

Government Auditing Standards of Bangladesh

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Comptroller and Auditor General of Bangladesh

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Foreword

It gives me immense pleasure to promulgate the Government Auditing Standards of Bangladesh in the year of golden jubilee of our independence. The dreams of our freedom fighters to forge a republic based on equity, equality and transparency are reflected in these standards.

The Comptroller and Auditor General (CAG) of Bangladesh enjoys unique status in the Constitutional framework and is mandated with onerous responsibility of ensuring through audit, a sound public financial management system in our country. The Government Auditing Standards, the Quality Control System and the Code of Ethics together are effective steps to discharge the responsibility entrusted by the Constitution. These recognise that the instrument of audit adds value and must be useful, above all, to the intended users of financial information. These further recognise the citizens of the Republic as the intended users of our audit reports and safeguarding public interest as the primary objective of our work.

The promulgation of these standards makes the public sector audit of Bangladesh aligned with the latest international standards both in public and private sector. The existing auditing standards were published in 1999. Many changes have taken place since then. The International Organization of Supreme Audit Institutions (INTOSAI) published in 2019 the INTOSAI Framework of Professional Pronouncements (IFPP) consisting of principles and standards governing public sector audit. I am happy that the present set of standards fully complies with the framework and thus reflects the best global practices.

The institution of CAG and his office have been proved to be useful partners in the financial management of the country. They lend credibility to the public sector financial operations by remaining a watchdog. They fuse together the global practices and the local realities. In an aspirational country like ours, audit plays a very important role in ensuring that the government expenditure achieves value for money and the receipts are assessed, collected and accounted for correctly. CAG has been the friend, philosopher and guide to the committees of Parliament and has played significant role in ensuring parliamentary oversight and control over government finances. The importance of rigorous parliamentary financial control in a democratic country like ours cannot be overstated.

These standards serve two purposes. They guide our employees to achieve technical excellence that is the hallmark of any effective public sector audit institution. They also inform our stakeholders – the

members of Parliament, the executive and people in general – about our philosophy, our working practices, our internal quality control system and above all, the ethical practices that we follow.

The Code of Ethics goes beyond the government rules and establishes an internal ethics control system. The Quality Control System is unique as rarely has any organisation in our country self-imposed such rigorous quality parameters for its work.

I am indeed grateful to my officers who have worked hard to put these standards together. Ours is a knowledge based organisation and indeed, over the years, we have developed a formidable knowledge base in our office, which is reflected in whatever we do. These standards are no exception to that.

I have no doubt that these standards will help all of us to further improve the public sector audit in Bangladesh.

11 February, 2021

Mohammad Muslim Chowdhury
Comptroller and Auditor General of Bangladesh
Dhaka, Bangladesh.

Preface

Government Auditing Standards of Bangladesh are based on the International Standards of Supreme Audit Institutions and are consistent with the global standards. The Code of Ethics and the Quality Control System in the Office of the CAG (OCAG) of Bangladesh are considered integral parts of these standards.

This document is divided in four parts. Part I contains the general principles of audit which are based on the International Standard of Supreme Audit Institutions - 100 (ISSAI - 100). Part II deals with standards relating to financial audit which is based on ISSAI - 200. Part III deals with performance audit and is based on ISSAI - 300. Part IV relates to compliance audit and is based on ISSAI - 400. In addition, these standards contain provisions, as appropriate, from ISSAI standards 2000 - 2899, 3000 and 4000.

These standards are organised in nine chapters. The first six chapters deal with general principles and comprise Part I. Chapter 7 deals with financial audit in Part II. Chapter 8 deals with performance audit in Part III and lastly Chapter 9 relates to compliance audit in Part IV. Chapter-wise details are as follows:

Part I	
Chapter 1	Foundations of Government Audit in Bangladesh
Chapter 2	Applicability of Government Auditing Standards
Chapter 3	Ethics, Independence and Objectivity
Chapter 4	Quality Control, Professional Judgement, Due Care and Professional Scepticism
Chapter 5	Audit Risk, Materiality, Documentation, Communication, Audit Team Management and Skills
Chapter 6	Principles related to the audit process: Planning the Audit; Conducting the Audit; Reporting and Follow-up
Part II	
Chapter 7	Financial Audit
Part III	
Chapter 8	Performance Audit
Part IV	
Chapter 9	Compliance Audit

All audit engagements undertaken by OCAAG will follow these standards as applicable. While Part I of these standards, Code of Ethics and Quality Control System will apply to all audit engagements irrespective of types of audit, Part II, III or IV will apply to financial audit, performance audit or compliance audit, as the case may be. All audit reports will indicate the standards that have been followed during the audit engagement.

Nothing in these standards override the constitutional provisions or any act or rules. The standards are in fact in complete consonance with the mandate, powers and responsibilities of Comptroller and Auditor General of Bangladesh.

These standards supersede the government auditing standards of 1999.

The narration is gender neutral. Words and expressions denoting masculine gender include feminine gender also.

Government Auditing Standards of Bangladesh

General Principles of Audit

PART I

Chapter 1: Foundation of Government Audit in Bangladesh

Introduction

- 1.01 The Constitution of People's Republic of Bangladesh mandates Comptroller and Auditor General of Bangladesh to audit public accounts of the Republic and of all Courts of Law and of all authorities and of officers of the Government. CAG's (Additional Functions) Act of 1974 further mandates CAG to audit the accounts of statutory public authorities, public enterprises and local authorities.
- 1.02 Government audit plays a critical role in ensuring financial accountability and transparency of those managing public resources. As activities of the Government expand, so the role of audit becomes more and more important. As the Lima Declaration of the International Organization of Supreme Audit Institutions asserts, "Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough".
- 1.03 Auditors are also part of the cycle of accountability. To continue to remain credible, impartial and independent, they need to constantly review and improve their processes and methodologies. It is important that they remain transparent about their professional behaviour and judgement, their methodologies and working practices. They need to uphold ethical behaviour themselves and must put in place a robust quality control system to live up to the faith and trust that the Constitution, the legislature, the executive and indeed the public at large, repose in them.
- 1.04 Government Auditing Standards of Bangladesh are steps towards that direction. These professional standards present a framework which enables OAG to achieve excellence and produce audit work of high quality. Through these standards, the wider audience and intended users of audit reports are made aware of the ethical, professional, operational and reporting standards of OAG.
- 1.05 CAG of Bangladesh had earlier pronounced government auditing standards in 1999. Many changes have taken place since then. International Organization of Supreme Audit Institutions, of which CAG of Bangladesh is a member, has published a set of global standards called International Standards of Supreme Audit Institutions (ISSAI). The revised auditing standards, which will be known as Government Auditing Standards of Bangladesh, are based on the ISSAI 100, ISSAI 200, ISSAI 300 and ISSAI 400. The revised Code of Ethics based on ISSAI 130 and Quality Control System based on ISSAI 140 are to be considered integral parts of these standards.

1.06 These standards provide a framework for public sector audit engagements in Bangladesh for high quality outcomes and are intended to contribute to good governance.

Elements of Public Sector Audit

1.07 All public sector audits have the same basic elements: the auditor, the responsible party and intended users (the three parties to the audit), criteria for assessing the subject matter and the resulting subject matter information. All public sector audit engagements are categorised either as attestation engagements or as direct reporting engagements.

The Three Parties

1.08 Audit involves at least three separate parties: the auditor, the responsible party and intended users. The auditor is CAG and his employees. This includes all who are directly engaged in audit and also those providing support services in OCAG. Any contractual employee providing services on behalf of CAG at any given time is included in the definition of auditor.

1.09 The responsible party is the party responsible for the subject matter information, or managing the subject matter of an audit engagement undertaken by OCAG. Often identified as audited organization or audited entity, the responsible party may be individuals or an organization.

1.10 The intended users are individuals or organizations for whom reports are prepared by OCAG. In accordance with Article 132 of the Constitution, the audit reports are prepared primarily for Parliament, but the intended users may be others also. Stakeholders and public at large have a right of access to these reports, once these are placed on the table of Parliament and become public documents.

1.11 There can however be engagements undertaken by OCAG, reports of which are not disseminated to the wider public as, for example, reports on issues impacting national security. Reports of audit of international organizations undertaken by CAG are submitted according to the rules and procedures of the organizations. There may be attestation engagements whose subject matters are such that the reports are of limited nature and not for the legislature or wider public.

The Three Elements

- 1.12 OCAG recognises three elements in any audit engagement: Subject matter, Criteria and Subject matter information.
- 1.13 Subject matter refers to information, condition or activity that is measured or evaluated against certain criteria. Essentially, subject matter answers the question: “what is to be audited?” Its forms and characteristics depend on the audit objective. The subject matter must be identifiable, should be capable of consistent evaluation or measurement against the criteria so that it can be susceptible to application of procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion.
- 1.14 Criteria are benchmarks used to evaluate the subject matter. The criteria depend on the objectives and types of audit. These are drawn from a range of sources including laws, regulations, standards, sound principles and best practices. They may be made available to the intended users to enable them to understand how the subject matter has been evaluated or measured.
- 1.15 Subject matter information refers to the outcome of measuring and evaluating the subject matter against the criteria.
- 1.16 It is not always the auditor who evaluates and measures the subject matter against the criteria. The responsible party also can evaluate and measure the subject matter and presents the subject matter information. Financial statements are good examples of the responsible party presenting the subject matter information by evaluating and measuring financial position, financial performance, cash flow or other elements against the criteria of financial reporting framework.

Two Types of Engagement

- 1.17 OCAG regularly undertakes audit inspection of various offices, performance audits of selected subject matters and is required to provide opinions on financial statements. The range of audit engagements are divided into two types: attestation engagements and direct reporting engagements.
- 1.18 In attestation engagements, the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.
- 1.19 In direct reporting engagements, it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration

risk and materiality. The outcome of measuring the subject matter against the criteria is presented in the audit report in the form of findings, conclusions, recommendations or an opinion. The audit of subject matter may also provide new information, analyses or insights.

Three Main Types of Audit

- 1.20 Based on the above elements, all audit engagements undertaken by OCAG are divided into three main types: Financial Audit, Performance Audit and Compliance Audit.
- 1.21 **Financial audits** are attestation engagements. The subject matters of financial audits are the financial position, financial performance, cash flow or other elements, which are recognised and measured against the criteria of financial reporting framework by the responsible party who presents the financial statements. The subject matter information is the financial statements. OCAG, as the auditor is expected to gather sufficient and appropriate evidence to provide a reasonable basis for expressing an opinion and conclusion on the subject matter information which will provide a reasonable assurance to the intended users of the financial statements.
- 1.22 **Performance audit** focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. The subject matter of a performance audit is selected by OCAG and is defined by the audit objectives. There may or may not be pre – determined criteria to evaluate and measure the subject matter. OCAG in such cases will determine the criteria or supplement the available criteria with its own. It then gathers sufficient and appropriate evidence to assess and report to which extent these criteria have been met and the causes of deviations. The intended users would have a fair idea about the subject matter, the criteria used to generate subject matter information and the evidence that forms the basis of conclusions in the report of CAG.
- 1.23 **Compliance audit** focuses on whether a particular subject matter is in compliance with authorities identified as criteria. The subject matter of the compliance audit is determined by the audit scope and objective. OCAG often focuses on entities or audit units as subject matter of compliance audit. However, the subject matter can also be activities, financial transactions or information. OCAG shall treat both compliance audit and performance audit as direct reporting engagements.
- 1.24 There can be audit engagements undertaken by OCAG which is a combination of two or more types of audit.

Assurance

- 1.25 The value of audit to the intended users is the enhancement of the degree of confidence that audit provides about the reliability and relevance of the subject matter information. Audit does it by expressing a conclusion by obtaining sufficient and appropriate evidence. Due to inherent limitations, audit can never provide absolute assurance.
- 1.26 CAG communicates assurance in two ways. Through opinions and conclusions, he conveys explicitly the level of assurance. This applies to all attestation engagements. It may also apply to some direct reporting engagements depending on audit and users' need.
- 1.27 In most of the direct reporting engagements, CAG does not provide an explicit statement of assurance on the subject matter. In such cases, the users are provided with necessary degree of confidence by explicitly explaining how findings, criteria and conclusions are developed in a balanced and reasoned manner and why the combinations of findings and criteria result in a certain overall conclusion or recommendations.
- 1.28 For administrative convenience, CAG may delegate among his subordinates the powers of communicating assurance on a subject matter either in an attestation engagement or in direct reporting engagement.
- 1.29 Assurances, when provided, can be reasonable or limited. Reasonable assurance is high but not absolute. The audit conclusion is expressed positively, conveying that in the auditor's opinion, the subject matter is or is not compliant in all material respects, or where relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria.
- 1.30 In case of limited assurance, the audit conclusion states that based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria. The procedures performed in a limited assurance engagement may be limited compared to what are required to obtain reasonable assurance, but the level of assurance, in the professional judgement of CAG and his office, would be meaningful for the intended users.
- 1.31 Nothing debars CAG from carrying out audit or any other engagements on any subject relating to appropriate use of public resources. These engagements may include reporting on the quantitative outputs and outcomes of the entity's service delivery activities, sustainability reports, future resource requirements, adherence to internal control standards, real-time audits of projects or other matters.

Chapter 2: Applicability of Government Auditing Standards

Declaration of consistency with ISSAI

- 2.01 Government Auditing Standards of Bangladesh are based on the principles of International Standards of Supreme Audit Institutions 100, 200, 300 and 400. These satisfy the conditions laid down in Paragraph 9 of ISSAI 100.¹
- 2.02 These standards in no way override the Constitutional provisions of Bangladesh and any other law or regulation. These also do not prevent CAG from carrying out investigations, reviews or other engagements.
- 2.03 These standards present principles and also requirements. The requirements have been adapted from ISSAI 2000-4899, as appropriate.

Applicability

- 2.04 The General Principles as enumerated in Part I of this document will govern all engagements that are undertaken by OCAG under the direction of CAG. The standards described in other Parts will apply to all relevant audit engagements undertaken by OCAG under direction of CAG.
- 2.05 In case a topic or subject is not covered specifically in these standards or in the code of Ethics or in the Quality Control System, OCAG will consult relevant ISSAI standards and guidance as also the application and other explanatory materials of relevant ISAs.
- 2.06 These standards supersede the Government Auditing Standards of 1999.

