

Office of the Auditor General, Nepal
Public audit reform and capacity building

Government Auditing Standards

Part 1: Policy standards

October 2005

Contents

| | | |
|----------------------------|---|----|
| Chapter 1 | | |
| Introduction | 1.1 Mandate | 1 |
| | 1.2 Objectives and functions | 1 |
| | 1.3 Types of audit | 2 |
| | 1.4 Auditing standards | 2 |
| <hr/> | | |
| Chapter 2 | | |
| Basic principles | 2.1 Basic principles | 4 |
| <hr/> | | |
| Chapter 3 | | |
| General standards | 3.1 Independence and objectivity | 5 |
| | 3.2 Competence | 7 |
| | 3.3 Due Care | 8 |
| | 3.4 Confidentiality of information | 10 |
| | 3.5 Quality assurance review | 10 |
| | 3.6 Professional judgement | 12 |
| | 3.7 Other general standards | 13 |
| <hr/> | | |
| Chapter 4 | | |
| Field standards | 4.1 Introduction | 14 |
| | 4.2 Planning | 15 |
| | 4.3 Supervision and review | 16 |
| | 4.4 Study and evaluation of internal control | 17 |
| | 4.5 Compliance with applicable laws and regulations | 18 |
| | 4.6 Audit evidence and documentation | 19 |
| | 4.7 Analysis of financial statements | 20 |
| <hr/> | | |
| Chapter 5 | | |
| Reporting standards | 5.1 Auditors' opinion or report | 22 |
| | 5.2 Types of audit opinions | 25 |
| | 5.3 Audit reports | 27 |
| | 5.4 Materiality | 29 |
| <hr/> | | |
| Glossary | | |

Introduction

1.1 Mandate

1.1.1 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 Objectives and functions

Audit objectives and functions

1.2.1 The Auditor General (AG), through its impartial and independent audit and evaluation of the use of public resources, promote and uphold public accountability. The audits and evaluations performed by the AG assess whether expenditures made and revenue 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:

- 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;
- Prescribes accounting formats to be followed by all government offices;
- Issues directives from time to time, updating the requirements to all auditees; and
- Submits an annual report on its work to His Majesty the King, which is later presented to Parliament.

Objectives and functions of General Audit Divisions

1.2.2 Each audit division:

- prepares annual audit plans and programmes;
 - conducts audits according to approved plans and programmes;
 - incorporates audit observations in the Annual Report;
 - conducts follow-up action on irregularities;
 - participates in the proceedings of the Public Account Committee as needed; and
 - follow up on the decisions of the Public Account Committee
-

1.3 Types of audit

1.3.1 The AG conducts mainly two types of audit:

- Financial Audits
It includes Financial Statement audits, finance related audits, and regularity audits.
- Performance Audits
It considers aspects of economy, efficiency, effectiveness and propriety.

1.3.2 These standards are applicable to both types of audits. The performance audit guide should be referred to in the execution of performance audits.

1.4 Auditing standards

Introduction

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

Basic principles

1.4.2 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.

Categories of auditing standards

1.4.3 The auditing standards described here are broadly grouped under three categories:

General standards

1.4.4 These standards relate to:

- the audit organisation's and individual auditor's independence and objectivity;
- the qualifications of personnel;
- the exercise of due care in conducting the audit and in preparing related reports;
- the confidentiality of information;
- quality assurance; and
- professional judgement.

Chapter 1 Introduction

Field standards

1.4.5 The standards that relate to the conduct of field audit are as follows:

- planning audit assignments;
- supervision and review of audit work;
- consideration of internal control systems in the audited entity;
- compliance with laws and regulations;
- obtaining competent, relevant and reasonable audit evidence; and
- analysis of financial statements.

Reporting standards

1.4.6 These standards relate to:

- form and content of audit opinions and reports;
- types of audit opinions; and
- guidance on report preparation.

Basic principles

2.1 Basic principles

2.1.1 The basic principles are:

- Office of Auditor General (OAG) should comply with the International Organization of Supreme Audit Institutions (INTOSAI) auditing standards in all matters that are deemed material;
- OAG should apply its own judgement to the diverse situations that arise in the course of Government Auditing;
- 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;
- 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;
- 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;
- consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations;
- the existence of an adequate system of internal control minimises the risk of errors and irregularities;
- legislative enactment's 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;
- all audit activities should be within the OAG's audit mandate;
- OAG should work towards improving techniques for auditing the validity of performance measures;
- OAG should avoid conflict of interest between the auditor and the entity under audit.

