Office of the Comptroller and Auditor General (OCAG) of Bangladesh

Compliance Audit Guidelines

(For internal use of OCAG Bangladesh)

January 2025

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Foreword

1. The Constitution of Bangladesh has entrusted the Comptroller and Auditor General (CAG) of Bangladesh with onerous audit responsibilities. Article 128(1)[1] of the Constitution of Bangladesh mandates that 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 by the Auditor General. Section 5(1) of the CAG (Additional Functions) Act, 1974[2] further mandates audit by CAG of statutory public authorities, public enterprises and local authorities.

2. Compliance Audit is one of the most important types of public sector audit in Bangladesh. It focuses on whether a particular subject matter is in compliance with authorities identified as criteria. The subject matter can be activities, financial transactions or information. The audit is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities that govern the entity. These authorities may include policy, laws, established codes rules and regulations, established codes, agreed terms, or the general principles governing sound public sector financial management and the conduct of public officials.

3. With the promulgation of the Government Auditing Standards of Bangladesh, which are based on the International Standards of Supreme Audit Institutions (ISSAI), it is necessary to incorporate new materials relating to Compliance Audit in consonance with the new Auditing Standards in our guidelines.

4. The first set of guidelines was issued in 2021 which were put into practice during 2023 and 2024. These updated guidelines consider lessons learnt from the model audits that were carried out by the OCAG with support from the Technical Assistance funded by the European Union. .

5. The guidelines emphasize planning, performance and documentation of audit processes and procedures resulting in audit reports of high quality which will not only assist the members of Parliament to discharge their responsibilities but also inform the citizens of the state of public finance management in our country.

6. OCAG has continually strived to improve its processes and practices. The promulgation of Government Auditing Standards, Code of Ethics and Quality Control System is a significant step in this direction. The issuance of these guidelines will further enhance our efficiency and effectiveness.

7. I put on record my deep appreciation for the officers and staff who have worked hard to prepare these guidelines. The guidelines are gender-neutral. Words and expressions denoting masculine gender include feminine gender also.

Md. Nurul-Islam

Comptroller and Auditor General of Bangladesh

Dhaka Bangladesh. {Date}

[1] Constitutional Mandate
[2] Additional Functions Act

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Preface

1. With the promulgation of the new Government Auditing Standards of Bangladesh, Code of Ethics and Quality Control System, it is necessary to issue fresh guidelines for Compliance Audit.

2. OCAG Bangladesh has a strong tradition of compliance audit, which focuses on regularity and propriety through inspection audits. Historically, the inspection audit emerged as supplementary to central audit but over the long years took centre stage as governmental activities expanded, transactions increased manifold and changes took place in the way the transactions were processed. The audit reports of the CAG of Bangladesh featured many important deviations and irregularities detected during compliance audit of entities. The object of these guidelines is to introduce further improvements in the practices so that quality service can be delivered to the stakeholders.

3. CAG of Bangladesh draws his mandate from the Constitution and CAG (Additional Functions) Act, 1974. Detailed rules relating to public audit are issued by him in the form of the Audit Code. The Government Auditing Standards of Bangladesh promulgated by him reflect the mandates of the Constitution,the Additional Functions Act as well as the directions provided in the Audit Code. The Compliance Audit Guidelines presented here are expected to assist the staff of OCAG to carry out quality audit in accordance with the mandate, directions and standards. These are further supplemented by the office-wise and subject-wise manuals.

4. It is expected that the guidelines will assist the officers and staff of the OCAG in carrying out better and improved compliance audit of different types of entities, activities and transactions. While these guidelines are prescriptive in nature, they do not in any way replace initiative, application of professional judgement and knowledge of the officers and staff of OCAG.

5. It is expected that the guidelines will be updated every three years and will assist the officers and staff of the Office of the CAG of Bangladesh in carrying out better and improved audit of different types of entities, activities and transactions.

