# GOVERNMENT AUDITING STANDARD

# FOREWORD

The Constitution of the People's Republic of Bangladesh places the Office of the Comptroller and Auditor General in a unique position of trust which requires that all work of the office be carried out in accordance with the highest professional standards. This entrusts us with a responsibility to ensure high standards of quality, adopt best practices and set benchmarks against which to measure the quality and output of our work. It is, therefore, incumbent upon us, to establish and codify internationally acceptable and modern professional standards to govern all our audit work so that we can efficiently and effectively carry out the responsibilities bestowed on us by the Constitution.

In the absence of our own auditing standards, until now, we have taken guidance from a variety of sources: basic principles and guidelines pertaining to the Office laid down in our Constitution, guidance contained in the existing Audit Code and Audit Manuals, standards recommended by INTOSAI and those used by other national audit offices. Often, these standards are inadequate to serve our purpose. The 'Government Auditing Standards' will fill an important void in our practice and fulfil the long-felt need to have our own standards, which meet our requirements and are also consistent with international norms.

This document on 'Government Auditing Standards' lays down the basic standards that auditors are expected to meet in conducting their audits. Although designed primarily for the guidance of auditors and officials of the Audit Department of Bangladesh, I believe that these standards would be of much benefit to the internal auditors of public sector organizations as well. Broadly speaking, the standards lay stress on the importance of independence and professional competence of staff; exercising due care; proper planning and supervision; reasonableness of criteria; sufficiency, reliability and relevance of evidence to support conclusions; and fairness and completeness in reporting. Each standard is supported by explanations to assist the auditor in understanding its meaning and significance. All staff engaged in the audit are expected to closely follow the standards, which cover the whole audit cycle - planning, examination and reporting. Extensive training in the new standards and professional development of staff at all levels will be needed over time, as well as modifications in organizational structure, systems, and procedures may be required in the Audit Directorates and in the C&AG's Secretariat.

The development and adoption of 'Government Auditing Standards' represent a significant milestone in the process of modernising government auditing in Bangladesh. These standards have been prepared as part of the ongoing reform initiatives being initiated and implemented in the Department. It is my firm belief that the adoption and application of these Government Auditing Standards will contribute in a major way in raising the standard and quality of government auditing in Bangladesh. As a result, my Office will be able to play a more effective and enhanced role in promoting greater transparency, accountability and good governance in the public administration of Bangladesh.

The Government Auditing Standards are issued under the authority of Article 128 of the Constitution of the People's Republic of Bangladesh and the Comptroller and Auditor General (Additional Functions) Act, 1974.

**Dhaka**
**11 November 1999**

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# Chapter 1: Introduction

This chapter deals with the need for professional auditing standards, outlines basic premises of accountability and the responsibility of auditors to observe the standards, and describes the different types of audits.

## 1.1 Purpose

1.1.1 The Constitution of the People's Republic of Bangladesh gives the Comptroller and Auditor General wide discretionary powers in interpreting and applying his mandate in deciding what to audit, how to audit, and when to audit. This unique position of trust places a responsibility on the Office of the Comptroller and Auditor General (Office) to carry out its work in accordance with the highest professional standards.

1.1.2 The aim of the Office is to promote public accountability and foster sound financial management practices in government. It does so by providing factual, objective and timely information to Parliament on the performance of government by highlighting waste, system weaknesses, deficiencies and the economic, efficient and effective use of public resources.

I.1.3 This document contains the government auditing standards to be followed by the Office and its staff in carrying out audits of public sector organizations and their programmes and activities. Each standard is supported by explanations of its meaning and significance, and guidelines for its application.

1.1.4 The standards provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit. They constitute the criteria or yardstick against which the quality of the results of audit is evaluated. Further guidance on how to meet these standards is contained in the Audit Code and Audit Manuals.

## 1.2 Basic Promises

1.2.1 **Accountability process:** Democracy rests on an elaborate structure of accountability at all levels of government. The need for accountability has caused a demand for more information. Public officials, legislators, citizens and other users of audit reports want and need to know whether public funds are managed properly and in compliance with laws and regulations, whether programmes and services are achieving their purposes and whether they are operating economically, efficiently and effectively.

1.2.2 **Accountability of public managers:** Persons or entities that are entrusted with the responsibility of managing public resources need to render an account of their activities to the public. They are responsible for:

- applying those resources economically, efficiently, and effectively to achieve the purposes for which the resources are furnished;
- complying with applicable laws and regulations. They must implement systems designed to achieve that compliance;
- establishing and maintaining effective controls to ensure that appropriate goals and objectives are met; resources are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained and fairly disclosed;
- providing fair and complete financial reports and other information to appropriate levels and branches of government for the resources provided to carry out government programmes and services.

1.2.3 Acceptable accounting standards: Acceptable accounting standards for financial reporting and disclosure in the public sector are a prerequisite for fair presentation of financial information and the result of operations. Appropriate authorities should promulgate such standards. Audited entities must comply with them and apply them in a consistent manner.

## 1.3 Auditors' Responsibility

1.3.1 **Compliance with established standards:** All audit work of the Office should comply with the established standards to ensure consistently high quality. The Office is thus responsible for ensuring that a) the audit is conducted by personnel who collectively have the necessary qualifications, competence and skills, b) independence is maintained, c) applicable standards are followed in planning, conducting and reporting the results of the audit, and d) the Office has an appropriate internal quality control system in place.

1.3.2 Activities within mandate: All audit activities should be within the Office's audit mandate. The full scope of the Office's mandate includes financial statement audits, regularity (or compliance) audits, and performance audits.

## 1.4 Types of Audit

1.4.1 **Financial Statement Audits:** A financial statement audit is the examination of the financial statements of an audited entity with the primary objective of expressing an opinion on whether the financial statements truly present the expenditures and receipts in the case of accounts prepared on cash basis (Government Accounts). In the case of accrual accounts the opinion shall be whether financial statements present a fair and true picture of the financial position, results of operations, and cash flows.

1.4.2 Financial statement audits can be of government ministries and government commercial enterprises. The **audit of government commercial enterprises** involves reviewing, commenting upon, or supplementing, the audit report of the statutory auditor of the enterprise, and/or conducting supplementary audit as considered appropriate.