Chapter 3: Ethics, Independence and objectivity

- 3.01 The ethical principles presented in this chapter together with the provisions in the Code of Ethics shall govern all functions of OCAG. All members of OCAG including CAG are committed to upholding the ethical principles presented in the Code of Ethics and in this chapter. It is acknowledged that performing audit work in accordance with ethical principles is a matter of both personal and organizational responsibility.

¹ 1 “An SAI may declare that the standards it has developed or adopted are based on or are consistent with the principles of the ISSAIs only if the standards fully comply with all the relevant principles in ISSAIs 100, 200, 300 and 400.” (Paragraph 9 of ISSAI 100)

3.02 In addition to the ethical principles, this chapter presents requirements. These principles and requirements are in addition to the rules and regulations that are otherwise applicable to the employees of OCAG.

Ethical Principles

3.03 The ethical principles that shall guide the audit work of OCAG Bangladesh are:

- a) Public interest
- b) Integrity
- c) Independence and Objectivity
- d) Competence
- e) Confidentiality and Transparency, and
- f) Professional behaviour.

Public Interest

3.04 **Public interest** is the collective wellbeing of the citizens of Bangladesh that OCAG serves. Every employee of OCAG accepts that the principle of public interest is fundamental to the work that he does. Every employee shall perform his duties without fear or favour. Effective contribution to good governance can be made when the commitment to serve the public interest is absolute.

Integrity

3.05 **Integrity** is the quality of being honest and performing the professional responsibilities without considerations of gains or otherwise to oneself.

3.06 CAG is committed to maintaining in all aspects of functioning of OCAG, an internal environment that promotes an attitude to act honestly, reliably, in good faith and in public interest. Public confidence and trust in OCAG are considered an asset of the organization and it can only be maintained when all act in a manner that is above reproach.

3.07 Making right decisions without extraneous considerations is an important element of the principle of integrity. Auditors can often come under conflicting pressures from diverse quarters including intended users to tailor their conclusions in one way or the other. Pressures

may also be brought about to inappropriately achieve personal or organizational gain. Acting with integrity in such circumstances would require that the OCAG acts on the basis of facts coming to its notice and reasonable conclusions emanating from these set of facts.

Requirement at the level of OCAG

OCAG shall emphasize, demonstrate, support and promote integrity.

OCAG shall ensure an internal environment which promotes integrity and allows employees to raise ethical breaches.

OCAG shall respond to integrity breaches in a timely and adequate manner.

OCAG shall keep the Ethics Control System designed in the Code of Ethics operational.

While allowing employees to raise ethical breaches, OCAG shall discourage false or anonymous complaints.

OCAG shall be careful not to harass honest employees in the name of breaches of integrity.

OCAG shall acquaint employees at least once every year, with threats and vulnerabilities to integrity.

Requirement at the level of employees

The Leadership of OCAG shall lead by example.

The employees of OCAG shall always act honestly, reliably, in good faith and in public interest. They shall comply with the policies and standards of OCAG.

No employee shall exercise powers to benefit personality.

All employees should be aware of threats and vulnerabilities to integrity and bring to the notice of OCAG without delay, occurrence of such threats or vulnerabilities.

Independence and Objectivity

3.08 **Independence** comprises of independence of mind and independence in appearance. **Objectivity** reflects independence of mind and appearance during all the processes of audit. It is a state of being free from conflicts of interest. Independence and Objectivity are closely related. Lack of one affects the other.

3.09 CAG and OCAg function within the overall framework of the Constitution of Bangladesh. The Constitution *vide* Article 128(4) mandates complete functional independence to him.

Important provisions relating to independence of CAG in the Constitution of Bangladesh

127. Establishment of office of Auditor-General

There shall be a Comptroller and Auditor-General of Bangladesh (hereinafter referred to as the Auditor-General) who shall be appointed by the President.

128. Functions of Auditor-General

The public accounts of the Republic and of all courts of law and all authorities and officers of the Government shall be audited and reported on by the Auditor-General and for that purpose he or any person authorised by him in that behalf shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other government property in the possession of any person in the service of the Republic.

Without prejudice to the provisions of clause (1), if it is prescribed by law in the case of any body corporate directly established by law, the accounts of that body corporate shall be audited and reported on by such person as may be so prescribed.

Parliament may by law require the Auditor-General to exercise such functions, in addition to those specified in clause (1), as such law may prescribe, and until provision is made by law under this clause the President may, by order, make such provision.

The Auditor-General, in the exercise of his functions under clause (1), shall not be subject to the direction or control of any person or authority

131. Form and manner of keeping public accounts

The public accounts of the Republic shall be kept in such form and in such manner as the Auditor-General may, with the approval of the President, prescribe.

132. Reports of Auditor-General to be laid before Parliament

The reports of the Auditor-General relating to the public accounts of the Republic shall be submitted to the President, who shall cause them to be laid before Parliament

3.10 Despite the constitutional provisions, threats to independence can occur in many ways. CAG and OCAg are committed to maintaining the constitutional independence in all audit functions.

Requirements at the level of OCAG

OCAG shall maintain independence and objectivity in all matters relating to audit engagement of any kind.

OCAG shall maintain relationships with audited entities in such a manner and avoid such situations so that any reasonable third party would conclude that OCAG is indeed independent and is capable of exercising objective and independent judgment on all issues associated with conducting any audit engagement and reporting on the work.

While INTOSAI principle P12 encourages SAIs that they should without compromising their independence, provide advice on how their audit findings and opinions might be used to greatest effect, OCAG shall ensure that such advice shall always be written or when provided in a meeting, recorded in minutes. OCAG shall not provide advisory or non-audit services to an audited entity where such services would include assuming management responsibilities.

OCAG shall always remain politically neutral.

Requirement at the level of employees

- a) All employees shall maintain independence from political influence and be free from political bias.
- b) None in OCAG shall audit his own work.
- c) All employees shall refuse gifts, gratuities or preferential treatment from audited organizations that can impair independence or objectivity.
- d) All employees shall avoid auditing entities where they have been employed recently and their work might become subject matter of audit.
- e) No employee will allow personal interests to impact decision making.

Threats to Independence

3.11 The employees before undertaking an audit engagement or dealing with an engagement shall remain aware of the following threats to independence and take effective action to eliminate such threats. This is applicable collectively to OCAG as well.

- a) Any interest, financial or non-financial may inappropriately impact professional judgement;
- b) A conscious or unconscious conviction- social, political or cultural- may inappropriately impact professional judgement;
- c) A long standing familiarity with the audited organization and/or personal familiarity

with the members of the management of the audited organization may inappropriately impact professional judgement;

- d) Influence or pressure from the external sources including from members of the public pre-judging the outcome of audit examination may inappropriately impact professional judgement;
- e) A sense of hierarchy within the structure of the government may inappropriately impact professional judgement.

3.12 Any threat to independence and objectivity shall be dealt with at appropriate level within OCAG. Action as deemed fit shall be taken expeditiously.

3.13 Auditors are often required in the interest of better communication with audited organization to provide routine advice or respond to questions relating to an engagement on an informal basis. Such advice casual in nature and shall not constitute impairment of independence and objectivity.

3.14 Illustrative examples of informal advices are:

Advising on an accounting matter as part of financial or compliance audit;

Advising and providing information on a technical matter like accounting standard or best practice, drawing upon the technical expertise of the auditor;

Advising on a correcting journal entry during any audit.

Competence

3.15 **Competence** is combination of appropriate knowledge and skill to perform a task. Competence as ethical principle entails that no audit engagement shall be allowed to be undertaken by any person who does not possess appropriate knowledge, skills and other ethical qualities.

3.16 Skills include both technical and inter-personal skills.

3.17 Knowledge and skills include an understanding of:

Auditing and Accounting Standards;

Statutory provisions, regulations, criteria, subject matter information or the subject matter of audit engagement;

Techniques and guidance applicable to the subject matter of the audit engagement.

Requirement at the level of OCAG

OCAG shall assign to any audit engagement, personnel who collectively possess the competence needed to perform the tasks in accordance with these standards.

OCAG shall continue to maintain the process of continuous professional development and evaluation of personnel so that the assigned personnel possess collectively the necessary knowledge and skills. OCAG shall provide employees with appropriate training, support and supervision;

OCAG shall seek and utilize assistance of specialists from outside the organization, if such assistance, in its judgment is required to perform an audit engagement.

OCAG shall establish a system of continuing professional education (CPE) and record CPE hours of each audit personnel.

OCAG shall encourage employees to obtain professional certification from recognized organizations.

Requirement at the level of employees

The employees of OCAG shall perform their jobs by applying fully the knowledge and skills that they possess.

The employees of OCAG shall maintain and develop their knowledge and skills to keep up with the developments in their professional environment in order to perform their job optimally.

No employee shall perform an audit engagement without adequate knowledge and skills.

Confidentiality and Transparency

3.18 **Confidentiality** means the requirement- legal or otherwise- to protect information which includes data, noting on files, other documents and facts from any unauthorised publication and use. Unauthorised use means either unauthorized use by otherwise authorized personnel having access to the information or use by unauthorised persons having no legitimate access to the information.

3.19 **Transparency** means publication of information which will enable a reasonably knowledgeable third party to understand the underlying reasons for a decision or conclusion.

3.20 During the performance of duties, OCAG comes across and collects information, most of which become evidence in support of audit conclusions. In some cases, the data can be in electronic

form and there is an underlying concept of ownership of data.

- 3.21 OCAG stands committed to balancing confidentiality of audit-related and other information with the need for transparency and accountability. It shall treat the issues of confidentiality and transparency with equal importance.
- 3.22 OCAG shall not use any information in any audit engagement, the source of which cannot be established. While investigations or audit engagements can be initiated based on the information provided over hotline or by a whistle blower; such information shall not be used to arrive at any conclusion without verification.
- 3.23 OCAG shall treat all audit reports confidential till they are placed on the table of the Parliament.

Requirement at the level of OCAG

OCAG shall publish for the benefit of employees, policy and guidance relating to confidentiality of information gathered during audit.

OCAG shall make arrangements for safe custody of documents and data that may be received during audit.

Requirement at the level of employees

No information collected during audit would be used for personal benefit or gain or benefit or gain of any third party by any employee..

Employees of OCAG shall be aware of legal obligation and shall not disclose any information acquired as a result of their work without proper and specific authority.

Employees of OCAG shall maintain professional confidentiality during and after end of their employment.

Professional Behaviour

- 3.29 **Professional behaviour** of employees of OCAG shall mean acting in accordance with the ethical values, adhering to the legal and regulatory framework in place, not misusing their position, applying diligence and care in performing their work and acting appropriately when dealing with others.

Requirement at the level of OCAG

OCAG shall be aware of the standard of professional behavior expected and conduct their business accordingly.

OCAG shall ensure no audit conclusion is arrived at without giving the audited entity an opportunity to explain.

OCAG shall conduct audit from a sense of duty and not from any personal animosity or settle any score.

OCAG shall not undertake any investigation without recording in writing, reasons to do so.

Requirement at the level of employees

Employees shall comply with the laws, regulations and guidance that are in force.

Employees shall not do anything in their professional or personal life that will bring disrepute to the OCAG.

Chapter 4: Quality Control, Professional Judgement, Due Care and Professional Scepticism

Quality Control

- 4.1 All audit work undertaken by OCAG which include financial audit, performance audit, compliance audit, investigations or any other assignment shall be performed in accordance with the Quality Control System promulgated by CAG of Bangladesh.
- 4.2 All employees or any contracted party engaged directly or indirectly in audit work in or on behalf of OCAG, while considering quality of their work shall keep in mind the following four elements of quality.
- a) Quality is performing work that complies with relevant professional standards and applicable legal and regulatory requirements. Professional standards for this purpose would mean Government Auditing Standards;
 - b) Quality is complying with the quality control policies and procedures of OCAG;
 - c) Quality is issuing auditor's report or communication that are appropriate in the circumstances; and
 - d) Quality is the engagement team's ability to raise concerns without fear of reprisals.

- 4.3 In the context of OCAg Bangladesh, the Director General of each directorate is assigned the role and function of the engagement partner. The Director Generals though not actively participating in the day to day performance of the engagement team shall have the overall responsibility to ensure that the performance of the team meets the standards of quality.
- 4.4 The engagement team in the context of audit activities in OCAg would mean the audit team(s) and section in directorate, entrusted with the responsibility of any particular audit engagement. All audit teams known as “inspection party”, “audit party” “special audit party” etc. would come under the meaning of engagement team. The employees in the directorates who deal with these teams and vet their reports for issue to the responsible party shall also come under the meaning of engagement team. The Director General may distribute responsibilities between the “Field” team and the “headquarters²” team according to convenience in case of individual audit engagements.
- 4.5 The Director General shall take responsibility**
- (a) For the direction, supervision and performance of the audit engagement in compliance of these professional standards and applicable legal and regulatory requirements. He will be assisted by his immediate subordinate officers belonging to Bangladesh Civil Service (Audit & Accounts) or any other officer placed or posted under him.
- (b) To ensure that the auditor’s report which include inspection report or any other draft audit report is appropriate in the circumstances.
- 4.6 No audit engagement team shall perform audit work in the field without a team leader.
- 4.7 The Director General shall take responsibility for review of audit engagements being performed in accordance with the Quality Control System of OCAg Bangladesh.
- 4.8 Before issue of the auditor’s report, which includes inspection report or any other draft audit report, the Director General or any other officer to whom responsibilities have been delegated, shall through a review of the audit documentation and if necessary, discussion with the engagement team, be satisfied that sufficient and appropriate evidence has been obtained to support the conclusions reached in the auditor’s report including draft reports.
- 4.9 Consultations among the team members of the engagement team, team members with Director General and his immediate subordinate officers are encouraged. The Director General shall take the responsibility for undertaking consultations on difficult and contentious issues.

² “Headquarters” in this context would denote the responsibility centre in the audit directorate.

- 4.10 All differences of opinion among the team members on issues arising during audit engagement shall be settled by Director General or officers nominated by him.
- 4.11 An effective system of quality control includes a monitoring process designed to provide OCAG with a reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. Director General of the concerned directorate shall review the results of such monitoring process from time to time.

Requirement at the level of OCAG

- a) OCAG shall establish and maintain an appropriate system of quality control which covers all their work. Such a system shall be based on Quality Control System of OCAG, Bangladesh.
- b) Such a system which shall include policies and procedures regarding quality control shall be widely disseminated among the employees of OCAG.

Requirement at the level of employees

- a) Employees shall comply with the provisions of the Quality Control System of OCAG.