General standards

3.1 Independence and objectivity

Statement of standard

3.1.1 In all matters relating to the audit work, the audit organisation 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

3.1.2 This standard places responsibility on the auditor and the audit organisation to maintain independence so that opinions, conclusions, judgements and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

3.1.3 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.

3.1.4 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
- organisational impairments.

3.1.5 *Personal impairments* – they include but are not limited to:

- immediate family or close family member who is a director or officer of the audited entity, or as an employee of the audited entity, is in a position to exert direct and significant influence over the entity or the programme under audit;
- official, professional, personal or financial relationships that might cause the auditor to limit the extent of inquiry, to limit disclosure, or weaken audit findings in any way;

Chapter 3

General standards

- preconceived ideas towards individuals, groups, organisations or objectives of a particular programme that could bias the audit;
- previous involvement in a decision-making or management capacity that affects the current operations of the entity or the programme being audited;
- biases, including those induced by political or social convictions, that result from employment in, or loyalty to, a particular group, organisation or level of government;
- responsibility for managing an entity or decision making that could affect operations of the entity or programme being audited; for example as a director, officer, or other senior position of the entity, activity, or programme being audited, or as a member of management in any;
- decision making, supervisory, or ongoing monitoring function for the entity, activity or programme under audit;
- concurrent or subsequent performance of an audit by the same individual who maintained the official accounting records when such services involved preparing source documents or originating data, in electronic or other form, posting transactions, authorising, executing, or consummating transactions (for example, approving invoices, payrolls, claims, or other payments of the entity or programme being audited); maintaining an entity's bank account or otherwise having custody of the audited entity's funds; or otherwise exercising authority on behalf of the entity, or having authority to do so;
- financial interest, direct or indirect, in the audited entity or programme.

3.1.6 *External impairments* – they include, but are not limited to:

- external interference or influence that could improperly or imprudently limit or modify the scope of an audit or threaten to do so, including pressure to reduce inappropriately the extent of work performed in order to reduce costs or fees;
- unreasonable restrictions on the time allowed to complete an audit or issue the report;
- interference external to the audit organisation in the assignment, appointment, and promotion of audit personnel;
- restrictions on funds or other resources provided to the audit organisation that adversely affect the audit organisation's ability to carry out its responsibilities;
- authority to overrule or influence the auditor's judgement regarding the appropriate content of an audit report or selection of what is to be audited;
- influence that jeopardises the auditors continued employment for reasons other than competency, or need for audit services.

Organisational impairments

3.1.7 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 personnel levels.

3.1.8 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.

3.1.9 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 bodies and the rules and regulations of the Office of the Auditor General and the personal and external impairments included in this statement.

3.2 Competence

Statement of standard

3.2.1 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

3.2.2 This standard places responsibility on the audit organisation to ensure that each audit or attestation engagement is performed by personnel who collectively have the knowledge, skills, and experience necessary for that assignment.

Chapter 3 General standards

3.2.3 Collective knowledge and skills mentioned herein apply to the knowledge and skills of the audit organisation 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 personnel need not possess all these skills and knowledge.

3.2.4 Accordingly, audit organisations should have a process for recruitment, hiring, continuous development, and evaluation of personnel to assist the organisation in maintaining a workforce that has adequate competence. The organisation should maintain documentation of the education and training completed by each individual auditor.

3.3 Due Care

Statement of standard

3.3.1 Due professional care must be exercised in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

Explanatory statements

3.3.2 This standard places responsibility on the auditor and the audit organisation to follow all applicable standards in conducting government audits. Auditors should use sound professional judgement 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 therefore 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.

Chapter 3

General standards

3.3.3 Exercising due care means using sound judgement in establishing the scope, selecting methodology and choosing tests and procedures for the audit. The same sound judgement 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 organisation is required to conduct an audit even though the cost of the audit exceeds the benefits to be derived);
- reporting time frames that must be met.

3.3.4 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 judgements made in the audit, and the audit report.

3.3.5 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.