1.4.3 **Regularity or Compliance Audits:** A regularity or compliance audit is an examination of the management of expenditures and receipts, and financial systems and transactions of the audited entity to determine whether the entity has complied with specific applicable laws, rules, regulations, procedures, etc. that apply to it.

1.4.4 **Forensic audit:** It is a special type of compliance audit. It involves an investigative examination of pre-identified cases brought to the attention of the auditor to determine the validity of allegations of fraud and other financial wrongdoing.

1.4.5 **Performance audits or Value-for-Money audits:** The terms 'Performance Audit' and 'Value-for-Money Audit essentially mean the same thing and are used interchangeably by different SAIs in different parts of the world. For example, the United States, countries in the Indian sub-continent and other countries use the term performance audit, while Canada, the U.K, among others, use the term value-for-money audit. For our purpose the term Performance Audit has been adopted.

1.4.6 A performance audit or value-for-money audit is an objective and systematic examination of a public sector organization's programme, activity, function, or management systems and procedures to provide an assessment of whether the entity in the pursuit of predetermined goals has achieved **economy, efficiency and effectiveness** in the utilization of its resources (the 3 Es). The purpose is to provide information to stakeholders to improve public accountability and assist decision-makers, who are ultimately answerable to the Parliament.

1.4.7 With the advent of information technology and concern for the environment, two new areas of focus in performance audits have become essential: **EDP audit** and **environmental audit.** In an **EDP audit** an examination is conducted to give an opinion on the development and applications of computer-based systems in an audited entity and the adequacy of administrative and organizational controls as to their accuracy and reliability in processing and analyzing information. An **environmental audit** is another type (4th E) of performance audit in which the objective is to assess the nature and extent of the environmental impacts of an entity's activities.

# Chapter 2: General Standards

This chapter deals with general standards that apply to all types of audits. They relate to the independence of audit staff and the Office, the competence of the audit team, the exercise of due professional care in conducting and reporting the audit, and the presence of quality controls. These standards are distinct from standards that relate to fieldwork (planning and conducting the audit) and standards that relate to preparing audit reports.

## 2.1 Independence

***In all matters relating to the audit work, the auditor and the Office should be free from personal and external impairments and be organizationally independent.***

2.1.1 This standard places responsibility on each auditor and the Office to maintain independence so that opinions, conclusions, judgements and recommendations will be impartial and be viewed to be impartial by knowledgeable third parties.

2.1.2 Auditors should notify their supervisor of any personal impairments to their independence that could affect their objectivity in conducting the audit. Such impairments could include:

- official, personal or financial relationships with the staff or the entity being audited;
- previous responsibility for decision-making or managing an entity being audited; and
- previous responsibility for maintaining the accounting records of an entity being audited.

2.1.3 In such situations, the Office should reassign the audit staff to other duties.

2.1.4 The Office should be independent from both the executive and the legislature and shall not be subject to any direction from them in the programming, planning and conduct of audits. It must have freedom to set priorities and programme its work in accordance with its mandate and adopt methodologies appropriate to the audits to be undertaken.

2.1.5 The Office may give members of the legislature factual briefings on audit reports, but it is important that the Office maintains its independence from political influence. This implies that the Office should not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests.

2. ] .6 At the request of Parliament or the executive, the Office may undertake specific issues for audit. However, the Office must be free to decline any such request and, if it does accept the request, it must remain free to determine the manner in which it conducts the audit work.

2.1.7 The Office must not be subject to direction by the executive in relation to the performance of its mandate. It should not be obliged to the government to carry out, modify or refrain from carrying out, an audit or suppress or modify audit findings, conclusions and recommendations.

2.1.8 The Office should take care in avoiding participation in the executives functions of the kind that would militate against its independence and objectivity in the discharge of its mandate. The Office should be ready to advise the executive in such matters as accounting standards and policies and the form of financial statements. The Office must ensure that in giving such advice it avoids any explicit or implied commitment that would impair the independent exercise of its audit mandate.

2.1.9 The Office should not, in any way, involve itself in matters relating to enquiry, investigations, etc. arising from audit objections or observations raised in its reports, including being part of an investigative team established by the executive.

2.1.10 Although the Office may share arrangements with the executive in matters such as industrial relations, personnel management, property management or common purchasing of equipment and stores, the executive should not be in a position to take decisions that would jeopardize the Office's independence in discharging its mandate.

2.1.11 The Office must be provided with sufficient resources, for which the Office is accountable, to enable it to exercise its mandate effectively as well as to discharge its responsibilities in a reasonable manner.

2.1.12 In order that the Office not only exercises its functions independently of the executive but be seen to do so, it is important that its mandate and its independent status be well understood in the community. The Office should, therefore, undertake an appropriate educational role in that regard.

## 2.2 Competence

***The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.***

2.2.1 Whatever the nature of the audits to be undertaken, the audit work should be carried out by persons whose qualifications, skills and experience are commensurate with the nature, scope and complexities of the audit task.

2.2.2 The Office should adopt a policy of recruiting personnel who possess suitable academic qualifications and are equipped with appropriate training and experience. The Office should establish and regularly review the minimum educational requirements for the appointment of auditors.

2.2.3 The Office should assess the resources required to undertake each audit and assign suitably skilled staff to the work, provide a good distribution of skills to auditing tasks and a sufficient number of persons for the audit.

2.2.4 It is not necessary that each auditor possesses competence in all aspects of the audit mandate. However, the team involved in a particular audit should collectively possess the necessary skills and expertise.

2.2.5 The Office should be free to acquire specialized skills from external sources if the successful carrying out of an audit so requires. It is for the Office to judge, in its particular circumstances, to what extent its requirements are best met by in-house expertise as against employment of outside experts.

2.2.6 The Office should adopt policies and procedures for continuous training and professional development of staff to enable them to perform their task effectively.

2.2.7 The Office should establish and regularly review criteria, including educational requirements, for the advancement of audit staff.