- 4.12 Employees of OCAG shall maintain appropriate professional behaviour by applying professional judgement, due care and professional scepticism throughout the audit process.
- 4.13 **Professional judgement** represents application of collective knowledge, skills and experience of all the personnel involved in the audit engagement within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
- 4.14 **Due care** means that the audit engagement should be planned and conducted in a comprehensive manner keeping in mind the audit risks involved and obtaining evidence to bring the audit risks down to a reasonably low level.
- 4.15 **Professional scepticism** indicates an attitude that includes an alert and questioning mind alive to the conditions that may indicate possible misstatement, lack of compliance or other evidence which may lead to increased detection risk during audit.
- 4.16 **Professional scepticism** also means a critical assessment of audit evidence obtained during the audit engagement and deciding on the sufficiency and appropriateness of the evidence. It includes being alert to evidence which contradicts other evidence obtained. While auditors may consider documents and records as genuine, they should be aware if there are reasons to

believe to the contrary.

- 4.17 Professional judgement, due care and professional scepticism are interrelated with competence as an auditor's competence is indicated by the application of these qualities.
- 4.18 Professional judgement assists in taking necessary decisions on:
- a) Materiality and audit risk;
 - b) Audit procedures required to meet the audit objective and obtain sufficient and appropriate evidence;
 - c) Whether sufficient and appropriate audit evidence has been obtained;
 - d) Management's replies to the audit queries and audit memos issued during the audit engagement;
 - e) Conclusions to be reached on the basis of the audit scope and audit evidence obtained.
- 4.19 Professional judgement is not ad hoc and should always be supported by facts and circumstances. It is expected that a reasonable equally competent third party, based on the same facts, evidence and circumstances would reach the same conclusion on any issue. It is not to be used as an excuse to reach a conclusion which otherwise is not supported by evidence or facts and circumstances of the engagement.
- 4.20 Professional scepticism should not be interpreted as doubting, suspecting or mistrusting everything. It means being alert to:
- a) Audit evidence that contradicts other audit evidence;
 - b) Reliability of documents and necessity to verify them with third parties, where appropriate;
 - c) Conditions that may indicate fraud or other malfeasance;
 - d) Necessity to widen the scope of audit procedures if certain matters come to light during the engagement.
- 4.21 Professional scepticism helps the auditors to guard against:
- a) Ignoring unusual and suspicious circumstances;
 - b) Drawing wrong conclusions based on the evidence;
 - c) Inappropriate assumptions regarding the nature and scope of the audit engagement.

Requirement at the level of OCAG

- a) OCAG shall emphasize due importance of Professional Judgement, Due Care and Professional Scepticism in its entire audit process.
- b) Regular training of employees shall be undertaken to make them aware of the qualities of professional judgement and professional scepticism.

Requirement at the level of employees

- a) Employees shall always exercise professional judgement, due care and maintain an attitude of professional Scepticism in all audit engagements.

Chapter 5: Audit Risk, Materiality, Documentation, Communication, Audit Team Management and Skills

Audit Risk

- 5.1 Audit risk is the risk that auditors might provide a report that is inappropriate in the circumstances of audit. In case of financial audit, it might be that the auditor expresses an inappropriate opinion when the financial statements are materially misstated. In case of other types of audit, the audit risk is defined as the possibility that the findings, conclusions, recommendations or assurance may be inappropriate in the circumstances of the subject matter of the audit engagement. Audit risk is a technical term relating to the audit process.
- 5.2 Audit risk can also be defined as the risk that the auditors may not detect a deficiency, deviation, mistake, error, fraud and misappropriation. Such a risk includes failure to detect inconsistencies, errors and misstatements in the subject matter information. Audit risk can be quantitative and qualitative. It can be measured by assigning values to risks or a broad qualitative judgement can be arrived at. The acceptable low level thus can be indicated quantitatively or qualitatively.
- 5.3 Some of the factors that may contribute to inappropriate report are:
- a) Evidence that is not sufficient and appropriate;
 - b) An audit process not commensurate with the subject matter of the audit;

- c) Suppression of information from the auditors;
- d) Lack of competence and professional judgement on the part of the auditors;
- e) Inadequate risk analysis.

5.4 All audit engagements of OCAG shall be planned in such a manner that the audit risk can be reduced to an acceptably low level. The scoping of the engagement, deployment of adequate manpower, timing and duration of audit engagement, application of professional judgement shall depend on and determine whether the audit risk is minimised to an acceptably low level.

5.5 Audit risk, therefore is a function of risks of material misstatements or inappropriate findings/conclusions/ assurance and detection risk. It means that the auditors may provide a report that the financial statements are free from material misstatements, when in reality they are not or in case of performance audit or compliance audit, the auditor provides findings and arrives at a conclusion which is inappropriate.

5.6 While considering audit risk, OCAG shall consider the inherent risk and control risk. Both these risks are entity's risks and exist independently of the audit. Understanding inherent risk and control risk is part of auditor's understanding of the internal control of the audited organisation. If the internal control is high, then the control risk is expected to be low. The key to risk assessment for the auditors is to assess the internal control of the entity before undertaking the audit engagement.

5.7 Due to limitation of resources, it may not be possible for OCAG to undertake a formal and elaborate risk assessment in case of each and every compliance audit engagement. OCAG therefore may carry out risk analysis in which similar entities are clubbed together to form an assessment of internal control in general. Before undertaking an audit engagement, a quick internal control assessment for the specific entity may be undertaken.

5.8 For the purpose of financial audit and performance audit, internal control assessment shall be undertaken for each entity or subject matter of audit.

5.9 OCAG recognises five components of internal control in an organisation. These are:

- a) Control environment;
- b) Risk assessment;
- c) Control activities;
- d) Information and communication; and
- e) Monitoring.

5.10 OCAG's assessment of internal control of any organisation shall be based on assessments of the above five components and impartial assessment of each component should contribute to the overall assessment of internal control.

5.11 The assessment, component wise, shall include understanding and evaluation of:

a) **Control environment**

- i) Whether those in charge of management or governance have created a culture of honesty and ethical behaviour;
- ii) Whether adequate rules, manuals and guidelines exist for day to day business of the organisation;
- iii) Whether the operations of the organisation are in line with the operations in government organisation;
- iv) Whether assignment of authority and responsibility are clearly demarcated with clarity in reporting relationships and authorisation hierarchies;
- v) Whether adequate manpower is available for efficient and effective functioning of the organisation.
- vi) Whether the general working culture of the organisation is in tune with the generally acceptable working culture in the public sector.
- vii) Past history of the organisation whether any fraud or misappropriation or adverse publicity in media or any other event occurred that should draw attention of the auditors to the organisation.

b) **Risk Assessment**

- i) Whether the organisation has a formal risk assessment process and how effective is the process.(Effectiveness of the process shall largely be assessed on the threats that are identified and steps taken to mitigate them.)
- ii) The dependence of the organisation on Information Technology and whether the risk assessment includes IT systems.

c) **Control Activities**

- i) Control activities can be at entity level or at functional levels. Such control activities may include performance reviews, physical controls, segregation of duties and in case of Information Technology systems, the controls at various levels.

- ii) Reports and returns that the organisation is required to send to higher-ups. The assessment also shall include evidence of action taken on such reports and returns on regular basis.
 - iii) Effectiveness of internal audit.
- d) **Information and Communication**
- i) Activities relating to information and communication of the control objectives and activities so that everyone working in the organisation is aware of the importance of internal control and related activities.
- e) **Monitoring**
- i) The effectiveness of internal controls over a period of time.
- 5.12 Such assessment shall be based on those factors which are of relevance to the subject matter of the audit engagement. An internal control assessment is neither a witch hunting nor an audit engagement in itself. Information may be collected formally or informally. OCAG shall also use its own institutional memory.
- 5.13 Professional judgement and professional scepticism shall play a very important role in assessment of inherent risks and control risks arising out of this exercise. The assessment should follow principles of collegiate decision making and every member of the audit engagement team should be free to have a say in the overall assessment.
- 5.14 OCAG's assessment of internal control of an organisation and the inherent and control risks shall remain confidential. Such assessments shall not be published in any audit report. The assessments shall also not be used to prejudge any issue relating to subject matter of any audit engagement or subject matter information. The objective of such assessments shall be mainly to decide on the detection risk to calculate the overall audit risk. The detection risk shall be minimised to a low level by increasing manpower or providing more experienced personnel or any other method approved by the Director General.
- 5.15 For the purpose of arriving at the Audit risk the formula adopted shall be $AR = IR \times CR \times DR$. All risks shall be calculated on the unit of 1. Thus in a hypothetical scenario, IR can be 0.2 (Very low), CR can be 0.5 (Moderately high) and DR can be 0.1 (Very low). Thus AR shall be $0.2 \times 0.5 \times 0.1 = 0.01$.
- 5.16 The quantitative level at which the audit risk shall be determined as acceptably low level shall depend on the subject matter of the audit engagement. The decision of the Director General shall be final but he should arrive at the decision after adequate consultation among the audit engagement team. The same should apply to qualitative assessment of audit risk.

- 5.17 For compliance audit, small organisations can be assessed on cluster basis in order to save resources.
- 5.18 Audit risk assessment process undertaken by OCAG shall be documented in such a manner that any knowledgeable third person with the same competence shall come to the same conclusion after going through the documentation. Audit risk assessment may also undergo changes as the audit progresses as the assessment of inherent risk or control risk may undergo a change. Such changes along with reasons shall also be documented. Such documentation shall remain confidential and shall not be revealed in any audit report- interim or final.
- 5.19 From time to time OCAG may undertake engagement to assess internal control of organisations which it is responsible to audit. Such engagement, though with a different objective, shall follow the standards of any normal audit engagement.

Requirement at the level of OCAG

- a) OCAG shall follow the principles of risk-based auditing in all audit planning and performance.
- b) OCAG shall organize trainings for all employees who are associated with audit, on assessment of risks.
- c) OCAG shall play proactive role in creating awareness among the audited organizations about internal control and control activities.
- d) OCAG shall in all guidelines, manuals and audit procedures give adequate emphasis on risk-based audit planning and performance.

Requirement at the level of Employees

- a) Employees shall develop a mindset in which risk assessment shall form part of the audit plan and performance.
- b) Employees shall apply their professional judgment collectively to assess and evaluate internal control of any organization and shall not allow personal prejudices to vitiate such assessments.

Materiality

- 5.20 All audit engagements undertaken by OCAG shall consider materiality throughout the audit process. Materiality shall remain relevant to all types of audit. The concept of materiality shall be appropriately applied in planning and performance of the audit.
- 5.21 The concept of materiality in the context of audit engagement shall be determined mainly on two factors- needs of intended users and significance in the overall context of the subject

matter. In case of financial audit, misstatements including omissions shall be considered as material if they could reasonably be expected to influence decisions of the intended users of the subject matter information. In case of compliance audit or performance audit materiality will depend on the significance of the issue under examination in audit.

- 5.22 OCAG also recognises the inverse relationship between materiality and audit risk. If the materiality threshold is low, the audit risk will be high as the detection risk will be high. Similarly materiality threshold has inverse relationship with IR and CR. If IR or CR is high, the materiality threshold shall be low and the DR shall be brought down to minimise the AR to an acceptably low level. This would increase the audit testing.
- 5.23 The decision making process regarding enlarging the audit testing shall follow the following steps: If the IR or CR or both are high, then materiality threshold shall be low. The DR shall be brought to a low level to bring down the AR to an acceptably low level.
- 5.24 The materiality threshold shall be determined only after assessment of IR and CR. A low threshold will require more resources for the audit engagement. If, therefore, the threshold is kept at a low level which is not warranted by the risk assessment, the audit resources will be wasted.
- 5.25 The materiality levels can be determined at various levels of the subject matter information. It can be determined, for example, for the financial statement as a whole and for particular class of transactions, account balances or any other subject matter information. In case of compliance audit, the materiality level can be determined on several factors like significance, legal and regulatory implications or public interest.
- 5.26 Professional judgement shall play a very important role in determination of materiality threshold. Such determination should follow principles of collegiate decision making and every member of the audit engagement team should be free to have a say in the overall deliberations.
- 5.27 The process of determination of materiality shall be documented in such a manner that any knowledgeable third person with the same competence shall come to the same conclusion after going through the documentation. It shall however remain a confidential document not to be published in any audit report- interim or final.
- 5.28 The materiality level can be revised during the engagement, if circumstances so warrant.

Requirement at the level of OCAG

- a) OCAG shall encourage determination of materiality in all audit planning and performance.
- b) The primary objective of determination of materiality shall be better audit planning and

deployment of audit resources.

- c) OCAG shall in all guidelines, manuals and audit procedures give adequate emphasis on determination of materiality.

Requirement at the level of Employees

- a) Employees shall give due importance of determination of materiality in audit planning and performance.
- b) Employees shall apply their professional judgment collectively to determine materiality and shall not allow personal prejudices to vitiate such assessments.

Documentation

- 5.29 In all audit engagements undertaken by OCAG, the audit engagement team shall be responsible for preparing audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached. Such documentation shall include audit strategy and audit plan. The objective of such documentation is to serve as sufficient and appropriate evidence (a) that audit was planned and performed in accordance with these standards and (b) of the basis of auditor's report;
- 5.30 Audit documentation shall at least include objective of the audit, audit strategy, audit plan, details of audit procedures performed, relevant audit evidence obtained and conclusions of the audit team.
- 5.31 For each audit engagement irrespective of the nature of the engagement, a separate file shall be assembled, which till the draft report is submitted to the directorate, shall remain in custody of the Team Leader of the audit engagement. The Audit file can be one or more paper folders or a combination of paper folders and electronic storage media. All papers and electronic storage media shall be cross referenced. Such audit files along with the draft auditor's report shall be submitted as per OCAG instructions and procedures.
- 5.32 All interim communication with the responsible party in the form of audit queries and audit memorandums (commonly known as audit memos) shall form part of the audit documentation.
- 5.33 Audit query is a communication which is in the nature of seeking information relating to the subject matter. All audit queries shall be signed by the Team Leader of the audit engagement team, who shall be responsible for the quality of the query.