3.3.6 Should the OAG need to seek advice from specialists external to the OAG, 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 audit department of responsibility for the opinions formed or conclusions reached on the audit task.

3.3.7 When the audit department 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.

3.4 Confidentiality of information

Statement of standard

3.4.1 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

3.4.2 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 organisation and its management to any third party. No member of the Office of the Auditor General except the Auditor General or someone authorised by him is authorised to make statements to the media or to have any other work-related contact with the media.

3.5 Quality assurance review

Statement of standard

3.5.1 OAG should have an appropriate quality assurance system in place.

Explanatory statements

3.5.2 The audit organisation should establish systems and procedures to:

- confirm that internal quality assurance processes have operated satisfactorily;
- ensure the quality of the audit report; and
- secure improvements and avoid repetition of weaknesses.

Chapter 3

General standards

3.5.3 The Office of the Auditor General should implement a programme 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 programme implies the following elements:

- supervision;
- internal reviews; and
- external reviews.

3.5.4 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, it is desirable for the audit departments to establish their 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 OAG personnel 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 audit organisation's top management.

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

3.5.6 The quality of the work done by the audit department can be enhanced by strengthening internal review and by the independent appraisal of its work.

3.5.7 Audit organisations performing audits should have an external peer review of their auditing engagement practices at least once every 3 years by reviewers independent of the audit organisation being reviewed. The external peer review should determine whether, during the period under review, the reviewed audit organisation's internal quality control system was adequate and whether quality control policies and procedures were being complied with to provide the audit organisation with reasonable assurance of conforming with applicable professional standards. Audit organisations should take remedial, corrective actions as needed based on the results of the peer review.

3.6 Professional judgement

Statement of standard

3.6.1 Professional judgement should be used in planning and performing audits, and in reporting the results.

Explanatory statements

3.6.2 This standard requires auditors to exercise reasonable care and diligence and to observe the principles of serving the public interest and maintaining the highest degree of integrity, objectivity and independence in applying professional judgement to all aspects of their work.

3.6.3 Auditors should use professional judgement in determining the type of assignment to be performed and the standards that apply to the work, defining the scope of work, selecting the methodology, determining the type and amount of evidence to be gathered, and choosing the tests and procedures for their work. Professional judgement also should be applied in performing the tests and procedures and in evaluating and reporting the results of the work.

3.6.4 Professional judgement requires auditors to exercise professional scepticism, which is an attitude that includes a questioning mind and a critical assessment of evidence/auditors use the knowledge, skills and experience called for by their profession to diligently perform, in good faith and with integrity, the gathering of evidence and the objective evaluation of the sufficiency, competency and relevancy of evidence. Since evidence is gathered and evaluated throughout the assignment, professional scepticism should be exercised throughout the assignment.

3.6.5 Auditors neither assume that management is dishonest nor assume unquestioned honesty. In exercising professional scepticism, auditors should not be satisfied with less than persuasive evidence because of a belief that management is honest.

3.6.6 The exercise of professional judgment allows auditors to obtain reasonable assurance that material misstatements or significant inaccuracies in data will likely be detected if they exist. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud.

3.7 Other general standards

Statement of standard

3.7.1 OAG should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits.

Explanatory statements

3.7.2 Communication to personnel of the audit organisation by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out the audit organisation's policies, standards and practices, is important in maintaining the quality of audits.

Field standards

4.1 Introduction

4.1.1 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 services, implements to achieve a specific result.

4.1.2 The filed 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 results from carrying out the field standards constitute the main source for the contents of the opinion or report.

4.1.3 The field standards applicable to all types of audit are:

- 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 work of the audit personnel 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 personnel;
- the auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control;
- 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 financial 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;
- competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit; and
- 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.

4.2 Planning

Statement of standard

4.2.1 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

4.2.2 To fulfil 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.

4.2.3 OAG should give priority to any audit tasks which must be undertaken by law and assess priorities for discretionary areas within OAG's mandate.