2.2.8 Auditors should have a good understanding of the government environment, including the role of the legislature and the arrangements governing the operations of government departments, local bodies and other public sector organizations.

2.2.9 The Office must have up-to-date audit code and manuals and other guidance setting out the Office policies, procedures and practices concerning the conduct of different types of audits undertaken. Appropriate means must be used to communicate and disseminate these to all members of the staff of the Office.

2.2.10 Audit staff must possess an adequate knowledge of the auditing standards, policies, procedures and practices.

2.2.11 Auditors conducting audits of financial systems, accounting records and financial statements require training in accounting and related disciplines as well as a knowledge of applicable legislation and executive orders affecting the accountability of the audited entity. Auditors conducting performance audits may require, in addition to the above, education and training in such areas as administration, management, economics and other social sciences.

## 2.3 Due Care

***The auditor and the Office must exercise due care in conducting the audit and preparing related reports***

2.3.1 Due care entails that auditors must apply the auditing standards established by the Office. This embraces due care in setting the scope of the audit, choosing the audit criteria, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

2.3.2 Auditors need to be alert for situations of weaknesses in internal controls, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity.

2.3.3 The Office must exercise due care to assure itself of competence and aptitude of external consultants on contract. Using external contractual services does not relieve the Office of responsibility for the opinions formed or conclusions reached on the audit task.

2.3.4 It is essential that the Office maintain confidentiality regarding audit matters and information arising from its audit examination. However, the Office must be entitled to report offences against the law to proper prosecuting authorities.

2.3.5 While this standard places responsibility on the Office and its audit staff to exercise due care in conducting an audit, it does not imply unlimited responsibility, nor does it imply infallibility of either the individual auditor or the Office.

## 2.4 Quality Control

***The Office should have in place an internal quality control system to review the efficiency and effectiveness of its internal standards and procedures.***

2.4.1 Maintaining and continuously improving the quality of its work is of critical importance to the credibility of the Office. In this regard, the Office should pay particular attention to assessing the quality of its audit work on an ongoing basis.

2.4.2 The Office should establish a separate quality control review cell, and systems and procedures to conduct systematically an in-depth review of the planning, conduct and reporting of a sample of audits with the objective of verifying that auditing standards are being adhered to and used consistently; internal quality assurance processes have operated satisfactorily; ensuring the quality of the audit report; and improving current practices.

2.4.3 The results of the quality reviews should be periodically reported to the Office's top management.

2.4.4 Appropriate resources should be made available for this purpose. This work should be carried out by staff not involved in those audits. It is important that the use of those resources be matched against the benefits to be obtained.

2.4.5 The Office should establish an internal audit function to achieve effective management of its own operations, and to sustain and improve the quality of its performance.

# Chapter 3: Field Standards for Financial and Regularity Audits

This chapter prescribes standards for fieldwork (planning and conducting the audit) for financial statement audits and regularity or compliance audits.

## 3.1 Planning and Supervision

***The audit work should be properly planned and the staff engaged in the audit should be properly supervised.***

**3.1.1** **Planning:** Planning consists of developing a general strategy and a detailed approach to the execution of the audit. Factors which the auditor needs to consider when planning the audit include:

- Audit objectives
- Scope
- Criteria
- Staff and other resources

3.1.2 ***Objectives:*** The objective of the audit should be clearly stated so that a conclusion can be reached against it. For example, in the case of a financial statement audit, the audit objective could be to provide an opinion on whether the financial statements properly present the expenditures and receipts in the case of accounts prepared on cash basis, and present a true and fair picture of the financial position, results of operations, and cash flows in the case of accrual accounts.

3. l.3 In the case of a regularity or compliance audit, the audit objective could be to determine whether the entity has complied with specific applicable laws, rules, regulations, procedures, etc.

3. l .4 All persons involved in the audit need to understand the objectives of the work assigned to them and how this work relates to the overall objective of the audit.

3.1.5 **Scope:** Scope is the boundary, limit or area covered by the audit.

Scoping the audit involves narrowing the audit to areas of significance that pertain to the audit objective. It describes the activities or functions of the entity that are the subject of the audit as well as the time period covered by the audit. Clearly setting the scope is particularly relevant in the case of regularity or compliance audits. In planning such audits, the auditor may examine and report on the whole entity, a portion of the entity such as a programme, a class of transactions or even a single transaction.

**3.1.6** ***Criteria:*** Criteria are benchmarks against which the subject matter of the audit can be evaluated. In a financial statement audit, the criteria would normally be generally accepted accounting principles. In a regularity or compliance audit, the criteria would be the laws, rules and regulations themselves that apply to the entity, programme or activity under audit.

3.1.7 Characteristics of suitable criteria are:

- **relevance:** criteria that contribute to making observations and reaching conclusions against the audit objectives;

- **reliability:** criteria that result in consistent conclusions when used by different auditors in similar circumstances;
- **neutrality:** criteria that are free from bias;
- **understandability:** criteria that are clearly stated and not subject to different interpretations; and
- **completeness:** all the criteria that could affect the observations and conclusions are identified and used.

**3.1.8** ***Staff and other resources:*** An adequate number of staff, including specialists if required, and supervisors with appropriate skills, knowledge and experience should be assigned to the audit.

**3.1.9** **Supervision:** It consists of ensuring that the work of all persons, including specialists, if any, is properly executed. This involves directing staff and monitoring their work to ensure that audit objectives are met. Supervision should ensure that:

- staff understand the audit objectives;
- staff are provided with a clear outline of the work expected of them;
- audit procedures are adequate and properly followed;
- audit evidence is appropriate, sufficient and documented and that it supports audit observations and conclusions;
- timetables and schedules are kept and that only necessary work is carried out.

3.1.10 Planning and supervision continue as the audit progresses. The nature, extent and timing of planning and supervision will vary with the complexity of the audit and the experience of the persons assigned to the audit. Plans may need to be changed as the audit progresses.

## 3.2 Materiality

***Auditors should consider materiality in determining the nature, timing and extent of auditing procedures.***

3.2.1 Materiality refers to the magnitude or nature of a misstatement (including an omission or non-disclosure) of financial information, either individually or in aggregate, that makes it probable that the judgement of a reasonable person relying on the information would have been influenced or his decision affected as a result of the misstatement.