- 5.34 An audit query should ask for precise information that the audit engagement team is seeking. Where such precision is not possible, the responsible party from the communication should understand as to exactly what information is being asked for.
- 5.35 An audit memo, on the other hand, may contain the interim opinion, findings and conclusions of the audit engagement team on any particular aspect of the subject matter to elicit preliminary response from the responsible party. Such memos should clearly indicate the opinion, findings and conclusions of the audit engagement team and the basis on which such opinion, findings and conclusions have been formulated.
- 5.36 Superseded drafts of working papers, notes that reflect preliminary thinking or copies of documents that have been corrected or not issued to the responsible party, may not be included in the audit documentation.
- 5.37 Replies received from the responsible party to all audit queries and audit memos shall form part of audit documentation and shall be cross referenced.
- 5.38 Documentations relating to discussion between the audit engagement team and management shall form part of audit documentation.
- 5.39 Audit documentation shall be treated as providing evidence that the audit engagement complies with these standards. For example:
- a) The existence of an adequately documented audit plan demonstrates that the audit has been planned.
 - b) The audit queries and audit memos together with audit evidence obtained and conclusions reached demonstrate that professional judgement has been applied.
 - c) Audit documentation should also demonstrate the quality of work done and the fact that audit engagement has complied with ethical and quality standards.
- 5.40 The internal and external peer review are expected to use audit documentation as primary evidence that the audit engagements have been planned and performed in accordance with these standards. Audit documentation should therefore be prepared in such a manner that an experienced auditor having no previous connection to the audit will understand:
- a) The nature, extent and timing of the audit procedures performed to comply with these standards;
 - b) The results of the audit procedures performed and audit evidence obtained;
 - c) Matters arising during the audit, rationale behind the conclusions reached and professional judgements applied to reach the conclusions.

Requirement at the level of OCAG

- a) OCAG shall manualize the documentation procedures in respect of each type of audit for wider dissemination among the employees.
- b) OCAG shall not allow any employee to undertake audit engagement without being aware of the documentation requirements expected of the engagement.
- c) OCAG shall carry out internal peer review regularly as required under the Quality control systems and shall take corrective measures regarding inadequate documentation.
- d) OCAG shall carry out intense training programmes in a time bound manner to train all employees in documentation procedures.

Requirement at the level of Employees

- a) Employees of OCAG engaged in audit shall treat the documentation activities an integral part of audit and shall give an utmost importance to the documentation requirements.
- b) Employees of OCAG shall avoid sloppy and incomplete documentation of any audit engagement.

Communication

- 5.41 OCAG shall endeavour to always maintain effective communication with the audited entity throughout the audit engagement. The objective shall always be to develop a constructive and cooperative working relationship between OCAG and the audited entity.
- 5.42 Recognising that audit reports which are required to be submitted to Parliament under Article 132 of the Constitution of Bangladesh and therefore, are privileged documents, OCAG is committed to wider dissemination of audit reports among all stakeholders after the audit reports become public documents.
- 5.43 OCAG may communicate with the media about the audit reports, after they become public documents.
- 5.44 As regards communication with the audited entities are concerned, the following communications are mandatory:
- a) No audit team shall undertake any audit of any entity without informing the entity beforehand the scope and timing of the audit. The scope should also mention the type of audit.

- b) In case the entity informs that timing is not suitable for clear valid reasons, the Director General or an officer nominated by him shall take a decision promptly either to change the timing or to adhere to the original timing and shall inform the audited entity well in time.
- c) No audit engagement shall be undertaken without establishing the officer with whom in the audited entity communication shall be undertaken.

5.45 During the performance of the audit, communication can be of two types. The first type is such communication through which the auditor tries to elicit information, data, papers, and noting files demonstrating the process in which a particular decision has been taken (e.g. an order has been issued). Such communication shall be called audit queries. The second type of communication is such through which the auditor at field communicates draft or interim audit observations to the audited entities seeking comments or opinions on the findings. Such communication shall be called audit memos.

5.46 Audit queries should be precise as to the information that is required. While the auditors would not know the specific file numbers or other reference numbers, from such queries the audited entity should be able to clearly understand what information are required to be submitted by them.

5.47 Audit memos shall have the following broad structure: (i) context of the issue (ii) Significant facts and auditor's interpretations of the facts (iii) auditor's findings or opinions in clear and concise terms, and (iv) recommendations, if warranted. Audit memos must end with a request to provide the comments and opinions of the audited entity in a time bound manner.

5.48 If no comment or opinion is offered within a reasonable time, OCAG shall presume that the audited entity does not have any comment or opinion to offer. This may be interpreted as acceptance by the audited entity of facts, interpretations of them and audit comments and opinions as communicated in the audit memo.

5.49 If any matter is communicated orally by the audit team, gist of such communication shall be included in the audit documentation indicating the date, time, content of the oral communication, party that received the oral communication and the party's response to such communication, if any.

5.50 The objective of communication during the planning and performance of the audit is to establish a two way constructive communication between the auditors and the audited entities. Absence of proper response from the audited entities shall be construed as lack of co-operation from them. If such lack of cooperation is serious and affects adversely the audit engagement partially or wholly, the matter shall be recorded in the auditor's report.

- 5.51 OCAG shall issue inspection reports in case of compliance audit and/or opinion and reports in case of financial audit and performance audit. The final audit report may contain only material points from these reports, taking into consideration the comments/opinions of the audited entities.
- 5.52 Nothing shall be included in the final audit report if the matter has not been substantively intimated to the audited entity and their comments/opinions have not been sought in a time bound manner.
- 5.53 Nothing shall be included in the final audit report without considering the comments/opinions of the audited entities if these are available on the date of finalisation of the final audit report.
- 5.54 The audit engagement teams may undertake communication with the third parties at any stage, if warranted.

Requirement at the level of OCAG

- a) OCAG shall separately prepare a protocol for communication between OCAG and audited entities for wide dissemination.
- b) Director General as engagement partner equivalent shall ensure that the communications between the audit engagement team and audited entities meet these standards.
- c) Quality of communications shall form part of the overall Quality Control System of OCAG.

Requirement at the level of Employees

- a) Employees of OCAG adhere to the protocol of communications strictly.
- b) Employees of OCAG shall avoid sloppy and incomplete communication during any audit engagement.

Audit Team Management and Skills

- 5.55 OCAG shall ensure that the individuals in the audit engagement teams collectively possess the knowledge, skills and expertise necessary to successfully complete the audit engagement. This will include an understanding and practical experience of the type of audit being conducted, familiarity with applicable standards and legislations, an understanding of the entity's operations and the ability and experience to exercise professional judgement.
- 5.56 OCAG also shall ensure that recruitment of suitable staff will be made as per the rules and regulations in vogue. OCAG shall also undertake intense and elaborate training in all aspects of auditing for all employees.

- 5.57 OCAG shall encourage all employees to attain professional degrees and certification from renowned institutions for their professional development.
- 5.58 OCAG shall develop guidelines, manuals and other written guidance and instructions to enable the employees to conduct the audit.
- 5.59 Recognising that the audit responsibility of OCAG is in no way reduced, it will be free to use the work of others, where appropriate.
- 5.60 OCAG shall be free to co-opt the services of suitable experts as appropriate and required.

Requirement at the level of OCAG

- a) OCAG shall ensure that the audit engagement teams will have the required knowledge, training and experience to conduct the assigned audit engagement.
- b) OCAG shall encourage its employees to attain professional certification to achieve continuous professional development.

Requirement at the level of Employees

- a) Employees of OCAG shall strive to attain professional certification in order to achieve professional excellence.

Chapter 6: Principles related to the audit process: Planning the Audit; Conducting the Audit; Reporting and Follow-up.

Planning the Audit

Terms of Audit

- 6.1 All audit engagements shall be undertaken by OCAG after formally establishing the terms of audit. Terms of audit shall include information regarding the subject matter of audit, scope and objectives of audit, report that will result from the audit, the audit process, access to data, contact persons and the roles and responsibilities of different parties to the engagement. The Terms of audit shall be prepared by OCAG.

- 6.2 To the extent possible, OCAG, the audited entity's management and any other relevant party shall reach a formal understanding of the terms of the audit and their respective roles and responsibilities. Since audited entities are historically familiar with audit processes of OCAG, a separate understanding in each compliance audit engagement may not be necessary. However, such understanding shall be necessary in each performance audit engagement and in such financial audit engagements where CAG is expected to provide an opinion on the financial statements.
- 6.3 In case of such compliance audit engagements where separate formal understanding is not considered necessary, OCAG shall in its communication intimating the audit, shall record the terms of audit including the scope and objectives of the audit.
- 6.4 In case of disagreements on the terms of audit between the OCAG and the audited entity's management, sincere efforts shall be made by officials of the OCAG to resolve the differences in an amicable way. If the audit engagement is undertaken as part of the constitutional mandate of CAG, the terms of audit finally prepared by OCAG shall prevail.
- 6.5 In the absence of constructive response from the audited entity's management regarding the terms of audit, OCAG shall formally notify the terms of audit through written or digital communication.

Understanding the Entity

- 6.6 Before undertaking any audit engagement, the audit engagement team shall obtain an understanding of nature of the entity or programme to be audited.
- 6.7 Such an understanding shall include relevant objectives, operations, regulatory environment, internal controls, financial and other systems including IT systems and business processes of the entity. Such an understanding in addition to improving the quality of audit should enable robust risk assessment of the entity.
- 6.8 The understanding shall be collective understanding of those who would be performing the audit engagement and shall be documented before undertaking the audit.
- 6.9 In case of complex and technical subjects, OCAG may take assistance of external experts if necessary.
- 6.10 Such understanding shall contribute to effective design of the audit and determine scope and extent and timing of the audit procedures.
- 6.11 In case of important financial audits and all performance audits, the Director General shall provide personal direction and supervision in this exercise.

Risk Assessment and Problem Analysis

- 6.12 OCAG shall undertake risk analysis in accordance with the standards laid down in Chapter 5 of Government Auditing Standards.
- 6.13 Through an understanding of the entity and in the light of the assessment of inherent risks and control risks the audit engagement team shall identify risks of different types of misstatements, deficiencies or deviations.
- 6.14 The audit engagement team under the direction and supervision of the Director General shall apply their collective knowledge, training and experience to identify expected deficiencies or deviations. Such problem analysis will assist in defining the audit objectives. These should be considered throughout the audit process.
- 6.15 The identification of risks and problems may be revised as necessary in response to audit findings.
- 6.16 Such problem analysis shall be documented in the audit plan and shall form institutional memory.

Risks of Fraud

- 6.17 While planning or performing the audit, the audit engagement team shall assess the risk of fraud within the scope of audit objectives. The team shall gather and assess evidence to identify the risks of fraud that could affect the findings and conclusions including material misstatements due to fraud.
- 6.18 OCAG believes that the auditor should have sufficient knowledge to identify the indicators of fraud but is generally not expected to have the expertise of a person whose primary responsibility is to detect and investigate fraud.
- 6.19 Fraud involves obtaining an illegal and unjust advantage by wilful misrepresentation or use of deception. Identifying risks of fraud shall include identifying circumstances or information or absence of information in the audited entity which might encourage or point towards such wilful misrepresentation or deception. The audit engagement team shall expand the audit scope and procedures, should such circumstances or information or absence of information come to their notice.
- 6.20 Whether an act is fraud or not is determined through the judicial or other investigative oversight processes. An auditor is primarily concerned with the impact of such acts on the audit findings and conclusions. The auditor shall, on suspicion that circumstances or information or

absence of information point to fraudulent acts, may require those charged with the governance of the audited entities to consider further remedial action including reporting them to investigative agencies. The auditors may also refer the matter directly to the investigative agencies if the matter appears significant and involvement of higher management cannot be ruled out.

- 6.21 Audit engagement teams may expand the scope of audit or audit procedures but may not undertake investigation as part of the audit engagement.
- 6.22 Audit engagement teams shall exercise professional judgement and professional scepticism throughout the engagement in determination of suspected fraud.
- 6.23 Audit engagement teams shall not assert indications of fraud or suspected fraud without obtaining sufficient and appropriate evidence.
- 6.23 Despite best efforts by the audit engagement team, due to inherent limitations of audit, there shall always remain an unavoidable risk that misstatements, deficiencies and deviations due to or concealed by fraudulent methods may not be detected at all. This is mainly due to the fact that fraud may involve sophisticated modus operandi and conspiracy involving many at different levels.
- 6.24 The final decision to refer the any matter of suspected fraud to either those charged with management and governance of the audited entities or to an appropriate investigative agency shall rest with the concerned Director General. He shall not delegate this power to anyone subordinate to him. In case of sensitive cases or cases where facts are not clear or open to differing interpretations, he shall refer the matter to his superiors including CAG with his recommendations and seek their approval.
- 6.25 Under no circumstances, the audit engagement teams shall offer advice, formally or informally about remedial measures to be taken in case of suspected frauds.
- 6.26 Nothing shall debar OCAg to undertake an independent fraud risk assessment engagement or conducting such investigations as it deems fit in audited entities. However, such assessments or investigations may not be combined with the audit engagement.

Audit Plan

- 6.27 No audit engagement shall be undertaken by OCAg without a documented audit plan. The objective of such an audit plan is to ensure that audit is conducted in an effective and efficient manner. Planning for a specific audit includes strategic and operational aspects.
- 6.28 Planning should define the audit scope, objectives and approach. The objectives refer to what

the audit is intended to accomplish. This will also define the type of audit and if there has to be a mix of the types. The objective leads to the scope which includes the subject matter and the criteria to be used to assess and report on the subject matter. Approach includes the nature and extent of audit procedures to be used to obtain sufficient and appropriate evidence.

- 6.29 Such procedures include desk study of files and documents, interaction with personnel of audited entities, inspection, observation, interaction with beneficiaries, inquiry, confirmation including third party confirmation, recalculation, analytical procedures and research techniques. All procedures should be related to the subject matter.
- 6.30 The approach i.e. the nature and extent of audit procedures are linked to assessment of audit risks related to objective and scope of the audit engagement. These should be designed to bring the audit risks to an acceptably low level.
- 6.31 Operationally, planning requires a timetable for the audit engagement and defining the nature, timing and extent of audit procedures. The engagement team shall assign duties to the members of the team, as appropriate which should be recorded in the plan.
- 6.32 Audit engagement planning is not static. It should be responsive to significant changes in circumstances and conditions. At the same time, such planning cannot be fluid. Updation in the written audit plan shall be one of the items of review of the engagement by the Director General or his officers.
- 6.33 In case of routine compliance audit and financial audit of small entities, such a plan may not, however, be very elaborate.
- 6.34 The written audit plan shall form part of audit documentation.