4.2.4 In planning the audit, the following areas should be covered:

- identify important aspects of the environment in which the audited entity operates;
- develop an understanding of the accountability relationships in the audit entity;
- consider the form, content and users of audit opinions, conclusions or reports;
- specify the audit objectives, determining and programming the nature, timing and extent of audit procedures to be performed;
- identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses;
- determine the materiality of matters to be considered;
- review the internal audit of the audited entity and its work program;
- assess the extent of reliance that might be placed on other auditors, for example, internal audit;
- provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations;
- provide for appropriate documentation of the audit plan and for the proposed fieldwork; and
- methods of coordinating the work to be performed and already performed by other auditors and specialists.

Chapter 4

Field standards

4.2.5 The following planning steps are normally included in an audit:

- collect information about the audited entity in order to assess risk and to determine materiality;
- define the objective and scope of the audit;
- undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
- highlight special problems foreseen when planning the audit;
- prepare a budget and a schedule for the audit;
- identify personnel requirements and a team for the audit; and
- familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

4.2.6 The audit organisation may revise the plan during the audit, when necessary.

4.2.7 Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from non-compliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible non-compliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that non-compliance has occurred.

4.3 Supervision and review

Statement of standard

4.3.1 The work of the audit personnel 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 personnel.

Explanatory statements

4.3.2 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 competency of individual auditors.

Chapter 4

Field standards

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

- the effectiveness and quality of auditing activities are maintained;
- the Office of the Auditor General's objective of providing practical training to auditors is realised;
- the members of the audit team have a clear and consistent understanding of the audit plan;
- the audit is carried out in accordance with the auditing standards and practices of the audit organisation;
- the audit plan and action steps specified in that plan are followed unless a variation is authorised;
- working papers contain evidence adequately supporting all conclusions, recommendations and opinions;
- the auditor achieves the stated audit objectives; and
- the audit report includes the audit conclusions, recommendations and opinions, as appropriate.

4.3.4 All audit work should be reviewed by a senior member of the audit personnel 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 judgement to the audit task and should ensure that:

- all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;
- all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior officer(s); and
- changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in personnel development activities.

4.4 Study and evaluation of internal control

Statement of standard

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

Explanatory statements

4.4.2 The study and evaluation of internal control should be carried out according to the type of audit undertaken. In the case of 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 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.

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

4.4.4 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.

4.5 Compliance with applicable laws and regulations

Statement of standard

4.5.1 In conducting audits, a test should be made of compliance with applicable laws and regulations to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statements.

Explanatory statements

4.5.2 Reviewing compliance with laws and regulations is especially important when auditing government programs 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 organisations, programs, services, activities, and functions are created by laws and are subject to more specific rules and regulations.

4.5.3 Compliance reviews are necessary in both financial and performance audits. Non-compliance disclosed in performance audits could result in programme cancellations, the repayment of funds or legal sanctions against the auditee.

Chapter 4

Field standards

4.5.4 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 judgement in determining those laws and regulations that might have a significant impact on the audit objectives.

4.5.5 The auditor also should 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 needs to determine the extent to which these acts affect the audit results.

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

4.5.7 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.

4.6 Audit evidence and documentation

Statement of standard

4.6.1 Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit.

Explanatory statements

4.6.2 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.

Chapter 4

Field standards

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

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

4.6.5 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.

4.6.6 Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions.

4.6.7 Adequate documentation is important. It will:

- confirm and support the auditor's opinions and reports;
- increase the efficiency and effectiveness of the audit;
- serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- serve as evidence of the auditor's compliance with auditing standards;
- facilitate planning and supervision;
- help the auditor's professional development;
- help to ensure that delegated work has been satisfactorily performed; and
- provide evidence of work done for future reference.

4.7 Analysis of financial statements

Statement of standard

4.7.1 In financial audits, 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.

Explanatory statements

4.7.2 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 auditor should therefore thoroughly analyse 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.

4.7.3 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 judgement of the auditor.

4.7.4 Where the audit organisation is required to report on the execution of budgetary laws, the audit should include:

- for revenue accounts, ascertaining whether forecasts are those of the initial budget, and whether the audits of taxes, rates and duties recorded, and imputed receipts, can be carried out by comparison with the annual financial statements of the audited activity; and
- for expenditure accounts, verifying credits to assist budgets, adjustment laws and, for carryovers, the previous year's financial statements.

Reporting standards

5.1 Auditors' opinion or report

Statement of standard

5.1.1 At the end of each audit, the auditor should 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, and includes only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.