3.2.2 An item is considered material if its omission, misstatement or nondisclosure would be likely to distort the view presented in the financial statements.

3.2.3 Materiality judgments are made in the light of surrounding circumstances and necessarily involve quantitative and qualitative considerations. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular audit are matters for the auditors professional judgment.

3.2.4 Materiality and audit risk are related. When planning the audit the auditor should consider what would make the financial statement materially misstated. The auditor's assessment of materiality, related to specific account balances and classes of transactions, helps him decide as to what items to examine and whether to use sampling and analytical procedures. This enables him to select audit procedures that, in combination, can be expected to reduce audit risk to an acceptably low level.

## 3.3 Follow-up

***Auditors should follow-up on known material findings and recommendations from previous audits.***

3.3.1 Auditors should follow-up on known material findings and recommendations from previous audits to determine whether the auditee has taken timely and appropriate corrective action. Auditors should report the status of uncorrected material findings and recommendations from previous audits.

## 3.4 Audit of Financial Statements

***Auditors should analyse financial statements to establish whether accepted accounting standards for financial reporting and disclosure are complied with and express an opinion on the financial statement.***

3.4.1 The mandate of the Office includes the audit of the Appropriation and Finance Accounts of the Government, as well as the financial accounts of government commercial enterprises.

3.4.2 The aim of analysis of financial statements is to determine whether expected relationships exist between the various elements of the financial statements, identify unexpected relationships and any unusual trends. The analysis should determine whether :

- the financial statements are accurate, complete and are consistent with the primary records, books and ledgers;
- the financial statements are prepared in accordance with accepted accounting standards and laws governing them;
- the financial statements are presented with due consideration to the circumstances of the audited entity; and
- sufficient disclosures are presented about the various elements and that these elements are properly evaluated, measured and presented.

3.4.3 Auditors should take into account that some entities may use a cash basis of accounting whereas others may use an accrual basis of accounting.

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

3.4.5 In the course of financial statement audit, efforts should be made to identify areas, transactions, etc. which would require further examination for regularity or performance audit.

## 3.5 Regularity or Compliance Audits

***The scope of regularity or compliance audits includes an examination of financial systems and transactions of the audited entity to determine whether the entity has complied with specific applicable laws, rules, regulations, procedures, etc.***

3.5.1 Activities and functions of government are created or governed by law and are subject to rules, regulations and procedures and compliance with these is important because decision-makers need to know if the law is being followed, whether it is having the desired effect, and if revisions are necessary.

3.5.2 Although it is not the function of the audit to review the statutory rules and regulations, the audit may however point out any apparent loophole or shortcoming in the rules and regulations that do not bring out the true legislative intent and suggest amendments.

3.5.3 In auditing the regularity of expenditures, the auditor examines all financial rules and orders affecting expenditures and other transactions to see that the rules are themselves valid and that the audit may be effectively conducted against them. The audit should bring to light not only cases of clear irregularity but also instances which in the auditor's judgement appear to involve improper expenditure or waste of public money or other resources. Such an audit goes beyond the legality of the expenditure, to its probity and propriety (wisdom, faithfulness and economy).

3.5.4 In auditing the regularity of receipts, such as taxes, duties and other levies, the auditor should carry out an examination to determine if the applicable rules and procedures governing receipts provide an effective check on the assessment, collection and proper accounting of revenue and are being duly observed.

## 3.6 Irregularities, Illegal Acts, and Other Noncompliance

***Auditor should design the audit to provide reasonable assurance of detecting irregularities, illegal acts, material misstatements resulting from illegal acts, and noncompliance with laws and regulations.***

3.6.1 Auditors should be aware of the characteristics and types of potentially material irregularities that could be associated with the area being audited so that they can plan the audit to provide reasonable assurance of detecting material irregularities.

3.6.2 Auditors 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.

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

3.6.4 If specific information comes to the auditor's attention that provides evidence concerning the existence of possible illegal acts, the auditor should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.

3.6.5 If specific information comes to the attention of the auditor that provides evidence concerning the existence of possible noncompliance the auditor should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

3.6.6 An audit conducted in accordance with government auditing standards will not guarantee the discovery of illegal acts or contingent liabilities resulting from them. Nor does the subsequent discovery of illegal acts committed during the audit period necessarily mean that the auditor's performance was inadequate, provided the audit was made in accordance with these standards.

## 3.7 Study and Evaluation of Internal Control

***Auditors should obtain a sufficient understanding of internal control over safeguarding of assets and over compliance with laws and regulations to plan the audit and determine the nature, timing, and extent of tests to be performed.***

3.7.1 Evaluation of internal control and internal audit functions aims to determine whether the entity's internal control structure over safeguarding of assets and compliance with rules and regulations is suitably designed and implemented to achieve control objectives.

3.7.2 Auditors should obtain a sufficient understanding of internal control over safeguarding of assets to plan the audit. Internal control over the safeguarding of assets relates to the prevention or timely detection of unauthorised transactions and unauthorised access to assets that could result in losses. Such control is designed to help ensure that the use of and access to assets are in accordance with management's authorisation.

3.7.3 Management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. This responsibility encompasses the identification of applicable laws and regulations and the establishment of controls designed to provide reasonable assurance that the entity complies with those laws and regulations. Auditors should obtain an adequate understanding of internal control over compliance with laws and regulations to plan the audit. In testing compliance, the audit should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance.

## 3.8 Evidence

***Sufficient, relevant and reliable evidence should be obtained to provide the auditor with a reasonable basis to support the conclusion expressed in the report.***

3.8.1 *Sufficiency* is the measure of quantity of evidence obtained. Evidence is *relevant* if it has a logical and sensible relationship to the finding. Evidence is *reliable* if it is consistent with fact, i.e. it is valid.

3.8.2 When assessing the sufficiency, relevance and reliability of evidence, the auditor would consider the level of assurance to be provided and his assessment of materiality and risk.