Conducting the Audit

Audit Procedures

- 6.35 Conducting the audit is essentially performing the procedures as planned in order to obtain sufficient and appropriate evidence and drawing conclusions after evaluating the evidence thus obtained.
- 6.36 All procedures performed shall be documented by the engagement team under the supervision of the Team leader. Results of procedures performed including evidence obtained shall also be recorded.
- 6.37 During the audit engagement, if for any reason, the planned audit procedures need to be expanded, reasons for the same and the nature of the expanded audit procedures must also be documented.

Evaluation of Evidence and conclusions

- 6.38 In all audit engagements undertaken by OCAG, evaluation of evidence shall be a continuous process during the engagement. Evidence will be evaluated in the light of subject matter of the engagement, criteria, assessment of risks and materiality. The team should continuously reconsider the initial assessments of risks and materiality and determine whether the audit procedures need to be expanded.
- 6.39 After completion of the audit procedures, the audit engagement team in the field shall evaluate the audit evidence with reference to the subject matter and subject matter information and determine whether the subject matter or the subject matter information has been sufficiently and appropriately audited.
- 6.40 The audit engagement team in the field shall determine findings and reach conclusions by exercising professional judgement. The team shall discuss at mutual convenience the findings and conclusions with the audited entity and such discussions shall be documented. The first interim draft report shall then be prepared and submitted to the team in the directorate for further processing.

Reporting and Follow Up

Reporting

- 6.41 The reporting process of OCAG has several layers and passes through intense scrutiny at every stage. The first draft report shall be prepared by the audit engagement team in field, which shall indicate the end of the audit engagement in field. The draft report must also be accompanied by audit documentation.
- 6.42 The field engagement team shall not keep any papers relating to the audit engagement in their possession after the audit engagement is over. All such papers must be submitted to the audit engagement team in the concerned directorate.
- 6.43 These reports being draft shall be treated as confidential and not for public consumption.
- 6.44 Audit engagement team in headquarters shall scrutinise the audit plan, the planned audit procedures and their operation, the audit evidence obtained and findings and conclusions reached. The focus of this scrutiny would be whether sufficient and appropriate evidence has been obtained on the subject matter or subject matter information and whether that evidence supports the findings and conclusions.
- 6.45 For the attestation engagements, the reports shall include an opinion as to whether the subject

matter information is in all material respects free from misstatements and whether the subject matter complies, in all material respects, with the established criteria. This can be supplemented by, if necessary, a long form audit report.

- 6.46 Opinion can be unmodified which would convey that a reasonable assurance has been obtained on the subject matter information subject to details in the format of the opinion.
- 6.47 A modified opinion may be a qualified opinion, an adverse opinion or a disclaimed opinion. A qualified opinion would convey that OCAG having gathered sufficient and appropriate evidence has concluded that misstatements individually or in aggregate are material but not pervasive in the financial statements or is unable to obtain sufficient and appropriate evidence about certain items in the subject matter information which could be material but not pervasive. An adverse opinion would convey that OCAG having obtained sufficient and appropriate evidence is of the view that the misstatements whether in individual line items or in aggregate are both material and pervasive. A disclaimed opinion would convey that OCAG has been unable to obtain sufficient and appropriate evidence due to uncertainty or scope limitation.
- 6.48 For the direct reporting engagements, the report shall state the audit subject matter, objectives and criteria and include findings and conclusions on the subject matter and may also include recommendations. Additional information about methodology and sources of data/information may also be provided. Any limitation to the audit scope may be mentioned.
- 6.49 OCAG shall not offer opinions in cases of performance and compliance audit but will report findings and conclusions on the subject matter of the audit.

Follow Up

- 6.50 OCAG shall have a role in monitoring action taken by the responsible party in response to the matters raised in any audit report. Such follow up shall focus on whether the entity reported upon has addressed the matters raised. OCAG may undertake further audit in case of insufficient and unsatisfactory action by the entity reported upon.

**Government Auditing Standards
of Bangladesh**

Financial Audit

PART II

Chapter 7: Financial Audit

Introduction

- 7.01 This part presents the Financial Audit Standards of OCAG. These standards are based on International Standard of Supreme Audit Institutions 200 in all applicable and relevant aspects. Provisions of ISSAI 2000 – 2899 (ISA 200 – 899) have been incorporated in these standards, as appropriate.
- 7.02 All Financial audits shall be conducted by OCAG in accordance with these standards.
- 7.03 The reports of all financial audits conducted by OCAG shall contain reference to the relevant standards followed. The format of the relevant paragraph shall be:

“The financial audit was conducted in accordance with the Government Auditing Standards (Part I and Part II). These standards are based on ISSAI 100- Fundamental Principles of Public Sector Auditing and ISSAI 200- Financial Audit Principles of the International Standards of Supreme Audit Institutions.”

Audit of Financial Statements

- 7.04 The purpose of financial audit or audit of financial statements is to enhance the degree of confidence of intended users in the financial statements. This is achieved by expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 7.05 OCAG shall in financial audits conduct the audit in accordance with these standards and other ethical requirements to form an opinion whether the financial statements present a true and fair view in accordance with the framework.
- 7.06 Reasonable assurance that the financial statements as a whole are free from material misstatements whether due to fraud or error will form the basis for CAG’s opinion on the financial statements. The degree of assurance and the nature of the opinion expressed will be in terms of Part I of the Government Auditing Standards of Bangladesh.

Objective of Financial audit

- 7.07 The overall objectives of financial audit are:
- a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, thereby enabling the auditor to express

an opinion on whether the financial statements are prepared in all material respects , in accordance with the applicable financial reporting framework; and

- b) To report on the financial statements and communicate as required by these standards, in accordance with the audit findings..
- 7.08 CAG's opinion does not assure the future viability of the entity or the efficiency or effectiveness of the management in conducting the affairs of the entity.
- 7.09 In its opinion on the financial statements, OCAG shall also mention about whose responsibility it is to prepare the financial statements. The financial audit conducted by OCAG is carried out on the premise that those whose responsibility it is to prepare the financial statements acknowledge and understand their responsibilities.
- 7.10 In all financial audits, the financial reporting framework should be clearly identified.

Terms of Audit Engagement

- 7.11 The duties and responsibilities of CAG of Bangladesh are enshrined in the Constitution of Bangladesh in respect of Public Accounts and other statutes in respect of Statutory Public Authorities, Public Enterprises and Local Authorities. Such statutory responsibilities do not allow CAG or OCAG to withdraw from any financial audit engagement and hence OCAG cannot consider withdrawing from or not accepting a financial audit engagement.
- 7.12 The terms of such audit engagement are also statutorily mandated. Unrestricted access to all information required by OCAG to conduct an audit and obtain audit evidence is mandated by Constitution and hence no separate communication describing the terms of engagement for financial audit shall be issued by OCAG.
- 7.13 In case of lack of cooperation from the management of audited entity, attention of the management shall be drawn to the provisions and efforts will be made for amicable settlement of such issues that may arise. In extreme cases, such matters shall be reflected in the opinion of the OCAG on the financial statements and in any relevant audit report including long form audit report on the financial statements.
- 7.14 In terms of Article 128(4) of Constitution of Bangladesh, CAG is the sole authority to decide how to audit and is not subject to direction or control by any person or authority in exercise of his functions. OCAG shall neither separately communicate any term of audit engagement to the management nor it will issue any audit engagement letter. The terms of audit engagement shall be decided by OCAG after discussion with the management, if appropriate and necessary. No mutual agreement however shall be necessary and CAG's decision in the matter of terms of engagement shall be final.

7.15 Written representation from the management that it has fulfilled its responsibilities will also not be insisted upon by OCAG. OCAG is engaged in public sector auditing and all public sector managements are expected to be aware of their legal and other responsibilities and function accordingly. The same legal and other responsibilities should reflect in preparation of financial statements. An audit by OCAG does not absolve management of its responsibilities.

Financial reporting framework

7.16 Article 131 of the Constitution of Bangladesh mandates that the public accounts of the Republic shall be kept in such form and in such manner as the Auditor-General may, with the approval of the President, prescribe. ISA 210 (ISSAI 2210) Paragraph A9 states that “in some jurisdictions, law or regulation may prescribe the financial reporting framework to be used in the preparation of general purpose financial statements for certain types of entities. In the absence of indications to the contrary, such a financial framework is presumed to be acceptable for general purpose financial statements prepared by such entities.” For the purpose of these standards, the financial reporting framework comprising rules and regulations for preparation of financial statements of government at all hierarchies prescribed by CAG in terms of Article 131 of the Constitution will be treated as financial reporting framework and financial statements prepared in accordance with such financial reporting framework will constitute valid general purpose financial statements.

7.17 In case of statutory public authorities, public enterprises and local authorities, financial statements may be prepared in accordance with applicable accounting principles promulgated by authorised and recognised standards setting organisation. Such financial statements will be considered as meeting the financial reporting standards.

Quality Control

7.18 Audit of financial statements shall comply with the Quality Control System in OCAG and relevant standards in Part I of Government Auditing Standards of Bangladesh. The Director General of the concerned directorate within whose jurisdiction the subject matter fall, shall perform the role of the engagement partner equivalent and shall discharge the required responsibilities as per the relevant standards.

Audit Documentation

7.19 OCAG shall prepare audit documentation for all financial audits in accordance with the relevant standards described in Part I of the Government Auditing Standards of Bangladesh.

- 7.20 The form, content and extent of audit documentation in case of financial audits shall include, in addition to what are laid down in Part I of the Government Auditing Standards of Bangladesh:
- a) The size and complexity of the entity;
 - b) The nature of audit procedures performed;
 - c) The identified risks of material misstatement;
 - d) The significance of audit evidence obtained;
 - e) The nature and extent of exceptions identified;
 - f) The audit methodology and tools used;
 - g) The basis of conclusions drawn.

Considerations relating to fraud in an audit of financial statements

- 7.21 The overall considerations relating to fraud are described in Part I of the Government Auditing Standards of Bangladesh. As regards financial audit, OCAG shall identify and assess the risks of material misstatements in the financial statements due to fraud, shall obtain sufficient and appropriate evidence regarding the assessed risks of material misstatements due to fraud and shall respond appropriately to fraud or suspected fraud identified during the audit.
- 7.22 It is reiterated that the primary responsibility for the prevention and detection of fraud rests with the management of responsible party. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. OCAG shall identify and assess the risks of material misstatements due to fraud at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures.
- 7.23 Cases of suspected fraud shall be reported in accordance with the provisions of Part I of the Government Auditing Standards of Bangladesh.

Going-Concern considerations

- 7.24 Financial statements of audited entities which are part of the Government of Bangladesh or fully owned by Government of Bangladesh or by any other entity which is fully owned by Government of Bangladesh shall be audited on the presumption that these are going concerns.
- 7.25 OCAG shall apply going concern considerations to audit financial statements of such entities which are joint ventures with private entities or non-governmental organisation.

Considerations of Laws and Regulations in audit of financial statements

- 7.26 OCAG shall in its financial audits identify the risks of material misstatements due to direct and material non-compliance with applicable laws and regulations. Such misstatements may arise on account of non-recognition and /or non-measurement of assets or liabilities (mostly liabilities) or as a result of receipts and disbursements recognised but where such transactions have not been carried out in compliance with the existing rules and regulations. This will be based on the general understanding of the audit engagement teams of the legal and regulatory framework applicable to the audited entities. Non-compliance in this context is defined as acts of omission or commission contrary to the existing laws and regulations, committed by an entity or any individual or a group of individuals working in or on behalf of the entity in her/his official capacity.
- 7.27 OCAG is not responsible for preventing non-compliance with laws by the audited entities and cannot be expected to detect all breaches of laws and regulations.

Planning a Financial Audit

- 7.28 OCAG shall plan each financial audit in accordance with the standards laid down in Part I of the Government Auditing Standards of Bangladesh. The planning activities in case of financial audit shall include establishment of an overall audit strategy that sets the scope, timing and direction of the audit.
- 7.29 Particular attention shall be paid by the audit engagement teams to :
- a) identify the characteristics of the engagement that defines the scope. The scoping of financial audit shall be done in accordance with the subject matter and subject matter information and criteria; the basis of accounting- cash or accrual- shall be an important consideration in determining the scope of the audit engagement and risk assessment;
 - b) ascertain the reporting objectives of the audit engagement to plan the timing and nature of communication;
 - c) identify significant factors that would need the attention of the engagement team;
 - d) take into account overall experience of the audited entities in the previous years;
- 7.30 The audit plan shall be prepared by the audit engagement team and shall be approved by the concerned Director General.
- 7.31 The audit plan shall, at least contain:

- a) The nature, timing and extent of planned risk assessment procedures as per Government Auditing Standards of Bangladesh Part I;
- b) The nature, timing and extent of audit procedures at the assertion level for classes of transactions, account balances and disclosures.
- c) Other planned audit procedures required to comply with Government Auditing Standards of Bangladesh Part I and Part II.

7.32 The audit plan shall form part of the audit documentation.

Risk Assessment

7.33 Before undertaking a financial audit engagement, the engagement team shall identify and assess risks of material misstatements in accordance with the standards in Government Auditing Standards of Bangladesh Part I. The risk assessment shall be carried out at the financial statements level and at the assertion level for classes of transactions, account balances and disclosures.

7.34 In identifying significant risks, the risk assessment shall include consideration of:

- a) the risk being a risk of fraud;
- b) Unusual heavy suspense transactions and accumulation in suspense accounts (in case of government accounts);
- c) pending adjustment items (in case of government accounts);
- d) consistency in application of accounting principles in measuring and recognising transactions;
- e) contingent liabilities;
- f) guarantees provided by government;
- g) significant transactions that are outside normal course of business activity;
- h) heavy withdrawals from government treasury at the fag end of the financial year and particularly on the last day of the financial year, thereby raising disbursement risk.

Materiality

7.35 In all financial audits, materiality thresholds shall be determined at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures.

7.36 Performance materiality for the purpose of financial audits undertaken by OCAG shall mean

the amounts set at less than materiality thresholds for particular classes of transactions, account balances and disclosures. Performance materiality threshold at the assertion level should be so determined so that the probability of the aggregate of uncorrected and undetected misstatements exceeding the materiality for the financial statement level remains exceedingly low.

- 7.37 Materiality levels may be reviewed and revised during the performance of the financial audit.
- 7.38 Materiality levels and revision if any shall form part of audit documentation.