5.1.2 It is for the OAG to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

5.1.3 Government auditors submit different kinds of reports to the Executive and the Legislature. The audit reporting process begins with submission of an Inspection Report to the Head of any Office or Department which has been audited with a request to submit replies and clarifications/ comments on the audit observations. Depending on the veracity and relevance of replies/ clarifications received and the materiality of the observations in the Inspection reports, these are further processed for reporting in the Audit report submitted by OAG for being planed in the concerned Legislature. Besides this basic distinction, there are audit certificates of financial statements or of statements of expenditure, which are issued to the statements or of statements of expenditure, which are issued to the management of a company/corporation and departments dealing with them.

Explanatory statements

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

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

Chapter 5 Reporting standards

Reporting procedures

Preliminary report

5.1.6 The audit findings are drafted by the field audit officers and discussed with the auditees, and based on these findings a preliminary draft is prepared within 15 days of completion of the audit fieldwork. This report is reviewed by the Audit Supervisors (“Director”) for audit entities located in the Kathmandu Valley and subsequently given to the auditees for their comments, and a copy sent to the Ministry’s Secretariat. A timeframe of 35 days is given to the Department to revert with their responses. An extension of time is granted if the AG’s office deems the reasons are justified. At this juncture, the auditees are notified that all findings will be incorporated in the Annual Report.

Final draft report

5.1.7 Upon completing the fieldwork for the whole Ministry, the audit officers compile and prepare the final draft audit report, i.e. sometime between March and May of the financial year, incorporating the responses received from management. The draft audit reports are subsequently reviewed by the Director and Assistant Auditor General (AAG), and issued to the concerned entities and copied to the Secretariat of the respective Ministry. Subsequent to receipt of management comments, if responses are acceptable, the AAG may drop the finding and this is appropriately documented on file. The final draft report will be sent to the Deputy Auditor General (DAG) and AG for their review.

5.1.8 The compiled final draft report will be sent to the concerned Secretariat, and a timeframe of between 7 to 15 days will be given for further response. If further comments are raised by the Secretariat, the final draft audit report will incorporate all responses received during the fieldwork and all other findings will remain and will also be highlighted in the audit report accordingly.

5.1.9 Currently, the Reporting Sub-committee, comprising the AAG, DAG and AG, will review the final report concurrently upon issuance of the final draft reports to the respective Secretariats. Upon expiry of the response time granted to the Secretariat, the Sub-committee will finalise the final draft reports for incorporation into the Annual Report.

Chapter 5 Reporting standards

Form and content of audit opinions and reports

5.1.10 The form and content of all audit opinions and reports are founded on the following general principles:

- Title

The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.

- Signature and date

The opinion or report should 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 financial audits, may be beyond the period of the financial statements).

- Objectives and scope

The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

- Completeness

Opinions should 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 should be presented as prepared by the auditor. In exercising its independence, the audit organisation 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 should consider the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.

- Addressee

The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This may be unnecessary where formal procedures exist for its delivery.

- Identification of subject matter

The opinion or report should identify the financial statements (in the case of 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.

Chapter 5 Reporting standards

- Legal basis

Audit opinions and reports should identify the legislation or other authority providing for the audit.

- Compliance with standards

Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.

- Timeliness

The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

5.2 Types of audit opinions

General

5.2.1 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 will need to indicate unambiguously whether it is unqualified or qualified. If it is the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.

Unqualified opinion

5.2.2 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 matters relevant to the financial statements.

Chapter 5

Reporting standards

Emphasis of matter

5.2.3 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 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 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.

Qualified opinion

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

- there has been a limitation of scope;
- 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.

5.2.5 Where the auditor disagrees 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 an 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.

Adverse opinion

5.2.6 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.

Disclaimer of opinion

5.2.7 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 that 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.

General

5.2.8 It is customary for audit organisations to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

5.3 Audit reports

Explanatory statements

5.3.1 Financial 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, whether perceived or potential, on inconsistency of application of regulations or on fraud and corrupt practices.

5.3.2 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.

5.3.3 Reports on irregularities may 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 should also address future remedial action by incorporating statements by the audited entity or by the auditor, including conclusions or recommendations.

Chapter 5

Reporting standards

5.3.4 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.