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Acronyms and Abbreviations

AIR	Audit Inspection Report
AOM	Audit Observation Memorandum
CAG	Comptroller and Auditor General
COBIT	Control Objectives for Information and Related Technologies
CPWA	Central Public Works Department Code (A)
CPWD	Central Public Works Department Code (B)
CRA	Combined Risk Assessment
DDO	Drawing and Disbursing Officer
DGHS	Directorate General of Health Services
GFR	General Financial Rules
GFR	General Financial Rules
ICC	Internal Control Component
ISSAI	International standards of Supreme Audit Institutions
IT	Information Technology
NBR	National Board of Revenue
OCAG	Office of the Comptroller and Auditor General
PAC	Public Accounts Committee
QCS	Quality Control System
RRU	Rules ad Regulations Unit
SAI	Supreme Audit Institute
TSA	Treasury Single Account
VAT	Value Added Tax

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1 Chapter 1: Nature of Compliance Audit in OCAG Bangladesh

1.1 Introduction

1.1.1 Compliance audit is an independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities which govern the audited entity.

1.1.2 While a compliance audit can be either an attestation engagement or a direct reporting engagement, the Government Auditing Standards of Bangladesh treat all compliance audit engagements as direct reporting engagements. This signifies that the reports of such audits will not be opinions but findings, conclusions and recommendations, if any.

1.1.3 Compliance audit is primarily concerned with regularity and propriety. Regularity is defined as adherence to formal criteria such as relevant laws, regulations and agreements whereas propriety is defined as observance of general principles governing financial management and the conduct expected from the public officials. Both regularity and propriety are considered as the main focus of compliance audit.

1.1.4 While compliance audit may cover a wide range of subject matters, primarily OCAG's compliance audit strategy will remain entity-oriented. Entity for this purpose is defined as the organisation which is at the apex level and control units under its ambit. The entity may frame policies and take decisions that apply to units under its control. From the system point of view, the relationship between the entity and units under it resembles the parent-child relationship. The balance between thematic cohesiveness and the necessity of audit footprints to ensure transparency and accountability among the entities delivering public service by using public resources will be the main objective of OCAG's compliance audit strategy. OCAG intends to meet the challenge through strategic and tactical planning by drawing annual audit plans divided into half-yearly tactical audit plans.

1.1.5 Compliance audit can be conducted from different perspectives. It can be conducted in relation to financial audit and performance audit. However, the emphasis will be to conduct compliance audits separately from financial and performance audits and to provide feedback for the purpose of financial and performance audit if the findings are of relevance to the other types of audit. For example, for the purpose of financial audit, such compliance with laws and regulations is important which have a direct and material bearing on the financial statements. Similarly, a string of similar observations found in more than one entity which impact economy, efficiency and effectiveness may be featured in performance audit reports if thematically relevant.

1.2 Objectives of a Compliance Audit

1.2.1 The objective of public-sector compliance auditing, therefore, is to enable the SAI to assess whether the activities of public-sector entities are in accordance with the applicable laws and rules governing those entities. This involves reporting on the degree to which the audited entity complies with established criteria.

1.2.2 Compliance auditing may be concerned with:

- regularity - adherence to formal criteria such as relevant laws, regulations and agreements, or with

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- propriety - observance of the general principles governing sound financial management and the conduct of public officials.

1.2.3 While regularity is the main focus of compliance auditing, propriety may also be pertinent given the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials.

1.2.4 Both financial and compliance audits entail testing the effectiveness of internal control systems. In compliance audit, this relates to those systems concerned with preventing or detecting and correcting illegal and irregular transactions and activities.

1.3 Elements of Compliance Audit

Authorities and Criteria

1.2.1 Authorities are the most fundamental element of compliance audit. Audit criteria in the case of compliance audit are derived from authorities. While specific laws, rules and regulations will constitute criteria, equally important are the canons of financial propriety and general principles of public sector management, particularly relating to financial management.

1.2.2 Criteria are the benchmarks against which the subject matter is measured and evaluated. In the case of compliance audit, such criteria are provided by the external authorities which are often issued by the Government of Bangladesh or specific entities. These authorities may vary widely. While some like the General Financial Rules apply to most public sector entities, there can be specific rules applicable to select types of entities. The principles of financial propriety are also well enunciated. In rare cases, the OCAG may be required to develop criteria against which the activities and transactions of an entity may be evaluated.

1.4 Subject Matter

1.4.1 In the cases of most of the entities, the subject matter of the compliance audit will be the activities of the entity and units under its control with emphasis on the financial transactions. Since such engagements are not viewed as attestation engagements, the necessity to provide an opinion on any subject matter information will not normally arise. However, on occasions, OCAG may be required to attest to a statement of compliance prepared in accordance with an established and standardised reporting framework.