Response to Assessed Risks

- 7.39 Audit engagement teams shall perform required audit procedures which will include both substantive procedures and test of controls as appropriate response to the assessed risks and to obtain sufficient and appropriate audit evidence.
- 7.40 Substantive procedure would mean an audit procedures designed to detect misstatements at the assertion level for classes of transactions, account balances and disclosures. This includes tests of details and substantive analytical procedures.
- 7.41 Test of controls would mean an audit procedure to evaluate operating effectiveness of controls in preventing or detecting or correcting material misstatements at the assertion levels.
- 7.42 Substantive procedures, at least shall include:
 - a) examination of each material class of transactions, account balance and disclosures to respond to the risk of material misstatements;
 - b) external confirmations where necessary;
 - c) agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures;
 - d) examination of information obtained or adjusted outside the general and subsidiary ledgers and reflected in the financial statements including off the book post-trial balance adjustments;
 - e) examination of material journal entries and other adjustments made during the course of preparing the financial statements;
 - f) Examination of Suspense balances in case of government accounts;
 - g) testing transactions at the fag-end of the financial year or on the last day of the financial year in case of government accounts;

- h) examination of refund of revenue in the beginning of the financial year in case of government accounts;
- i) testing of non-cash transactions between Consolidated Fund and Public Account of Bangladesh.

7.43 Test of controls would include:

- a) Examination of how the controls were applied at relevant times during the period under audit and the consistency with which they were applied;
- b) examination of significant changes made to the control procedures and its probable impact;

7.44 OCAG may extend the scope of substantive procedures if the results of tests of controls are unsatisfactory in the professional judgement of the audit engagement team.

7.45 The audit engagement team shall also perform audit procedures to assess whether the overall presentation of the financial statements is in accordance with the financial reporting framework. This would include consideration whether the financial statements are presented in a manner that reflects the appropriate

- a) classification and description of financial information and the underlying transactions, events and conditions; and
- b) presentation, structure and content of the financial statements.

7.46 The Director General concerned shall consider whether the assessment of risks of material misstatements at the assertion level have been responded to appropriately.

7.47 The Director General concerned shall then evaluate the audit evidence obtained by the audit engagement team and decide whether such evidence can be considered sufficient and appropriate. In forming an opinion, the Director General shall consider all relevant audit evidence.

7.48 The documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside the general and subsidiary ledger.

7.49 In case of financial statements of Government of Bangladesh, the authority responsible for compilation of the accounts are under the administrative control of CAG of Bangladesh. To avoid any conflict of interests and to maintain complete independence of mind and of appearance, OCAG shall ensure special steps to audit these accounts. These include:

- a) No employee who has been associated in any capacity at any point in compilation of the financial statements for any period or any subsidiary documents/ abstracts on the basis of which these Accounts for the period have been prepared shall be associated with the audit of the same financial statements;

- b) The financial statements shall be audited and risk assessment done as if these have been prepared by the entities themselves, i.e. for the purpose of audit of these statements, the concerned functionaries responsible for preparation of the statements shall be treated as equivalent to the roles of entity officials;
- c) While auditing the financial statements, the audit engagement team shall keep in mind Section 2 of INTOSAI principle 1 which is reproduced below:
 - 1) Pre-audit represents a before the fact type of review of administrative or financial activities; post audit is audit after the fact.
 - 2) Effective pre-audit is indispensable for the sound management of public funds entrusted to the state. It may be carried out by a Supreme Audit Institution or by other audit institutions.
 - 3) Pre-audit by a Supreme Audit Institution has the advantage of being able to prevent damage before it occurs, but has the disadvantage of creating an excessive amount of work and of blurring responsibilities under public law. Post-audit by a Supreme Audit Institution highlights the responsibility of those accountable; it may lead to compensation for the damage caused and may prevent breaches from recurring.
 - 4) The legal situation and the conditions and requirements of each country determine whether a Supreme Audit Institution carried out pre-audit. Post-audit is an indispensable task of every Supreme Audit Institution regardless of whether or not it also carried out pre-audits.”

Evaluation of misstatements

- 7.50 Audit engagement teams of OCAG shall evaluate the effect of identified misstatements on the audit and the effect of uncorrected misstatements on the financial statements.
- 7.51 Misstatements for this purpose is defined as a difference between the reported amount, classification, presentation or disclosure of a financial statement and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
- 7.52 OCAG’s opinion on whether the financial statements are presented fairly in all material respects will also include those adjustments of amounts, classifications, presentation or disclosures that in OCAG’s judgement, are necessary for the financial statements to be presented fairly, in all material respects. During the audit engagement, the team shall communicate to the appropriate entities on a timely basis all misstatements accumulated during the audit with a request to correct the misstatements.
- 7.53 In case, the above misstatements are not corrected, the OCAG shall obtain an understanding of

the reasons and shall take that understanding into account when evaluating whether the financial statements as a whole are free from misstatements. OCAG shall determine whether uncorrected misstatements are material individually or in aggregate, depending on the size or nature of the misstatements in relating to classes of transactions, account balances or disclosures and the circumstances of occurrence of the misstatements. OCAG shall ignore trivial misstatements.

7.54 In audit documentation, the amount below which the misstatements shall be treated as trivial shall be indicated. All misstatements that have accumulated during the audit engagement whether corrected or uncorrected shall also form part of the documentation.

Audit Evidence

7.55 The primary objective of all financial audits conducted by OCAG shall be to obtain sufficient and appropriate audit evidence. Sufficiency of audit evidence in the context of financial audit will mean the measure of the quantity of audit evidence. The quantity will depend on the audit engagement team's assessment of the risks of material misstatements and the quality of the evidence. Appropriateness of evidence in the context of financial audit will mean the measure of the relevance and reliability of the evidence. The test is that based on the same evidence, an equally knowledgeable third party will formulate the same audit findings and arrive at the same conclusions. The audit engagement team shall design and perform audit procedures to obtain sufficient and appropriate audit evidence.

7.56 The audit engagement team shall apply its professional judgement to decide the situations where external confirmations are required as audit evidence.

Accounting Estimates

7.57 In audit of financial statements of entities where accounts are maintained on accrual basis, the objective of the audit engagement team shall be to obtain sufficient and appropriate evidence about whether in the context of financial reporting framework:

- a) accounting estimates, including fair value accounting estimates, in the financial statements, whether recognized or disclosed, are reasonable; and
- b) related disclosures in the financial statements are adequate.

Using the Work of Internal Auditors

7.58 OCAG, where appropriate, shall consider the using the work of the internal auditors or any other audit work of an entity. However, OCAG shall not seek direct assistance of the internal auditor.

Form of Opinion and Reporting on Financial Statements

- 7.59 All opinions unmodified or modified provided by OCAG on the financial statements audited by it shall be treated as opinion of the Comptroller and Auditor General of Bangladesh.
- 7.60 OCAG shall form an opinion on the financial statements based on the evaluation of the conclusions drawn from the audit evidence obtained and shall express clearly that opinion through a written report.
- 7.61 The opinion shall be whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework and present a true and fair view of the financial position, financial performance, cash flow or other elements of the financial statements.
- 7.62 To form that opinion, OCAG shall conclude as to whether reasonable assurance has been obtained that the financial statements as a whole are free from material misstatements, whether due to fraud or error.
- 7.63 In particular, OCAG shall evaluate whether:
- a) the significant accounting policies applied have been appropriately disclosed and such accounting policies are consistent with the applicable financial reporting framework;
 - b) the accounting estimates made by the management are reasonable;
 - c) the information presented in the financial statements are relevant, reliable, comparable and understandable;
 - d) the financial statements provide adequate disclosures to enable the intended users to understand the effect of the material transactions and events on the information conveyed in the financial statements; and
 - e) terminologies used in the financial statements including the titles of the financial statements are appropriate.
- 7.64 Broad structure of the opinion shall include the following details:

Opinion section

- a) shall have the heading " Opinion";
- b) shall identify suitably the entity whose financial statements have been audited; (in case of Finance and Appropriation accounts of Government of Bangladesh, it will be identified as such)
- c) shall state that the financial statements have been audited;
- d) shall mention each statement comprising the financial statements;

- e) shall refer to the notes including the summary of significant accounting policies; and
- f) specify the date of or period covered by each of the financial statement comprising financial statements.

7.65 In case of unmodified opinion, the same shall read as follows:

“ In our opinion, the accompanying financial statements give a true and fair view of the financial position of [the name of the entity] as at the end of the [financial period] and the entity’s financial performance [if applicable] and cash flows [if applicable] for the period [financial period].

7.66 When expressing an unmodified opinion on financial statements, the opinion shall, unless otherwise required by laws or regulations, use the financial reporting framework. In case of financial statements prepared in accordance with government rules and regulations, the same shall be mentioned.

7.67 The report shall include another section directly following the opinion section, which shall have the heading “Basis for Opinion”. The section shall state that

- a) the audit was conducted in accordance with the Government Auditing Standards of Bangladesh (Part I and Part II). It shall be further mentioned that these standards are based on International Standards of Supreme Audit Institutions;
- b) the audit was conducted in accordance with the relevant ethical requirements relating to audit codified in the Code of Ethics promulgated by CAG of Bangladesh and other ethical requirements in the standards;
- c) shall state that the auditor believes that the audit evidence that the auditor has obtained is sufficient and appropriate to provide a basis for auditor’s opinion.

7.68 This section shall be followed by another section which shall state the responsibilities for preparation of the financial statements and the responsibilities of the auditors. The auditor’s responsibilities shall specifically include the statement that the objectives of the audit are:

- a) to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error; and
- b) to issue an auditor’s report that includes the auditor’s opinion.

7.69 The auditor’s responsibilities shall further state that

- a) as part of an audit in accordance with the Government Auditing Standards of Bangladesh, the auditor exercises professional judgement and professional scepticism;
- b) the auditor identifies and assesses the risk of material misstatement of the financial statements whether due to fraud or error and performs audit procedures to respond to the assessed risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor’s opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud

may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;

- c) any other point relevant to the auditor's responsibilities in terms of Government Auditing Standards of Bangladesh.

7.70 All reports of OCAG shall be signed by the competent authority and shall be dated.

7.71 OCAG may highlight additional key audit matters relating to audit of financial statements in respect of any entity in a report supplementary to the auditor's report or in any other audit report.

7.72 OCAG's draft opinion shall be issued to the management and final auditor's report shall be published only after taking into account the replies of the management, if any.

Modified Opinion

7.73 If OCAG concludes that based on the audit evidence obtained, the financial statements as a whole are not free from material misstatements or if OCAG is not able to obtain sufficient and appropriate evidence to conclude that the financial statements as a whole are free from material misstatements, OCAG shall issue a modified opinion in the auditor's report.

7.74 A modified opinion in this context can be a qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements.

7.75 OCAG shall issue a qualified opinion when

- a) sufficient and appropriate audit evidence has been obtained to conclude that misstatements, individually or in the aggregate are material but not pervasive, to the financial statements; or
- b) sufficient and appropriate audit evidence could not be obtained on which to base an opinion but OCAG concludes that the possible effects on the financial statements of undetected misstatements, if any could be material but not pervasive.

7.76 OCAG shall issue an adverse opinion when it concludes on the basis of sufficient and appropriate audit evidence that misstatements individually or in aggregate, are both material and pervasive to the financial statements.

7.77 OCAG shall disclaim an opinion when it is unable to obtain sufficient and appropriate audit evidence on which to base opinion, and the possible effects of undetected misstatements in its view, are both material and pervasive to the financial statements.

7.78 OCAG shall indicate the heading in accordance with the nature of the opinion in the auditor's report.

- 7.79 No such report shall be issued without providing the management reasonable opportunity to reply/ represent and such replies and representations shall be considered by OCAG before issuing the auditor's report.
- 7.80 Communication with the management and replies and representations shall be written and documented.

Emphasis of Matter Paragraphs

- 7.81 In case OCAG considers it necessary to highlight any matter relating to the financial statements under audit, it shall do so in the auditor's report by adding emphasis of matter paragraphs under separate heading.
- 7.82 An emphasis of matter paragraph shall have direct relevance to the financial statements under audit.
- 7.83 No emphasis of matter paragraph shall be added without providing management an opportunity to reply/ represent and all such replies and representations shall be formally considered before inclusion in the auditor's report.
- 7.84 Communication with the management and replies and representations shall be written and documented.

Government Auditing Standards of Bangladesh

Performance Audit

PART III

Chapter 8: Performance Audit

- 8.01 This part presents the Performance Audit Standards of OCAG. These standards are based on International Standard of Supreme Audit Institutions 300 in all applicable and relevant aspects, as mentioned in option 1 of Paragraph 8 of ISSAI 3000. Provisions of ISSAI 3000 have been incorporated in these standards, as appropriate.
- 8.02 All performance audits shall be conducted by OCAG in accordance with these standards.
- 8.03 The reports of all performance audits conducted by OCAG shall contain reference to the relevant standards followed. The format of the relevant paragraph shall be:

“The performance audit was conducted in accordance with the Government Auditing Standards (Part I and Part III). These standards are based on ISSAI 100- Fundamental Principles of Public Sector Auditing and ISSAI 300- Performance Audit Principles of the International Standards of Supreme Audit Institutions.”

Definition of Performance Auditing

- 8.04 Performance Audits carried out by OCAG are independent, objective and reliable examination of whether government systems, operations, programmes, activities or organisations are operating with the principles of economy, efficiency and effectiveness. Such audits try to examine and report whether there is room for improvement. Increasingly, however, issues of equity and environment are emerging as important dimensions of public sector decisions. Equity includes inter-generational equity. Performance audits conducted by OCAG consider such issues of equity and report thereon.
- 8.05 The principle of economy means minimising the cost of resources that are used by any operation, programme, activity or organisation. The resources should be available at the best price and should be of appropriate quantity and quality and available at the right time, when these are necessary.
- 8.06 The principle of efficiency means getting the most from the available resources. The outputs derived from the resources should be commensurate in terms of quantity, quality and timing.
- 8.07 The principle of effectiveness means meeting the objectives set and achieving the intended results at the right time.

Objectives of Performance Audit

- 8.08 Performance audits focus more on activity than results rather than accounts and transactions. The main objective of such audits is to promote economy, efficiency and effectiveness in governance, thus contributing to accountability and transparency. The fundamental principle that drives performance audits is whether the governments and citizens have received value for money. These audits examine whether the intentions of legislatures or executive have been efficiently and effectively prepared and implemented.
- 8.09 Performance audits do not examine government policies but examine whether the intended results of these policies have been achieved. Such audits also explore whether there have been unintended consequences of these policies or there were better avenues to achieve the intended results.
- 8.10 Performance audits are essentially constructive feedback on government activities. Such audits add value to government programmes by providing an independent feedback and providing appropriate additional and useful information on the subject matter of audit to the intended users.