3.8.3 A high level of assurance is provided through an audit. Evidence in such situations would normally be obtained by such means as inspection, observation, enquiry, confirmation, computation, analysis or discussion. The auditor will seek corroborating evidence from different sources when forming his conclusion. The auditor will normally rely on evidence that is persuasive rather than conclusive.

## 3.9 Working Papers

***A record of the auditor's work should be retained in the form of working papers.***

3.9.1 Well-organized and complete working papers are of critical importance when reviewing findings with office management, briefing the C&AG, providing support at PAC briefings, answering subsequent queries from the client and others, and planning future assignments.

3.9.2 Working papers allow for the review of audit quality by providing the reviewer written documentation of the evidence supporting the auditors significant conclusions and judgments, as well as to determine whether important objections or observations have been dropped without sufficient explanation, documentation or other evidence provided by the executive.

3.9.3 Working papers should contain sufficient information to enable the reviewer, having no previous connection with the audit whose working papers are being reviewed, to ascertain from them the evidence that supports the auditor's significant conclusions and judgments.

3.9.4 Working papers should contain the objectives, scope, and methodology, including any sampling criteria used; documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined; and evidence of supervisory reviews of the work performed.

# Chapter 4: Reporting Standards for Financial and Regularity Audits

This chapter first prescribes the standards to be used for reporting on the audits of financial statements. The chapter next prescribes the standards to be used for reporting on the audits of regularity or compliance with legislative acts, including laws, rules and regulations.

## 4.1 Financial Statement Audits: Expressing an Opinion

4.1. I In expressing an opinion on financial statements, the following reporting standard would apply:

***The report should contain expression of opinion on the financial statements or an assertion that an opinion cannot be expressed. In the latter case, the reasons therefor should be stated.***

4.1.2 The report should state that the audit of financial statements to which it relates, has been carried out in accordance with relevant statutory and other authority and with the auditing standards of the Office; and the auditor's opinion as to whether, in the case of:

- **Appropriation Accounts:** The sums expended have been applied for the purposes authorized by Parliament and the accounts properly present the expenditure of the relevant grant or vote or appropriation for the year to which the opinion relates;
- **Finance Accounts or other cash accounts:** The accounts properly present the receipts and payments of the audited body or government as a whole (in the case of Finance Accounts) including the monetary assets and liabilities of the government or audited entity as chosen in any supplementary statements as appendix to the main accounts.
- **Accounts prepared on an accrual basis:** The financial statements give a true and fair view of the state of affairs as at the end of the relevant financial period and of the financial results and, where applicable, the cash flows for the period then ended.

4.1.3 This standard is equally applicable both for the accounts prepared purely on an accrual basis as well as accounts prepared on a proforma accrual basis in addition to the accounts prepared on a cash basis.

4.1.4 The report should distinguish between the responsibilities of management and the responsibilities of the auditor and describe the scope of the auditor's examination.

4.1.5 The report should state unambiguously whether the opinion is unqualified or qualified.

4.1.6 **Unqualified opinion:** An unqualified opinion is given when the auditor is satisfied in all material respects that the financial statements have been prepared using acceptable accounting standards, provide adequate disclosure of all material matters, and present fairly the financial position, results of operations and changes in financial position.

4.1.7 The auditor may not be able to give an unqualified opinion if there has been a limitation on the scope of the audit, the statements are incomplete or misleading, or there is a departure from acceptable accounting standards.

4.1.8 **Qualified opinion:** Where the auditor disagrees with or is uncertain about one or more items in the financial statements, a qualified opinion is given. The report should clearly state the matters of disagreement giving rise to the qualified opinion and provide adequate explanation with respect to the disagreement.

4.1.g **Adverse opinion:** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement, which is so fundamental that a qualified opinion would not be adequate, an adverse opinion is given. Such an opinion makes clear that the financial statements are not fairly stated, specifying clearly all the matters of disagreement.

4.1.10 **Disclaimer:** A disclaimer is given when the auditor is unable to form an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction, which is so fundamental that a qualified opinion would not be adequate. A disclaimer makes clear that an opinion cannot be given, specifying clearly all matters of uncertainty.

## 4.2 Regularity (or Compliance) Audits: Expressing an Opinion

In planning his audit, the auditor may choose to focus his audit scope to the following three distinct types of examination for compliance:

### 4.2.1 a) Expressing an Opinion on the Entity's Compliance with Applicable Laws, Rules and Regulations

4.2.2 In compliance audits auditors conduct examinations in order to express opinions on whether an entity has complied with applicable laws, rules and regulations or whether its transactions were carried out in compliance with applicable laws, rules and regulations. Auditors may examine and report on only a portion of the entity such as a program, a class of transactions or even a single transaction.

### 4.2.3 b) Expressing an Opinion on Transactions coming to the auditor's notice in the course of discharging other audit responsibilities

4.2.4 In such situations, auditors express opinions on whether the transactions that came to their notice in the course of discharging other audit responsibilities, such as examinations of financial statements, were in accordance with applicable laws, rules and regulations.

### 4.2.5 c) Expressing an Opinion only on Instances of Non-compliance with applicable laws, rules and regulations

4.2.6 Auditors may be required to report on instances of non-compliance with applicable laws, rules and regulations, which they have observed in the course of discharging their audit responsibilities. Such audits require the auditor to report only on those matters which, in his opinion, do not comply with relevant authorities, such as rules, regulations and applicable laws.

4.2.7 Readers of the auditor's report need an appreciation of the context in which instances of noncompliance were observed. Consequently, the auditor's report should clearly describe the requirements of the audit mandate and the manner in which the auditor identified the instances reported.

4.2.8 When reporting instances of non-compliance with applicable laws, rules and regulations, the auditors should be careful to place the findings in the proper perspective. The extent of non-compliance can be related to the number of cases examined or quantified monetarily.

4.2.9 Auditors may take different approaches in identifying the applicable laws, rules and regulations to be complied with, and in selecting matters to be examined, such as examining only high-risk transactions. It is, therefore, important that the approach be adequately described in the auditor's report.