1.4.2 The mandate of the CAG of Bangladesh in terms of the Constitution as well as the CAG (Additional Functions) Act, 1974 does not prohibit undertaking compliance audit on any subject matter. OCAG will therefore is free to undertake any audit of any subject matter related to any entity covered by Article 128(1) of the Constitution and Section 5(1) of the CAG (Additional Functions) Act 1974. Such subject matters strictly speaking need not be confined to financial transactions alone but can cover wide range of topics of public interest.

1.4.3 It, however, should be kept in mind that the expertise of OCAG is primarily related to finance. The expectations of the intended users as well as citizens in general from CAG and OCAG relate to financial management and hence compliance audit undertaken by OCAG should not stray far from the financial. This includes the financial aspects of public interest as well as the possibility of future financial liabilities of the Government.

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1.4.4 OCAG does not treat compliance audit as attestation engagements and hence is not required to provide any opinions. For compliance audit engagements, thus, the subject matter will be reflected in a number of information expected to be maintained by the audited entity. These may range from simple registers to complex information that are to be maintained. Records and Documents, ledgers and journals, cash books and registers of valuables- all will constitute information related to the subject matter for the purpose of a compliance audit.

1.5 Principles of Compliance Audit

1.5.1 The INTOSAI has issued the following standards which the OCAG complies with, :

- ISSAI 100 - Fundamental Principles of Public-Sector Auditing provides the fundamental principles for public-sector auditing in general and defines the authority of the ISSAIs.
- ISSAI 400 - Compliance Audit Principles builds on and further develops the fundamental principles of ISSAI 100 to suit the specific context of compliance auditing. ISSAI 400 should be read and understood in conjunction with ISSAI 100, which also applies to compliance auditing.
- These guidelines provide detailed instructions on the preparation of audit planning, audit execution and reporting for compliance audits based on the Compliance Audit Standard (ISSAI 4000).
- The Compliance Audit Standard (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aims to promote independent and effective auditing and support the members of INTOSAI in the development of their professional approach in accordance with their mandates and with national laws and regulations.

1.5.2 The essential principles of compliance audit are no different from those related to other types of audit. Scoping of audit keeping in mind the subject matter and criteria is the most important step in planning and performing any compliance audit engagement. Auditors must have an adequate understanding of the audited entities and should have more than an adequate understanding of the internal controls of the entity and the control environment in general.

1.5.3 All compliance audit engagements will be undertaken by OCAG with a risk assessment to identify risks of non-compliance. The concepts of Audit Risks as enumerated in the Government Auditing Standards of Bangladesh are equally applicable to compliance audit engagements. Audit Risks are seen as functions of Inherent Risks and Control Risks and are reduced to an acceptable level by calibrating the Detection Risks.

1.5.4 While carrying out risk assessments, audit engagement teams of OCAG will consider the risks of fraud. It is reiterated that the audit engagement teams should have sufficient knowledge to identify the indicators of fraud but are generally not expected to have the expertise of a person whose primary responsibility is to detect and investigate fraud.

1.5.5 Similarly, the primary objective of compliance audit engagement is not to identify cases of corruption but to assess the risks of corruption and identify the indicators of corruption and financial malfeasance and report accordingly.

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1.5.6 The audit engagement teams will perform audit procedures to obtain sufficient and appropriate audit evidence as required to cover the audit scope. To achieve this, the team will develop an audit strategy and audit plan and determine the audit procedures that are required to obtain sufficient and appropriate audit evidence.

1.5.7 The audit engagement team will exercise professional judgement and scepticism to evaluate the audit evidence and form appropriate conclusions. The main point of the evaluation will be to determine whether sufficient and appropriate audit evidence has been obtained to reduce audit risks to an acceptably low level. The evaluation process entails considering evidence that both supports and contradicts the conclusions. It also requires consideration of materiality. This is a continuing and iterative process during the engagements and the team will expand the audit scope or audit procedures as deemed necessary in the light of such evidence and its evaluations.

1.5.8 The audit engagements are required to maintain rigorous audit documentation, which will include every activity of a team. Such documentation will inter-alia include the audit strategy and audit plan, audit procedures carried out, evidence obtained, application of professional judgement in evaluating the evidence and reporting including the basis of such reports.