Mandate

- 8.11 The Comptroller and Auditor General of Bangladesh derives mandate of audit including performance audit from Article 128, Article 132 of Constitution of Bangladesh and the Comptroller and Auditor General (Additional Functions) Act, 1974.

General Requirements for Performance Audits

- 8.12 OCAG in all performance audits shall comply with the standards relating to Ethics, Independence and Objectivity of Part I of Government Auditing Standards of Bangladesh. The audit findings and conclusions shall be impartial.

Intended Users and Responsible Parties

- 8.13 Before undertaking any performance audit, the audit engagement team shall identify in clear terms, the intended users and the responsible party. The intended users can be legislatures, relevant government organisations and general public.

- 8.14 The subject matters of performance audits, which will be in the nature of programmes/ activities/ large organisations, will almost always be comprehensive and expansive so that the responsible party can be more than one. Such subject matter will cover a number of Ministries/offices/agencies, both operative and supervisory. The responsible parties can also be categorised as performing line functions and staff functions.
- 8.15 The responsible parties and intended users shall be identified by audit engagement teams at the stage of audit planning. Subsequently, during the course of audit, if necessary, alterations may be carried out to the list of responsible parties with suitable explanations.
- 8.16 Responsible parties and intended users must be documented and shall form part of audit documentation. Any alteration to these during the audit engagement shall also be documented with suitable explanations.
- 8.17 While keeping in mind the needs and interests of the intended users and responsible parties, the audit engagement teams shall not compromise principles of independence, impartiality and professional scepticism and shall always apply professional judgement free from bias.

Subject Matter

- 8.18 No performance audit shall be undertaken by OCAG without identifying the subject matter in clear terms. Such subject matters can be specific programmes of the government, functioning of one or more organisations or functioning of more than one organisation.
- 8.19 Subject matter of any performance audit to be undertaken by OCAG shall not be finalised without specific approval of CAG.
- 8.20 OCAG may conduct pilot audit of limited scope to determine or crystallise the subject matter in more concrete terms. Such engagements shall not result in a formal audit report.

Assurance in Performance Audit

- 8.21 Performance audits undertaken by OCAG shall be direct reporting engagements and not attestation engagements. OCAG shall communicate in a transparent manner the subject matter and criteria, the findings and how the conclusions were developed in order to provide reasonable assurance to the intended users about the outcome of the audit.
- 8.22 OCAG may not provide an opinion in the performance audit report but shall provide findings, conclusions and if appropriate, recommendations.

Audit Objectives

- 8.23 OCAG shall undertake performance audits only after defining the audit objectives in clear terms and sufficient detail. A performance audit may have more than one audit objective. Such audit objectives shall form part of audit engagement planning and audit documentation.
- 8.24 OCAG may undertake a limited scope pilot audit or an engagement to obtain a detailed understanding to define audit objectives in clear terms and sufficient details. Such engagements shall not result in an audit report.
- 8.25 All audit objectives shall be thematically cohesive, complementary to each other and taken together, should provide an exhaustive picture of the subject matter so that intended users can use the audit report for an informed and comprehensive understanding of the subject matter. Audit objectives may include current changes in the financial pattern and governance.

Audit approach

- 8.26 The audit approach determines the nature of the examination to be made. It is largely defined by the combination of audit objectives and criteria and determines the way evidence is obtained. OCAG shall adopt a result-, problem- or system-oriented approach in conducting performance audits. A combination of approaches may also be adopted.
- 8.27 A result oriented approach means examining the results- outputs and outcomes- to determine whether the objectives of the programme or the activity have been achieved. Such an approach, however, can only be used when a clear description of objectives of the outcome and outputs have been prepared by the responsible party.
- 8.28 A system-oriented approach means examining the system that is expected to deliver the outputs and outcomes. Such an approach works only when discernible systems and management practices are at work.
- 8.29 A problem-oriented approach means examining the causes of particular problems or deviations from audit criteria that have come to the notice of auditors or management or general public. The objective of performance audit with such an approach is to find out the causes of problems and how these can be removed.

Audit Criteria

- 8.30 Audit criteria are benchmarks against which a particular subject matter will be evaluated. These provide the intended users an idea about the basis of evaluation of the subject matter. In performance audits, the subject matter are expected to be almost always complex and hence it is

important to define the audit criteria in clear terms.

- 8.31 In case of other types of audit, there can be clear and unequivocal audit criteria. In case of financial audit, for example, the criteria can be the laid down financial reporting framework. In case of performance audits, such clear criteria may not be available and the OCAG may develop a set of criteria based on good practices in public sector entities or international practices.
- 8.32 Suitable criteria will be developed before undertaking the performance audit. Amendments, if necessary, may be made during the performance of the audit.
- 8.33 OCAG may hold wider consultations and accept suggestions from experts, stakeholders or any party including responsible parties interested in the subject matter to formulate suitable audit criteria.
- 8.34 The audit criteria can be quantitative or qualitative or a mix of both. They should be formulated in such a manner that the subject matter can be objectively evaluated against the criteria.
- 8.35 The audit criteria developed will be relevant, understandable, reliable, objective and complete in the context of the subject matter. These should, above all be realistic. These should provide an appropriate and reasonable basis for assessment.
- 8.36 As part of the planning process, OCAG shall share the audit criteria along with the audit plan with the responsible parties and audited entities. OCAG would hold consultations with the responsible parties and will consider suggestions regarding the audit criteria before finalising these.
- 8.37 Development of audit criteria, the consultation process including consultation with the audited entities shall be part of the audit documentation process.
- 8.38 Possible sources (illustrative) to identify audit criteria are:
- a) Regulations governing operation of the entity;
 - b) Government statements made regarding the programme;
 - c) Key performance indicators set by government or the audited entity;
 - d) Standards from research, literature or professional or international organisation;
 - e) National or international benchmarks;
 - f) Planning documents, contracts and other documents;
 - g) Benchmarks set by OCAG in consultation with experts or from institutional knowledge.

Audit Risk

- 8.39 Audit risk in the context of performance audit shall mean the risk of failing to detect any material deficiency or deviation and providing a finding or a conclusion which is inappropriate.
- 8.40 During the audit engagement and performance of the audit, OCAG shall manage the audit risks in accordance with the provisions of Part I of the Government Auditing Standards of Bangladesh.
- 8.41 Managing audit risks will also include consideration whether good quality information which is accurate, reliable and complete, is available on the subject matter.

Communication

- 8.42 During the performance of the audit, effective communication with the audited entities and key stakeholders shall be maintained. Such communication would begin with the audit planning stage and continue throughout, till the audit report is finalised.
- 8.43 The audited entities and the management who are responsible for governance shall be briefed about the audit plan including subject matter as understood by OCAG, audit criteria, as developed by OCAG and programme of audit including fieldwork as planned by OCAG. This should preferably be done at a formal entry conference with the management.
- 8.44 In case, for any reason, such entry conference fails to take place, OCAG shall formally communicate the above information to the management and the relevant audited entities.
- 8.45 OCAG shall consider the suggestions received at the entry conference or in response to the formal communication and finalise the audit plan, the audit criteria and the fieldwork programme.
- 8.46 The audit engagement team shall maintain appropriate communication during the audit engagement.
- 8.47 After preparation of the draft audit report and before finalising it, OCAG shall hold a formal exit conference briefing the management and key stakeholders about the findings, conclusions arrived at from the findings and key recommendations proposed.
- 8.48 A copy of the draft report shall be formally sent to the concerned management for their comments and suggestions as also for confirmation of facts based on which the findings and conclusions are arrived at. OCAG shall consider the replies received and shall include the gist of the replies in the final report.
- 8.49 While considering the suggestions/replies of the management and key stakeholders, the independence and impartiality of the OCAG shall not be compromised.

Skills

- 8.50 OCAG shall ensure that the audit engagement team collectively has the necessary professional competence to perform the audit. The engagement team in this context would mean the audit team(s) and section in the directorate who are jointly entrusted with the responsibility of any particular audit engagement. All audit teams known as “inspection party”, “audit party” “special audit party” etc. would come under the meaning of engagement team. The “headquarters” section which shall deal with these teams and vet their reports for issue to the responsible party shall also come under the meaning of engagement team.
- 8.51 In the context of performance audit, professional competence will include not only auditing skills but also skills in social sciences, investigation and evaluation techniques.
- 8.52 OCAG may, when necessary consult outside experts to complement the knowledge of the audit team. The responsibility for the findings, conclusions and recommendations however, shall rest with OCAG.
- 8.53 OCAG is also committed to continuously develop manuals and work procedures relating to performance audit and make constant endeavour to improve knowledge and skills among the staff members.

Supervision

- 8.54 The performance audit process from planning to reporting shall be supervised by the concerned Director General and his nominated officers.

Professional Judgement and Scepticism

- 8.55 Employees of OCAG engaged in performance audit shall exercise professional judgement and scepticism. They shall have the ability to consider issues from different viewpoints and maintain an open and objective attitude to different views and arguments.
- 8.56 The audit engagement teams shall pay attention to assessment of risks of fraud while planning the audit and throughout the audit process in terms of Part I of Government Auditing Standards of Bangladesh.
- 8.57 The audit engagement teams shall maintain professional behaviour in terms of Part I of the Government Auditing Standards of Bangladesh.

Quality Control

8.58 The quality of performance audit shall be maintained in terms of the Quality Control System of OCAG and Part I of the Government Auditing Standards of Bangladesh. Quality assurance shall form one of the main considerations of any performance audit reports. Feedback from academia, intended users, and other stakeholders will be invited on each report in order to improve the processes.

Materiality

8.59 Materiality in all performance audits shall be determined in terms of Part I of the Government Auditing Standards of Bangladesh.

Audit Documentation

8.60 Audit documentations shall be maintained in case of all performance audits in terms of Part I of the Government Auditing Standards of Bangladesh.

Principles related to the Audit Process

8.61 Performance Auditing comprise the following steps:

Planning i.e. selection of topics, pre study and audit design;

Conducting i.e. collecting and analysing data and information;

Reporting i.e. presenting the outcome of the audit: answers to the audit questions, findings, conclusions and recommendations to users;

Follow -up, i.e. determining whether action taken in response to findings and recommendations has resolved the underlying problems and/or weaknesses.

Audit Planning- Selection of Topics

8.62 Selection of Topics or Subject matter of performance audit is the important first step in the entire audit process. The topic may emerge out of the strategic planning process of OCAG or can be selected in view of public interest considerations. OCAG may also select topic at the request of the legislature or even executive. Selection of topics as a result of requests from legislature or executive or other stakeholders shall not be construed as violation of independence or impartiality. Even if the topic is selected on the basis of a request, the audit process including planning, development of criteria or methodology shall be finally determined by OCAG.

- 8.63 OCAG shall select such topics that are significant and auditable. Auditability of a topic would mean whether there are relevant audit approaches, methodologies and most importantly, whether objective audit criteria can be available. OCAG may also consider availability of auditable information, which is reliable, accurate and complete and which can be used as sufficient and appropriate evidence to support findings and conclusions.
- 8.64 While selecting a topic for performance audit, OCAG shall also consider availability of suitable resources including professional competence as a factor influencing such decision.
- 8.65 OCAG while selecting topic shall consider potential impact of such performance audit on the governance.

Audit Planning- Designing the Audit

- 8.66 OCAG shall adopt an approach of project management while conducting a performance audit. Performance audit involves planning, organising, securing, managing, leading and controlling resources- human, time and financial- to achieve specific goals. Managing a performance audit therefore requires project management methodologies.
- 8.67 Designing a performance audit will require substantive knowledge of the subject matter as also methodological knowledge to conduct the audit.
- 8.68 By substantive knowledge of the subject matter, it is not intended that the auditor should be as knowledgeable as an expert in the subject matter. It should mean that the audit engagement team, collectively should have a sound knowledge of “what is to be audited” or the subject matter. As part of the designing process, the audit engagement team shall gather as much information as possible about the subject matter. Possible sources of such information (illustrative) can be:
- a) legislation and legislative speeches;
 - b) government noting and papers leading to government decisions;
 - c) studies and research materials;
 - d) annual reports and other documents relating to the audited entities;
 - e) policy files, minutes of various meetings including board meetings;
 - f) viewpoints of experts;
 - g) official statistics and data available in the open;
 - h) media reports.

- 8.69 Such information should contribute to formulation of audit issues or audit questions. Formulation of these issues assists in formulating the goals of the performance audit and assessing whether these goals can be achieved within the specified time with the available resources and the impact when such goals are achieved. It is through this exercise that preliminary audit objectives are finally defined.
- 8.70 Once the preliminary audit objectives are defined, the next stage of design will involve defining the audit criteria i.e. the benchmarks against which the evaluations will be done.
- 8.71 The next phase in designing shall be to determine the methods to gather audit evidence. The audit objectives and audit criteria shall be the principal factors to determine what evidence would be required and how the evidence can be obtained. An important part of such designing is to determine what would constitute sufficient and appropriate evidence for each audit objective.
- 8.72 The audit engagement team shall also design the audit procedures to be used to gather sufficient and appropriate audit evidence that respond to audit objectives and audit criteria.
- 8.73 A typical performance audit design matrix is presented in the following diagram.

Managing Audit Risks

- 8.74 While considering the approval of the audit design at the audit planning stage, the following risks would be assessed:
- a) Data and information risk: Is enough data/information available which are accurate, complete and reliable?
 - b) Competence risk: Is the proposed audit engagement team collectively competent enough to conduct the audit engagement?
 - c) Time risk: Is the proposed time frame adequate?
 - d) Sensitivity risk: Is the proposed subject matter too sensitive or controversial?
- 8.75 Adequate measures shall be taken by OCAg to mitigate these risks or any other risk identified.
- 8.76 While considering approval of the audit design, it shall be examined whether effective communication has been established with the audited entities and adequate consultations have taken place.

Conducting the Audit- Obtaining sufficient and appropriate evidence

- 8.77 Conducting the audit essentially means obtaining sufficient and appropriate evidence relating to the audit issues and audit criteria in accordance with the methodology planned.

- 8.78 Sufficient evidence will mean that the quantity of audit evidence is adequate to support audit findings and conclusions. The test is that based on the same evidence, an equally knowledgeable third party will formulate the same audit findings and arrive at the same conclusions.
- 8.79 Appropriateness of evidence will mean that the evidence is relevant, valid and reliable.
- 8.80 Relevant evidence is such audit evidence which has a logical relationship with the subject matter, the audit issues and the audit criteria.
- 8.81 Validity refers to the fact that audit evidence provides a reasonable basis for measuring what is being evaluated.
- 8.82 Reliability of evidence means that the evidence has been sourced from trusted and authentic agencies/ sources and can be relied upon to draw findings and reach conclusions. Such evidence should be susceptible to verification from similar evidence from other sources.
- 8.83 Professional judgement shall be applied at all levels to determine that the evidence obtained is sufficient and appropriate.