4.2.10 In all three cases described above, there are common elements in the reporting standard. For case (c), there are some additional requirements. The common standard is:

***The report should describe the scope of the audit and specify the applicable laws, rules and regulations and state the auditor's opinion.***

4.2.11 To comply with this standard, the report should:

- identify the entity or portion thereof being reported on; or the transactions to which the opinion applies by reference to the other audit examination(s) performed;
- specify applicable laws, rules and regulations against which compliance is being reported; state that the examination of the entity or part thereof, or of the transactions, was performed in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as the auditor considered necessary in the circumstances; and
- state an opinion as to whether the entity or portion thereof, or the transactions that came to his notice, have complied, in all significant respects, with the applicable laws, rules and regulations. The report should provide adequate explanation with respect to any reservation contained in the opinion.

4.2.12 In addition to the requirements of the above standard, for case (c), the additional requirements are:

***The report should describe the context in which the instances of non of compliance with applicable laws, rules and regulations are being reported and caution the reader against drawing conclusions as to compliance or non-compliance with respect to matters not reported and for each reported instance of non-compliance.***

4.2.13 To meet these additional requirements, the report should describe

- the requirements of the audit mandate;
- the approach followed by the auditor in selecting matters for examination; and
- the matter being reported together with, if relevant and practicable, the monetary effect.

# Chapter 5: Field Standards for Performance Audits

This chapter prescribes standards for fieldwork (planning and conducting the audit) for performance audits.

The scope of performance audit should embrace:

- audit of the economy with which the entity has utilized resources in the pursuit of its objectives in accordance with sound administrative principles and practices, and management policies;
- audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- audit of the entity's effectiveness in achieving its predetermined objectives, and audit of the actual impact of activities compared with the intended impact.

## 5.1 Planning

***All audit work should be adequately planned.***

5.1.1 In planning the audit, auditors should:

- develop an understanding of the entity and the programme area subject to audit;
- define audit objectives;
- define audit scope;
- establish a methodology to achieve those objectives;
- establish audit criteria;
- consider the work done by others;
- consult and obtain advice as appropriate;
- provide sufficient staff and other resources; and
- develop a written audit plan.

**5.1.2 Understanding the Entity:** Prior to commencing detailed planning of an audit of an entity, it is important to understand the larger context in which the entity operates. In order to do this, the audit team should have up-to-date knowledge of:

- significant legislative authorities;
- organizational arrangements;
- the environment in which the entity operates;
- accountability relationships;
- major control systems;
- key personnel;
- spending levels and revenues;
- the entity's clients;
- the objective, mission and expected results;
- major operations, including those in the field;

- major risks facing the entity; and
- prior deficiencies and known weaknesses.

5.1.3 Maintenance of pertinent data on the structure, functions and operations of audited entities will assist the Office in identifying areas of materiality and risk and areas holding potential for improvements in administration.

5.1.4 **Audit objectives:** Audit objectives must be carefully considered and clearly stated. They identify the audit subjects and performance aspects to be examined (for example the 3Es). as well as the potential finding and reporting elements that the auditor expects to develop.

5.1.5 Audit objectives are normally expressed in terms of what questions the audit is expected to answer about the performance of an activity, such as results achieved, or the economy and efficiency of resource utilisation. They must be defined in a way that will allow the audit team at the end of the audit to conclude against each of the objectives.

5.1.6 **Audit Scope:** Scope is the framework, boundary, limit or subject of the audit. Scoping the audit involves narrowing the audit to a relatively few matters of significance that pertain to the audit objective and are critical to achieving the intended result of the audit subject. It describes the parts or functions of the entity that are the subject of the audit as well as the time period covered by the audit. There are three underlying principles in establishing the scope of the audit:

- ***Relevance to the mandate:*** Auditors should determine whether the issues selected for audit are within the mandate of the Office and are of interest to parliamentarians.
- ***Matters of significance:*** Identifying matters of significance for audit involves answering the following types of questions:
  - Does the subject have an important impact on results?
  - Is it an area of high risk?
  - Does it involve material amounts?
  - Is it an issue of visibility or of current concern? Is it of interest to parliamentarians and the public?
  - Will it result in improved performance, accountability or value for money?
- ***Audibility:*** Audibility relates to the ability of the audit team to carry out the audit in accordance with standards. The team may decide not to carry out the audit because it may not have or cannot acquire the required expertise, suitable criteria are not available, or the area is undergoing significant change, etc.

5.1.7 **Approach and Methodology :** The approach and methodology comprise the techniques that will be used by the auditor in gathering evidence and conducting his analysis. Examples of gathering evidence could include review of entity documentation and files, reports and studies, conducting surveys, field visits to project sites, interviews with entity staff and subject matter experts, etc. Analytical methods could include statistical sampling, year-to-year comparisons, trend analysis, comparisons with other entities in the same or similar line of activities, etc.

5.1.8 **Audit criteria:** Audits must have suitable criteria that focus the audit and provide a basis for developing observations. Criteria are reasonable and attainable standards of performance and control against which compliance, adequacy of systems and practices, and the economy, efficiency and effectiveness of operations can be evaluated and assessed. The assessment of whether or not criteria are met results in audit observations.

5.1.9 Criteria should be developed for each line of enquiry. They should be:

- **relevant:** criteria that contribute to making observations and reaching conclusions against the audit objectives;
- **reliable:** criteria that result in consistent conclusions when used by different auditors in similar circumstances;

- **neutral**: criteria that are free from bias;
- **understandable:** criteria that are clearly stated and not subject to different interpretations; and
- **complete:** all the criteria that could affect the observations and conclusions are identified and used.

5.1.10 Primary sources of criteria are the controls, standards, measures, results, commitments and targets adopted by the entity itself or imposed by legislative bodies. The auditor should review these criteria to assess their relevance to the audit to ensure they are reasonable and complete. Where the entity's own measures are found to be suitable, they can be adopted as audit criteria.

5.1.1 I Where the entity does not have well-established standards for measuring or judging performance consistent with the audit objectives, acceptable criteria may be obtained from the law, regulations, standards developed by professional bodies, performance data of similar organizations, and through other analytical methods.

5.1.12 **Considering the work of others:** Auditors should determine if audits or evaluations of the subject in question have been done by others. They may be useful sources of information for planning and performing the audit. Audit teams should rely on the work of others when the work has been carried out in accordance with the Office's standards. This can be cost-effective as it can eliminate duplication of effort.

