of an audit assignment, the auditor must present his findings. The findings should be presented in the form of a written report even if they have also been presented verbally. The report must be dated and signed by the authorized official.**

### **5.2 Review of Audit Working Paper Files**

#### **Statement of Standard**

**The audit working papers will be reviewed by senior personnel of the Office of the Auditor General to determine that the audit has been completed in a thorough and conscientious manner in accordance with the audit standards and procedures; that all material findings and observations have been adequately documented and that the observations conclusions and judgments in the audit report are adequately supported by the facts and details in the working papers.**

#### **Explanatory Statements**

##### **5.2.1 A review will be made of each set of audit working papers to determine if:**

- the audit standards, procedures and techniques adopted by the OAG have been followed in the conduct of the audit;
- the internal controls described and flow charted are in accordance with information gathered by the internal control questionnaire and other means;
- the auditor was justified in relying upon the controls in limiting his audit testing or if the controls cannot be relied upon, if sufficient substantive testing and additional procedures were pursued;
- the audit testing prescribed in the detailed audit programs has been completed satisfactorily;
- the sampling method was appropriately chosen and if sufficient testing was performed;
- the rules of materiality have been properly applied in determining the audit findings to be documented and investigated further;
- the auditor's observations, conclusions, judgments and recommendations are fully documented and are supported by the facts recorded in the working papers;
- the audit report is complete, i. e. contains all the material facts recorded in the working papers, and is adequately supported by the facts and details in the working papers.

5.2.2 In the performance of the review procedures, the audit officer must indicate on each working paper that his review was made by placing his name or initials in an appropriate place thereon and where applicable adding his concurrence or his contrary opinion to the observations, judgments and conclusions.

5.2.2 The final review should be properly documented by the senior audit officer completing the review by completing a review checklist, dating and signing it.

### 5.3 Reports on Financial Statements

#### Statement of Standard

**The auditor should assess the conclusions drawn from the audit evidence obtained as the basis for the expression of his opinion where necessary, on the financial and other related information. This review and assessment involves forming an overall conclusion as to whether:**

- the financial statement has been prepared using acceptable accounting policies, which have been consistently applied;
- the financial statement complies with relevant regulations and statutory requirements;
- there is adequate disclosure of all matters relevant to the proper presentation of the financial statement;
- the view presented by the financial statement as a whole is consistent with the auditor's knowledge of the business of the entity.

**The audit report shall contain among other things a clear written expression of the opinion on the financial statement. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters dealt with in the previous paragraph. When a qualification of opinion, adverse opinion or a disclaimer of opinion is given, the audit report should state in a clear and informative manner all the reasons therefor.**

#### Explanatory Statements

##### 5.3.1 An unqualified opinion.

Is given when the auditor is satisfied in all material respects that:

- the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- the statements comply with statutory requirements and relevant regulations;
- the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- there is adequate disclosure of all material facts relevant to the financial statements.

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 the financial statements in the opinion in case that 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 should 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.

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;

- There has been limitation on the scope of audit;
- the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- there is uncertainty affecting the financial statements.

### 5.3.2 **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 except for a clear and concise statement of matters of disagreement or uncertainty giving rise to a 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.

### 5.3.3 **Adverse Opinion**

Where the auditor is unable to form an opinion on the financial statements taken as a whole due to a 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 it clear that, in the opinion of the auditor, the financial statements are not fairly stated. Again, the report should specify clearly and concisely all the matters of disagreement, and quantify the financial effects on the financial statements, where practicable.

### 5.3.4 **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 can not be given, specifying clearly and concisely all matters of uncertainty.

## 5.4 Audit Reports

### Statement of Standard

**The auditor should prepare written audit reports communicating the results of each audit.**

### Explanatory Statements

5.4.1 Other audit reports include performance audit reports and management letters or reports to management on irregularities or non-compliance with laws or regulations noted during the conduct of an audit of financial statements.

5.4.2 The report should include where necessary:

- A description of the scope and objectives of the audit;
- A statement that the audit was made in accordance with government auditing standards;
- In the case of a management letter, a statement that the matters discovered in the management letter were considered when forming the opinion on the financial statements and that the management letter does not alter the opinion expressed in the audit report;
- A description of material weaknesses found in the internal control systems;
- Significant instances of non-compliance and instances or indications of fraud, abuse or illegal acts found during or in connection with the audit;
- Recommendations for actions to improve problem areas noted in the audit and to improve operations;
- Pertinent views of responsible officials of the organization, program, activity or function audited concerning the auditor's findings, conclusions and recommendations;
- A description of noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.
- A list of any issues and questions needing further study and consideration;
- A statement whether any pertinent information has been omitted because it is deemed privileged or confidential.

5.4.3 **All reports shall:**

- Present factual data accurately, fairly and completely. Include only information, findings and conclusions that are adequately supported by sufficient evidence in the auditor's working papers to demonstrate or prove the basis for the matters reported and their correctness and reasonableness;
- Present findings and conclusions in a convincing manner;
- Be objective;
- Be written in language as clear and simple as the subject-matter permits and at the same time be as courteous as possible;
- Be concise but, at the same time, clear enough to be understood by users;
- Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in a balanced perspective considering any unusual difficulties and circumstances faced by the operating official concerned.

5.4.4 Judgments and conclusions may not be based on the normal audit testing or examination process. Generally:

- Materiality is a term that relates to the size or to the nature of the item that would cause a knowledgeable person to change a decision to act or not to act, or to act in a certain way;
- Materiality can be expressed numerically or in economic terms;
- However, in very sensitive areas such as malfeasance, any act, regardless of size, would be considered material;
- The acceptable level of materiality essentially is a judgment question depending, among other things, on national socio-economic and political considerations and level of accountability in government;
- Levels of materiality are likely to differ from one sector or program to another.

5.4.5 In the case of performance audits, judgment will be more subjective as the report does not relate so directly to financial or other statements. Consequently the auditor may find that materiality by nature or by context is a more important consideration than materiality by amount.

5.4.6 Performance audit reports should not concentrate solely on criticism of the past but should be constructive. The auditor's conclusions and recommendations are an important aspects of the audit report, and where appropriate, are written as a guide for action.

5.4.7 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.

5.4.8 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 should also report on significant irregularities, inconsistent application of regulations or on fraud or corrupt practices.

5.4.9 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.

5.4.10 In order to enhance the effectiveness of audit and promote public accountability the OAG should adopt proper, prompt and adequate follow-up programme on the implementation of its audit findings.