Conducting the Audit- Analysing the evidence

- 8.84 The primary objective of analysing evidence is two-fold. The audit engagement teams and other concerned officials will assess that the evidence meet the standards of sufficiency and appropriateness. Once that condition is satisfied, the evidence shall be analysed to formulate findings in relation to the audit objective, audit issues and audit criteria.
- 8.85 The goal of the analysis is to assess whether the expected findings and expected conclusions in the audit design are substantiated by the evidence available and to what extent the findings and conclusions need to be revised.
- 8.86 The conclusions shall be based on the findings which will be based on the analysis of the audit evidence obtained. It is at this stage that significant measure of professional judgement of all concerned will be required.
- 8.87 The analysis of evidence, formulation of findings and arriving at the conclusions shall be a collegiate activity in OCAG. The involvement of the Director General at the stage of formulating findings and conclusions shall be required.

Reporting

- 8.88 OCAG's audit reports on performance audits will be a) comprehensive; b) convincing; c) timely; d) reader friendly; and e) balanced.
- 8.89 The performance audit reports prepared by OCAG will, in the least include:
- a) subject matter;
 - b) audit objective(s) and audit issue(s);
 - c) audit criteria and its sources;
 - d) methodology including methodology of evidence gathering;
 - e) time period covered;
 - f) sources of data including limitations, if any;
 - g) audit findings;
 - h) audit conclusions;
 - i) recommendations.
- 8.90 The draft audit report shall invariably be sent to the responsible party and audited entities (if appropriate) and sufficient time shall be provided to them to provide replies and counter audit conclusions.
- 8.91 The audit findings and conclusions shall also be explained in the exit meeting /conference with the audited entities.
- 8.92 No audit findings and audit conclusions shall be published in the audit report without giving an opportunity to the audited entities to provide their comments/viewpoints and gist of such comments/viewpoints, shall be printed in the final audit report alongside the findings and conclusions with OCAG's explanations regarding treatment of the viewpoints of audited entities in the audit report.
- 8.93 OCAG shall make the performance audit reports widely accessible after these are placed on the table of Parliament.

Follow-up

- 8.94 OCAG may follow up all or any performance audit report to examine action taken by the audited entities on the audit findings and recommendations.
- 8.95 OCAG may report on such actions to the legislature in a separate audit report or part of any other audit report.

**Government Auditing Standards
of Bangladesh**

Compliance Audit

PART IV

Chapter 9 : Compliance Audit

Introduction

9.01 This part presents the Compliance Audit Standards of OCAG. These standards are based on International Standard of Supreme Audit Institutions 400 in all applicable and relevant aspects, as per option 1 of Paragraph 10 of ISSAI 4000. Provisions of ISSAI 4000 have been incorporated in these standards, as appropriate.

9.02 Compliance audit promotes transparency by providing reliable reports as to whether funds have been administered, management exercised and citizens' rights to due process honoured as required by applicable authorities. It promotes accountability by reporting deviations from and violations of authorities, so that corrective action may be taken and those accountable may be held responsible for their actions. It promotes good governance both by identifying weaknesses and deviations from laws and regulations and by assessing propriety where there are insufficient or inadequate laws and regulation. Fraud and corruption are, by their very nature, elements which counteract transparency, accountability and good stewardship. Compliance audit therefore promotes good governance in the public sector by considering the risk of fraud in relation to governance.

9.03 All compliance audits shall be conducted by OCAG in accordance with these standards.

9.04 The reports of all compliance audits conducted by OCAG shall contain reference to the relevant standards followed. The format of the relevant paragraph shall be:

“The compliance audit was conducted in accordance with the Government Auditing Standards (Part I and Part IV). These standards are based on ISSAI 100- Fundamental Principles of Public Sector Auditing and ISSAI 400- Compliance Audit Principles of the International Standards of Supreme Audit Institutions.”

Objective of Compliance Audit

9.05 Compliance audit is the independent assessment by OCAG of whether a subject matter is in compliance with applicable authorities identified as criteria. The primary objective of compliance audit is to enable OCAG to assess and report, where appropriate, whether the activities of the public sector entities are in accordance with the authorities governing these entities. Such authorities may include laws, rules and regulations, government resolutions, declared policies, general principles governing public sector financial management and canons of financial propriety.

- 9.06 OCAG may take a broader view in conducting compliance audit. Such audits may be expanded beyond financial transactions and may cover compliance with authorities relating to environment, security of information technology systems or any other matter of public interest, which have financial implications not necessarily measured or recognised in quantitative terms.
- 9.07 Compliance audit may be concerned with regularity i.e. adherence to formal criteria of laws, rules and regulations or agreements. It may be concerned with propriety i.e. observance of general principles of sound public sector management, the conduct of public officials or cannons of financial propriety.
- 9.08 While assessing propriety, additional propriety criteria can be derived from (illustrative) (a) public financial management expectations such as compliance with effective and efficient internal control system; (b) beneficiaries' expectations regarding the utility of goods, or the quality of services and works.
- 9.09 OCAG shall consider all compliance audit as direct reporting engagements.
- 9.10 Compliance audit, therefore can be conducted
- a) as a separate audit;
 - b) on a regular basis in relation to audit of financial statements; and
 - c) in combination with performance audit.

Compliance audit in relation to financial audit

- 9.11 In the public sector context, material misstatements are not only restricted to assertions in the financial statements. Priorities are often laid down by the legislatures for public sector income and expenditure. Reporting and execution of public budgets constitute an important aspect of public sector audit and compliance with these authorities constitute an important perspective for obtaining assurance on the financial statements. There may exist other laws and regulations compliance with which materially affect the financial statements.
- 9.12 To the extent, such audit is necessary to obtain sufficient and appropriate evidence relating to compliance with such applicable laws and regulations impacting materially the financial statements, OCAG may combine such compliance audit with financial audit. In such cases, the results of the compliance audit will be reflected in the opinion of the CAG on the financial statements.

Compliance audit in combination with Performance Audit

9.13 While conducting performance audit, OCAG may combine compliance audit with it, when compliance is seen as aspects of economy, efficiency and effectiveness. The concerned Director General along with the audit engagement teams shall use professional judgement to decide whether performance or compliance emerge as the primary focus of the audit and whether standards of compliance audit or performance audit should be applied.

Authorities and Criteria

9.14 Before undertaking any compliance audit, the audit engagement teams shall identify clearly the structure and content of the authorities that would form audit criteria for the purpose of compliance audit.

9.15 Authorities for this purpose will include laws, rules and regulations, policies, established codes, government orders and instructions, contracts and agreements, generally accepted national and international benchmarks/best practices, cannons of financial propriety and sound public sector management principles.

9.16 While conducting compliance audit, the audit engagement teams might come across contradictions or inadequacies in the authorities themselves. In such situations, OCAG shall report such contradictions or inadequacies with reference to other criteria.

9.17 OCAG shall ensure that authorities which are used as audit criteria are applied consistently across the organisation by all audit engagement teams. In case of interpretational differences between the audit engagement teams or directorates, the matter would be referred to designated higher officer in OCAG for resolution.

9.18 The compliance audit criteria shall be relevant, reliable, complete, objective, understandable, comparable, acceptable and available.

9.19 Normally, there should not be any difference of opinion between the responsible party and OCAG regarding applicability of an authority or interpretation of an authority. While OCAG shall make reasonable efforts to amicably come to a mutually acceptable understanding, in case it is not possible, OCAG shall record such differences but report findings and conclusions based on OCAG's understanding and interpretations.

Subject matter of Compliance Audit

9.20 The subject matter of compliance audit can be activities, financial transactions or information. The decision of OCAG in this respect shall be final.

Confidence and Assurance in Compliance Audit

- 9.21 OCAG shall communicate in a transparent manner the subject matter and criteria, the findings and how the conclusions were developed in order to provide reasonable assurance to the intended users about the outcome of the audit.
- 9.22 OCAG may not provide an opinion in the compliance audit report but shall provide findings, conclusions and if appropriate, recommendations.

Understanding internal controls and control environment

- 9.23 As part of the audit engagement, the audit engagement team shall understand the internal control and the control environment of the entity. The team shall also perform a risk assessment to determine the nature, timing and extent of the audit procedures to be performed. In this, the team should consider the risks that the subject matter will not comply with the criteria. Non-compliance may arise due to fraud, error, the inherent nature of the subject matter and/or the circumstances of the audit. The audit team should consider the risks of fraud.

General Principles

Professional Judgement and Scepticism

- 9.24 Audit Teams of OCAG engaged in compliance audit shall exercise professional judgement and scepticism. This will include a thorough understanding of the authorities that are applied as audit criteria.
- 9.25 The audit engagement teams shall pay due attention to assessment of risks of fraud while planning the audit and throughout the audit process in terms of Part I of Government Auditing Standards of Bangladesh.
- 9.26 Further, professional judgement and scepticism are used throughout the compliance audit process to assess the elements of the audit namely the subject matter, suitable criteria, the audit scope, risk, materiality and the audit procedures to be used in response to defined risks. The two concepts are also applied in evaluation of evidence and instances of non-compliance, in reporting and in determination of form, content and frequency of communication throughout the audit engagement. The auditor should be capable of appraising a variety of audit evidence by their source and relevance to the audit scope and subject matter, and of evaluating the sufficiency and appropriateness of all evidence obtained during the audit.

Quality Control

9.27 The quality of compliance audit shall be maintained in terms of the Quality Control System of OCAG and Part I of the Government Auditing Standards of Bangladesh.

Audit Team Management and Skills

9.28 OCAG shall ensure that employees engaged in compliance audit possess necessary skills and experience to successfully plan and perform the audit.

9.29 In case of technically complex subject matter, OCAG may take assistance of external experts after assessing that the experts have the necessary competence, capabilities and objectivity.

Audit Risk

9.30 Audit risk in the context of compliance audit shall mean the risk of failing to detect any material deviation and providing a finding or a conclusion which is inappropriate. Such audit risk shall also include risk of not correctly understanding of the authorities which are used as criteria including its interpretations.

9.31 During the audit engagement and performance of the audit, OCAG shall manage the audit risks in accordance with the provisions of Part I of the Government Auditing Standards of Bangladesh.

Materiality

9.32 Materiality in all compliance audits shall be determined in terms of Part I of the Government Auditing Standards of Bangladesh.

9.33 In case of compliance audit, OCAG shall also consider the cumulative materiality of a class of transactions. Deviations in a single activity or transactions may be very small and below the determined materiality level, but frequency of such deviations shall also be considered to report such deviations.

Audit Documentation

9.34 Audit documentations shall be maintained in case of all compliance audits in terms of Part I of the Government Auditing Standards of Bangladesh.

Communication

- 9.35 During the performance of audit, effective communication with the audited entities and key stakeholders shall be maintained.
- 9.36 In all communication relating to compliance audit particularly at the level of audit memos, clear mention of the authorities which are used as criteria, nature of particular deviation(s) and corrective action required must be made.

Audit Planning, Execution and Reporting of Compliance Audit

Audit Scope

- 9.37 Normally in case of compliance audit, the audit scope will be primarily influenced by the authorities which govern the activities of an organisation. The audit scope is a clear statement of focus, extent and limits of the audit in terms of the subject matter's compliance with the criteria.
- 9.38 The scoping of the audit is influenced by materiality and risk and it determines the authorities that will be covered.
- 9.39 Due to limitation of resources, it may not be possible for OCAG to undertake a formal scoping of audit in case of each and every compliance audit engagement. OCAG, therefore may adopt a template of audit scope for audit engagement undertaken for similar types of entities. As an illustration, all government primary schools can be treated as a class a common scoping of audit can be carried out before undertaking an audit engagement.

Determination of Subject matter and suitable criteria

- 9.40 No compliance audit engagement shall be undertaken by OCAG without determining the subject matter and suitable criteria. These will form part of the audit plan documentation.
- 9.41 The audited entities shall be informed prior to undertaking of the audit engagement the subject matter and criteria. These will form part of initial communication with the audited entities.
- 9.42 The subject matter shall be identifiable in as much as it should be possible to assess it against suitable criteria.

Conducting the Compliance Audit

- 9.43 The audit engagement team shall obtain an understanding of the entity in terms of Part I of Government Auditing Standards of Bangladesh. Such understanding must be in the light of relevant authorities.
- 9.44 The audit engagement team shall perform an audit risk assessment including assessment of risks of fraud.
- 9.45 The audit engagement team shall develop an audit strategy and audit plan.
- 9.46 The audit engagement team shall obtain sufficient and appropriate evidence to cover the audit scope.
- 9.47 The audit engagement team shall evaluate whether sufficient and appropriate audit evidence has been obtained and form relevant conclusion.
- 9.48 The audit engagement team shall pay attention to consistency of audit evidence. If evidence obtained from one source contradict evidence from another source, the team should undertake suitable audit procedures to resolve the contradiction.

Direction, Supervision and Review

- 9.49 All compliance audit engagements undertaken by OCAG shall be supervised in terms of Part I of the Government Auditing Standards of Bangladesh. All such engagements shall be conducted under the overall supervision of Director General of the concerned directorate.

Reporting

- 9.50 For each compliance audit engagement, OCAG shall issue an interim report to the audited entities and other concerned containing inter-alia:
- a) Subject matter and criteria;
 - b) Scope of audit and time period covered;
 - c) Findings along with evidence supporting such findings;
 - d) Conclusions arising out of such findings;
 - e) Replies of the audited entities to audit memos containing such findings;
 - f) Recommendations, if any.

- 9.51 OCAG shall prepare audit report in terms of Article 132 of the Constitution of Bangladesh containing important and material points from the reports mentioned in the previous paragraphs.
- 9.52 No audit report under Article 132 of the Constitution of Bangladesh shall be prepared without providing the responsible parties an opportunity to reply to the findings and conclusions. Gist of such replies summarised by OCAG shall form part of the audit report.

Follow-up

- 9.53 OCAG may follow up all or any compliance audit report to examine action taken by the audited entities on the audit findings and recommendations.
- 9.54 OCAG may report on such actions to the legislature in a separate audit report or part of any other audit report.