1.5.9 OCAG will continue to undertake follow-up audit to ensure that matters raised in the reports by CAG of Bangladesh submitted under Article 132 of the Constitution are acted upon and corrective action as desired and recommended, are taken.

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2 Chapter 2: Audit Universe of OCAG and Annual Audit Plan

2.1 Introduction

2.1.1 In the Constitutional framework of Bangladesh, OCAG is the watchdog over the public finances of the country. The challenge of compliance audit, one of the principal watchdog functions in the public sector audit domain, is to achieve the balance between thematic cohesion and the need to conduct audit in as many audit units as possible, the latter to ensure accountability of public officials in every government office in every corner of the country, as entrusted by Article 128(1) of the Constitution. It is necessary to ensure that the audit reports do not become a string of disjointed descriptions of individual events that neither provide a total picture nor pass the test of materiality. The key to achieving this is sound entity-based audit planning

2.1.2 The audit directorates in OCAG are organised based on sectors and functions. While there are many things common among these sectors and functions, such as the organisation of the bureaucratic set up, they also possess unique characteristics- in organisation, services and financial administrations. The department/sector dichotomy needs to be addressed effectively to achieve effectiveness and quality in compliance audit.

2.2 Entity-based approach to audit planning

2.2.1 To achieve the twin objectives of thematic cohesion in audit reports and coverage of as many auditable units as possible, each audit directorate will prepare entity-wise annual audit plans. Entity for this purpose is defined as a Ministry/Division or Attached Department of the Ministry at a sufficiently high level in the hierarchy, under whose control, a good number of units function to deliver public services. The annual audit plan should include entities and units in such a manner that policies, planning and implementation relating to a subject matter are covered adequately so that the audit reports provide the intended users with a comprehensive picture of the compliance aspects of the subject matter.

2.2.2 The audit directorates are the focal points for the preparation of annual compliance audit plans. Such plans are required to be prepared as per the time schedule circulated by the Accounts and Reports (A&R) wing of OCAG every year well in time. The audit plans will be implemented only after approval by CAG or an officer delegated with powers in his office. It is expected that the plans are discussed in detail before approval.

2.3 Entities for Compliance Audit

2.3.1 The whole gamut of entities which form the audit universe of OCAG is divided into four categories:

2.4 Category I: Budgetary Central Government

2.4.1 Budgetary Central Government refers to entities and units, whose revenue and expenditure are regulated using a budget approved by Parliament. Appropriation Act and Finance Act are used respectively to deal with expenditure and revenue. These entities are covered by Government rules and regulations. The transactions are recognised mostly on a cash basis.

2.4.2 Under this category, there will be the foreign-aided projects. These may follow normal government rules and/or specific provisions in the conditions for such aid.

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These are audited either under Article 128(1) and/or as per the agreement for such aid. These are normally project-based and can have their own procedures governing financial transactions.

2.5 Category II: Statutory Public Authorities other than Corporations

2.5.1 Section 5(1) of the CAG (Additional Functions) Act, 1974 mandates the CAG to audit the accounts of any statutory public authority. Statutory public authorities are organisations that are established through specific law or an instrument having the force of law. Autonomous bodies established by the delegated administrative powers by the Ministries are to be covered within the ambit of statutory public authorities.

2.6 Category III: Local Authorities

2.6.1 Section 5(1) of the CAG (Additional Functions) Act 1974 also mandates the CAG to audit the accounts of any local authority. Local authorities are defined in Article 59 of the Constitution and General Clauses Act 1897.

2.7 Category IV: Public Enterprises and Corporations

2.7.1 For CAG's audit, a public enterprise is defined as a company or a firm, whether incorporated or registered or not, in which the Government has at least fifty percent share or interest. Corporations established by statutes engaged predominantly in commercial activities are also covered by this category.

2.7.2 All four categories of entities come under the compliance audit jurisdiction of CAG. However, these entities, organisationally are complex and comprise many layers of administrative hierarchy often with Ministries/ Divisions dealing with policy levels and units at the last mile to implement schemes and programmes to provide services to the people. It is essential for an effective compliance audit to capture these units at all levels of the hierarchy in compliance audit planning.