5.1.13 **Consultation and advice:** Performance audits are complex exercises requiring a wide range of skills, expertise and experience to be completed cost-effectively. Considerable judgment is required at all stages of the audit. Audit team should consult with knowledgeable staff and advisory groups within the Office, subject matter specialists, and others as appropriate, including entity management, to obtain advice and guidance before finalising the audit plan.

5.1.14 **Sufficient resources :** An adequate number of auditing staff and supervisors with appropriate skills, knowledge and experience should be assigned to the audit. Consultants should be used, as necessary when in-house skills are not available or insufficient. Adequate other resources should be made available, such as travel funds, for the team to carry out its work.

5.1.15 **Written Audit plan:** A written audit plan should be prepared for each audit. The contents of the plan should include:

- the audit objectives;
- the audit scope, major considerations and the rationale for the scoping decisions, reasons for any limitations to the scope;
- the audit criteria and their sources;
- description of the planned audit approach and methodology;
- identification of audit staff and external consultants, including their qualifications and special knowledge or skills;
- the estimated cost of the audit (staff hours and other costs); and
- the timing, the key milestones, and the main control points.

## 5.2 Supervision

***The work of the audit staff at each level and audit phase should be properly supervised.***

5.2.1 Supervision involves directing audit staff and monitoring their work to ensure that the audit objectives are met. Supervision is an essential and continuous process that requires that the audit team leader and other supervisors should:

- ensure that all team members fully understand the audit objectives;
- provide a clear outline to auditors of what is expected from them;
- provide counsel, advice and on the job training as needed;
- ensure that audit procedures are adequate and properly carried out;
- ensure that the standards and reporting process are followed;
- ensure that audit evidence is appropriate, sufficient and documented and that it supports audit observations and conclusions; and
- ensure that only necessary work is carried out and that budgets, timetables and schedules are kept.

## 5.3 Compliance with Laws and Regulations

***The auditor should design audit steps to provide reasonable assurance of detecting acts that may be non-compliant with laws and regulations that are significant to audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts.***

5.3.1 Auditors should determine if laws and regulations governing the entity are significant to audit objectives, and, if they are, assess the risk that significant illegal acts could occur. Based on that assessment, the auditor should design and perform procedures to provide reasonable assurance of detecting significant illegal acts.

5.3.2 The auditor's assessment of risk includes considerations of whether the entity has controls that are effective in preventing-or detecting illegal acts.

## 5.4 Study and Evaluation of Management Controls

***Auditors should obtain an understanding of management controls that are relevant to the audit. When controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgement about such controls.***

5.4.1 Management is responsible for establishing effective management controls. In the broadest sense these controls include policies and procedures for:

- planning, organizing, directing and controlling programme operations;
- ensuring that a programme meets its objectives;
- ensuring that valid and reliable data are obtained, maintained and fairly disclosed in reports;
- ensuring that resource use is consistent with laws and regulations;
- ensuring that resources are safeguarded against waste, loss and misuse;
- measuring, reporting, and monitoring performance.

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

## 5.5 Audit Evidence

***Sufficient, reliable and relevant evidence should be obtained to support the auditor's judgement and conclusions.***

5.5. 1 The auditor's findings, conclusions and recommendations must be based on evidence. The evidence must be sufficient, reliable and relevant.

5.5.2 Evidence is sufficient if there is enough of it to support the auditor's findings. Evidence is relevant if it has a logical, sensible relationship to the finding. Evidence is reliable if it is consistent with fact, i.e. it is valid.

5.5.3 Evidence may take a variety of forms. It may be:

- **Physical, i.e.** obtained by direct inspection. Whenever possible, it would be better to obtain photographs or videotapes to support such observations;
- **Testimonial, i.e.** based on interviews and discussions. Those should be substantiated by other evidence, whenever possible;
- **Documentary, i.e.** based on copies of actual documentation;
- **Analytical, i.e.** confirmation from third parties, including measurements or standards of performance used as a basis for , developing criteria; and statistics, comparisons, analysis, rationale. etc. developed by the audit team

5.5.4 Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, and be proficient in interviewing skills to collect audit evidence.

5.5.5 **Working papers:** 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. Working papers serve three purposes. They provide support for the auditor's report, aid the auditors in conducting and supervising the audit, and allow others to review the quality of audits. They should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

5.5.6 Well-organized and complete working papers are of critical importance when reviewing findings with office management, briefing the C&AG, providing support at PAC briefings, answering subsequent queries from the client and others, and planning future assignments.

5.5.7 **Audit observations:** The comparison of the evidence against criteria will result in the identification of observations. The observations are the basis for forming overall conclusions against audit objectives.

5.5.8 **Recommendations:** Where deficiencies in performance have been identified the auditor needs to develop-recommendations to guide corrective action. Normally the recommendations should be stated in broad terms of what needs to be done, with the specifics of how it can be done being left to entity management. When developing recommendations, the auditor should take management views into account, consider the cost and feasibility of implementing the proposed action, and understand the effects on results, both positive and negative, if the recommendations are adopted. As appropriate, a legal opinion should be sought in cases involving sensitive or confidential information.

5.5.9 **Conclusions :** Audits must have necessary and sufficient observations to support conclusions made against each objective. The auditor should assess the significance of the observations in relation to the audit objectives. At the extreme ends of the performance spectrum-fully satisfactory performance or highly unsatisfactory performance concluding against the overall objective may not pose a problem. In the majority of cases, however, the auditor will have to use judgement in reaching a conclusion.

## Chapter 6: Reporting Standards for Performance Audits

This chapter prescribes standards of reporting for performance audits. They cover the need for written audit reports and their timeliness and content.

### 6.1 Written Reports

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

6.1. I The reputation and credibility of the Office depend to a great extent on the quality of the reports it produces. The reports are what parliamentarians see of the work of the Office. Consequently, they have to meet the highest standards for content and presentation.