5.3.5 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 of 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 organisation, programme, 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; and
- a statement whether any pertinent information has been omitted because it is deemed privileged or confidential.

Chapter 5

Reporting standards

5.3.6 Auditors should recognise that their judgement is being applied to actions resulting from past management decisions. Care should therefore be exercised in making such judgements, 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 an auditor presents its own views or recommendations.

5.3.7 Performance reports should not concentrate solely on criticism of the past but should be constructive. The auditor's conclusions 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.

5.4 Materiality

Explanatory statements

5.4.1 In formulating the audit opinion or report, the auditor should have regard to the materiality of the matter in the context of the financial statements audit or financial audit as the case may be or the nature of the audited entity or activity being audited where performance audit is being conducted.

5.4.2 Judgements 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 in a certain way;
- materiality can be expressed numerically or 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 judgement question depending, among other things, on national socio-economic and political considerations and level of accountability in government; and

Chapter 5

Reporting standards

- levels of materiality are likely to differ from one sector or programme to another.

5.4.3 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.

5.4.4 In the case of performance audits that judgement will be more subjective as the report does not relate as 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 monetary amounts involved.

Glossary

| | |
|------------------------|---|
| Adverse opinion | An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements. The auditor may issue an adverse opinion due to a disagreement with management. |
| Assurance | Assurance refers to the auditor's satisfaction as to the reliability of an assertion being made by one party for use by another party. To provide such assurance, the auditor assesses the audit evidence collected as a result of procedures conducted and expresses a conclusion. The degree of satisfaction achieved and, therefore, the level of assurance which may be provided is determined by the procedures performed and their results. |
| Audit | The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. The phrases used to express the auditor's opinion are "give a true and fair view" or "present fairly, in all material respects," which are equivalent terms. A similar objective applies to the audit of financial or other information prepared in accordance with appropriate criteria. |
| Audit evidence | Information that forms the foundation which supports the auditor's or SAI's opinions, conclusions or reports. Competent: information that is quantitatively sufficient and appropriate to achieve the auditing results; and is qualitatively impartial such as to inspire confidence and reliability. Relevant: information that is pertinent to the audit objectives. Reasonable: information that is economical in that the cost of gathering it is commensurate with the result which the auditor or the SAI is trying to achieve. |
| Audit mandate | The auditing responsibilities, powers, discretions and duties conferred on a SAI under the constitution or other lawful authority of a country. |
| Audit objective | A precise statement of what the audit intends to accomplish and/or the question the audit will answer. This may include financial, regularity or performance issues. |
| Audit procedure | The application of an audit technique to obtain audit evidence. Audit procedures may include: <ul style="list-style-type: none">▪ test of control;▪ analytical procedures;▪ tests of details. |

| | |
|------------------------------|--|
| Audit scope | The framework or limits and subjects of the audit. |
| Auditing standards | Auditing standards provide minimum guidance for the auditor that helps determine the extent of audit steps and procedures that should be applied to fulfill the audit objective. They are the criteria or yardsticks against which the quality of the audit results are evaluated. |
| Auditor | The auditor is the person with final responsibility for the audit. |
| Confirmation | Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records. |
| Constitutional | A matter which is permitted or authorized by the fundamental law of a country. |
| Disclaimer of opinion | A disclaimer of opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly are unable to express an opinion on the financial statements. The auditor may also issue a disclaimer of opinion in extreme cases involving multiple uncertainties that are significant to the financial statements. |
| Documentation | Documentation is the material (working papers) prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit. |
| Due care | The appropriate element of care and skill which a trained auditor would be expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering and evaluating evidence, and forming opinions, conclusions and making recommendations. |
| Economy | Minimising the cost of resources used for an activity, having regard to the appropriate quality. |
| Effectiveness | The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity. |
| Efficiency | The relationship between the output, in terms of goods, services or other results, and the resources used to produce them. |
| Error | <p>An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure, such as:</p> <ul style="list-style-type: none"> ▪ a mistake in gathering or processing data from which financial statements are prepared; ▪ an incorrect accounting estimate arising from oversight or misinterpretation of facts; and ▪ a mistake in the application of accounting principles relating to measurement, recognition, classification, presentation or disclosure. |