2.8 Criteria for determination of auditable entities and units

2.8.1 The "auditability" of entities and units will be determined by both quantitative and qualitative factors. The significant factors will be:

(i) Financial powers of these entities: Such financial powers can be powers to incur expenditure or powers to allocate budget allotment to lower formations. Entities with powers to incur expenditure are of more significance to audit for compliance audit.

(ii) Volume of financial transactions during the last three to five financial years except for routine administrative expenditure which includes pay and allowances.

(iii) Significant expenditure on the procurement of stores and stocks including financial transactions which include payments for goods and services received.

(iv) Operational significance in achieving outcome: While a particular unit may not have significant operational and financial significance, its value in the implementation of policies or role in achieving overall outcome can be important.

(v) Functional autonomy and delegation of powers: Units having substantial functional autonomy and powers- financial powers in particular- are important from the point of view of a compliance audit.

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(vi) Complexity of transactions: While volume and number of transactions are important factors, often the transactions may not be voluminous or in huge numbers but extremely complex. Transactions in the financial and banking companies, insurance or involving future contingencies need special attention during compliance audit.

(vii) Significant devolution of administrative and financial powers including powers to allocate sums of money to lower formations and attendant powers to re-appropriate allocated sums.

(viii) Operational significance of the unit in the overall scheme of service delivery.

(ix) The unit being the recipient of a significant amount of stores and stocks like drug depots and stores.

(x) Role of the unit in providing critical services to other branches of the government or the people in general.

(xi) Role of the unit in exploiting public resources including natural resources or allowing others to exploit such resources e.g. licensing units, Public Private Partnership Cell, etc.

2.8.2 Preparation of audit universe identifying all units will be the responsibility of each directorate. The list of all audit units as a master list, whether to be audited or not, will be maintained by the directorates and periodical updating of the list will be carried out.

2.9 Source of Inputs for Annual Plan

2.9.1 The sources from which inputs may be gathered to prepare the annual audit plan are:

(i) Budgets and appropriations;

(ii) Annual Development Programmes and Plans;

(iii) Annual Reports of the Ministries/Divisions and Departments;

(iv) Policy announcements of the Ministries/ Budget announcements/ introduction of new schemes and programmes;

(v) Trends of expenditure/ receipts/ Unusual spikes or dips in expenditure or receipts from iBAS++ and any other source;

(vi) Suggestions of PAC and other Parliamentary Committees;

(vii) Media Reports;

(viii) Past Audit findings/ Audit reports/Follow-up of past audit reports;

(ix) Annual Reports of Companies and Statutory public authorities;

(x) Geographical locations and distance from the unit from the Capital or district headquarters;

(xi) Finance Accounts and Appropriation Accounts/ financial statements of the authorities.

2.10 Risk-based approach to Compliance Audit Planning

2.10.1 At the heart of the annual plans, is the risk-based approach to compliance audit. While determining the audit universe in any sector and more importantly, choosing units for

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compliance audit, high risk areas and activities must attract attention and should be prioritised. The overall objective of selecting units for compliance audit thus should be a meaningful audit report which provides a fuller picture rather than highlighting individual sporadic transgressions.

2.10.2 Primarily the risk-based approach should determine the importance of the sector in the overall scheme of governance. Welfare and social measures are important enough, but other important areas can also include the safety of citizens, defence preparedness, infrastructural readiness and long-term financial goals of the government. All units selected for compliance audit must satisfy these rationales.

2.10.3 While identifying the audit areas and entities, the potential risk of non-compliance should be considered. The following considerations are suggested to be kept in mind in this exercise.

(i) Public or legislative expectations;

(ii) Impact on citizens;

(iii) Significant public funds involvement;

(iv) Beneficiaries of Public Funds;

(v) Significance of certain provisions of law;

(vi) Principles of good governance;

(vii) Potential breaches of applicable laws and other regulations which govern public entity's activity or public debt, public deficit and external obligations;

(viii) Public Resources like land handed over to private parties for general benefit of citizens;

(ix) Impairment of commons and public goods;

(x) Potential of creation of future liabilities for the government.

2.11 Financial Transactions as Focus of Compliance Audit

2.11.1 The primary focus of compliance audit will continue to be financial transactions. This includes not only the transactions that have occurred but those that have not occurred but should have. These would cover delays and losses, wastes and leakages.