6.1.2 Written reports communicate the results of audits to parliamentarians and others; reduce the chance of misunderstanding about results reported; and facilitate follow-up to determine whether appropriate corrective actions have been taken. The need to maintain public accountability for government programmes demands that written audit reports be produced.

### 6.2 Timeliness

***Audit reports should be issued to make the information available for timely use by legislators and others.***

6.2.1 To be of maximum use, the audit report must be produced in a timely manner. A carefully prepared report may be of little value to decision-makers if it arrives too late.

### 6.3 Content

***Each performance audit should be complete, accurate, objective, convincing and as clear and concise as the subject permits.***

The content of the report should be easy to understand and free from vagueness or ambiguity, include only information which is relevant and supported by sufficient and reliable evidence and be independent, objective, fair, complete and accurate, constructive and concise.

6.3. l The key contents of the report must include:

- **Title and signature:** The report should have a suitable title or heading, helping the reader to distinguish it from statements and information issued by others. Since the report is a report of the Office of the Comptroller and Auditor General, it should be signed by the C&AG.
- **Objectives and scope:** The report should clearly state the objectives and scope of the audit. This information establishes the purpose and limits of the audit. It sets out what was audited and the extent of any limitations.
- **Timing:** The report should indicate the period of time for which assurance is being given and to assure readers that the report is dealing with issues of current interest.
- **Description of the programme or activity:** The report should provide context and background material to allow the reader a sufficient perspective on the audited programme or activity to understand the issues.
- **Criteria:** The report should point out the basis of measuring performance and the source of the criteria as well as any disagreement with management in the suitability of the criteria chosen.

- **Completeness:** The report should be presented as prepared by the auditor and include whatever the Office deems fit to report. However, if the Office has acquired information in the course of an audit, which in the national interest cannot be freely disclosed in the audit report, it should consider making a separate, unpublished report including confidential or sensitive material.
- **Legal basis:** The audit reports should identify the appropriate legislation or other authority under which the audit has been carried out.
- **Professional standards:** The report 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.
- **Audit observations:** The report should indicate the extent to which performance satisfied the criteria and present sufficient relevant and reliable analysis and information to ensure an understanding of the issue. The observations should point out the significance of the issue by describing its impact on quality of performance and the effect on results. The underlying cause of the problem should also be described.
- **Recommendations :** The report should indicate the actions needed to correct any problem.
- **Response by management of the audited entity :** Response to the recommendations in the report by the management of the audited entity should be included in the report.
- **Conclusions :** The report should point out the conclusion reached on performance against each objective.

# Glossary

**Accounting Control System .**

A series of actions which is considered to be part of the total internal control system concerned with realizing the accounting goals of the entity. This includes compliance with accounting and financial policies and procedures, safeguarding the entity's resources and preparing reliable financial reports.

**Administrative Control System:**

A series of actions, being an integral part of the internal control system, concerned with administrative procedures needed to make managerial decisions, realize the highest possible economic and administrative efficiency and ensure the implementation of administrative policies, whether related to financial affairs or otherwise.

**Audited Entity:**

The organization subject to audit.

**Audit Evidence:**

Information that forms the foundation, which supports the auditor's opinions, conclusions or reports.

- **Sufficient :** 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.
- **Reliable:** information that is consistent with the facts, i.e. it is valid.

**Audit Mandate:**

The auditing responsibilities, powers, discretion's and duties conferred on the 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 Procedures:**

Tests, instructions and details included in the audit programme to be carried out systematically and reasonably.

**Audit Scope:**

The framework, boundary 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 fulfil the audit objective. They are the criteria or yardsticks against which the quality of the audit results are evaluated.

**Auditor:**

Any audit official involved in planning, conducting, supervising or reporting the audit.

**Conclusions:**

Conclusions are statements deduced by the auditor from the findings.

**Constitutional:**

A matter which is permitted or authorized by the fundamental law of a country.

**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:**

Minimizing 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.

**Executive Branch of Government (Executive):**

The branch of government responsible for administering the law and implementing programmes and activities.

**Field Standards:**

The standards that apply to the planning and examination phases of an audit. These allow the auditor to systematically meet the requirements for setting the audit objective, choosing suitable criteria, supervising the audit, gathering sufficient, relevant and competent evidence, and making an appropriate study and evaluation of internal controls.

**Financial Systems:**

The procedures for preparing, recording and reporting reliable information concerning financial transactions.

**Findings (or Observations)**

Findings (observations) are the specific evidence gathered by the auditor to satisfy 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, the exercise of due care, and appropriate quality controls, 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.

**Internal Audit:**

The functional means by which the managers of an entity 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 entity 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 made up of SAIs from around the world. It aims at promoting the exchange of ideas and experience between Supreme Audit Institutions (SAI) in the sphere of public sector auditing.

**Legislature:**

The law making authority of a country, for example a Parliament.

**Materiality:**

In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is generally considered in terms of value, i.e. the amount of money involved in relation to the whole. The inherent nature or characteristics of an item or group of items may also render a matter material, for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved. A matter may also be considered material because of the context in which it occurs. For example, an item in relation to the corresponding amount in previous years. Audit evidence plays an important part in the auditor's decision concerning the selection of materiality issues and areas for audit and the nature, timing and extent of audit tests and procedures.

**Opinion:**

The auditor's written conclusions on a set of financial statements as the result of a financial or regularity audit.

**Performance Audit:**

An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.

**Planning:**

Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the objectives.

**Premises:**

Basic assumptions, consistent and logical principles and requirements that represent the general framework for developing auditing standards.

**Public Accountability:**

The obligations of persons or entities, including government departments, public enterprises and corporations, entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them.

**Public Sector Organizations:**

Public Sector Organizations include Government Ministries, Departments, Subordinate Offices, Statutory Corporations, Public Enterprises, Public Financial Institutions, Autonomous Bodies, and Local Government Institutions.

**Recommendations:**

Recommendations are courses of action suggested by the auditor relating to the audit objectives.

**Regularity Audit:**

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

**Report:**

The auditor's written opinion and other remarks on a set of financial statements as the result of a financial or regularity audit or the auditor's findings on completion of a performance 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.

**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 organized, exercises by virtue of law the highest public auditing function of that State.