| | |
|--|--|
| Expert | An expert is a person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing. |
| Financial statements | The balance sheets, income statements or profit and loss accounts, statements of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements. |
| Findings, conclusions and recommendations | Findings are the specific evidence gathered by the auditor to satisfy the audit objectives; conclusions are statements deduced by the auditor from those findings; recommendations are courses of action suggested by the auditor relating to the audit objectives. |
| Fundamental | A matter becomes fundamental (sufficiently material) rather than material when its impact on the financial statements is so great as to render them misleading as a whole. |
| General standards | The qualifications and competence, the necessary independence and objectivity, and the exercise of due care, which shall be required of the auditor to carry out the tasks related to the field and reporting standards in a competent, efficient and effective manner. |
| Independence | The freedom of the SAI in auditing matters to act in accordance with its audit mandate without external direction or interference of any kind. |
| Inherent risk | Inherent risk is the susceptibility of an account balance or class of transactions to misstatement that could be material, individually or when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls. |
| Inquiry | Inquiry consists of seeking information of knowledgeable persons inside or outside the entity. |
| Inspection | Inspection consists of examining records, documents or tangible assets. |
| Internal audit | The functional means by which the managers of an operations receive an assurance from internal sources that the processes for which they are accountable are operating in a manner which will minimise the probability of the occurrence of fraud, error or inefficient and uneconomic practices. It has many of the characteristics of external audit but may properly carry out the directions of the level of management to which it reports. |

| | |
|---|---|
| Internal control | The whole system of financial and other controls, including the organizational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited operations in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information. |
| International Organization of Supreme Audit Institutions (INTOSAI) | An international and independent body which aims at promoting the exchange of ideas and experience between Supreme Audit in the sphere of public financial control. |
| International Standards on Auditing (ISA) | International Standards on Auditing, developed by the International Federation of Accountants (IFAC), contain basic principles and essential procedures together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. |
| Management | Management comprises officers and others who also perform senior managerial functions. Management includes directors and the audit committee only in those instances when they perform such functions. |
| Material weaknesses | Material weaknesses in internal control are control deficiencies that could have a material effect on the financial statements. |
| Materiality | Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful. |
| Observation | Observation consists of looking at a process or procedure being performed by others, for example, the observation by the auditor of the counting of inventories by the entity's personnel or the performance of internal controls that leave no audit trail. |
| Opinion | The auditor's written conclusions on a set of financial statements as the result of a financial audit. |
| Period | Period refers to the length of time covered by the financial statements for which the auditor expresses an opinion. An entity usually issues financial statements annually. |
| Planning | Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the objectives. |

| | |
|--|--|
| Principles | Basic assumptions, consistent premises, logical principles and requirements which represent the general framework for developing auditing standards. |
| Qualified opinion | A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or disclaimer of opinion. A qualified opinion should be expressed as being “except for” the effects of the matters to which the qualification related. |
| Related party | Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. |
| Report | The auditor's written opinion and other remarks on a set of financial statements as the result of a financial audit. |
| Reporting Standards | The framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor's report. |
| Routine transactions | Routine transactions record the operation’s day-to-day business transactions, such as its ordinary sales, purchases, cash payments and cash receipts. Routine transactions are likely to be: <ul style="list-style-type: none"> ▪ numerous; ▪ recurring; ▪ objectively measurable, requiring little or no judgement in determining the amount to be recorded; and ▪ processed in a similar way each time they occur. |
| Sufficiency | Sufficiency is the measure of the quantity of audit evidence. |
| Supervision | An essential requirement in auditing which entails proper leadership, direction and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved. |
| Supreme Audit Institution (SAI) | The public body of a State which, however designated, constituted or organised, exercises by virtue of law the highest public auditing function of that State. |
| Transactions | A transaction is an event involving the exchange of value between the entity and another party that is required to be recognized in financial statements. The other party may be external to the entity or not, as in the case of inter-company transactions. A transaction may be routine or non-routine. |
| Uncertainty | An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements. |

Unqualified opinion

An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with the identified financial reporting framework. An unqualified opinion also indicates implicitly that any changes in accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

Working papers

Working papers are a record of the auditor's planning, nature, timing and extent of the auditing procedures performed; and results of such procedures and the conclusions drawn from the audit evidence obtained. Working papers may be in the form of data stored on paper, film, electronic media or other media.