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3 Chapter 3: Important Authorities

3.1 Introduction

3.1.1 Compliance audit is defined as the examination whether a particular subject matter is in compliance with authorities identified as criteria. Criteria are benchmarks to evaluate the subject matter. Authorities have been considered as the most fundamental element of compliance audit. They are considered the foundational structure of compliance audit as they form the basis of how the audit is to proceed under a specific constitutional arrangement.

3.1.2 It is important for an audit engagement team to be well-conversed with the set of authorities that govern a particular entity and units under its control or associated with it. Statutory Public Authorities, Local Authorities and Public Enterprises may have separate sets of authorities which would govern their functions. A public enterprise, for example, is bound by the Companies Act, 1994.

3.1.3 The following paragraphs provide a survey of authorities which will be essential for conducting a compliance audit. These are not exhaustive and there may be additional authorities which will apply to the entities.

3.2 General

3.2.1 The general authorities are:

3.2.2 Constitution of Bangladesh: The Constitution of Bangladesh is the Supreme law of the Republic. All individuals and entities are required to abide by the Constitution and uphold the values and provisions of the Constitution in letter and spirit.

(i) Rules of Business 1996: Rules issued for allocation and transaction of business of the Government of Bangladesh.

(ii) Official Secrets Act 1923(as amended): Law related to the management of official secrets of Bangladesh.

(iii) Right to Information Act 2009: An act to ensure the free flow of information and people's right to information.

(iv) Public-interest Information Disclosure Act (Provide Protection), 2011: Also known as Whistle-blowers Protection Act, this act provides for legal protection to persons disclosing information relating to the public interest.

(v) Contracts Act 1872 (as amended): All contracts are covered by this act.

(vi) Public Procurement Act 2006: The act provides for procedures to be followed to ensure transparency and accountability in the procurement of goods, works and services using public funds.

(vii) Public Procurement Rules 2008: The rules are under the Public Procurement Act 2006.

(viii) Public Demand Recovery Act 1913 (as amended): The act relates to the recovery of public demands in Bangladesh.

(ix) National Integrity Strategy 2012: The document lays down the road map to prevent corruption and promote integrity.

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(x) Treasury Rules and Subsidiary Rules made thereunder: The Rules lay down rules of receipts and payments into government account (exchequer).

3.3 Acts specific to a class of entities

3.3.1 The following are the Acts which are applicable to a specific class of entities. These do not include individual acts relating to statutory public authorities as defined in Article 152 of the Constitution of Bangladesh reproduced in Section 5(1) of the CAG (Additional Functions) Act, 1974:

(i) Companies Act 1994: All public enterprises as defined in Section 5(1) of the CAG (Additional Functions) Act, 1974 are governed by this Act.

(ii) Bank Companies Act 1991: The act governs all banks.

(iii) Financial Reporting Act 2015: Establishes a council to provide a structure to the financial reporting systems; for the organisations as stipulated in the Act to promulgate accounting and auditing standards and their adherence.

(iv) Financial Institutions Act 1993: The act relates to licensing financial institutions and other related matters.

(v) The Bangladesh Bank Order, 1972 (President's order): Relates to Bangladesh Bank, the Central Bank of Bangladesh. Bangladesh Bank is the banker of the Government of Bangladesh and maintains Treasury Single Account (TSA).

(vi) Bima Corporation Act 2019: Establishes the Insurance companies: Jiban Bima and Sadharan Bima**.**

3.3.2 Acts and Rules relating to service conditions of Public Servants

(i) Sarkari Chakri Ain, 2018.

(ii) Government Servants (Conduct) Rules 1979.

(iii) Government Servants (Discipline and Appeal) Rules, 2018.

(iv) Provident Funds Act 1925, General Provident Fund Rules, 1979 and Contributory Provident Fund Rules 1979.

(v) Bangladesh Employees Welfare Board Act. 2004

(vi) Bangladesh Service Rules.

(vii) Prescribed Leave Rules 1959**.**

3.3.3 Acts, Rules and Documents governing financial transactions and other business of government

(i) The Public Moneys and Budget Management Act, 2009

(ii) The Public Debt Act, 1944 (as amended)

(iii) Fundamental and Supplementary Rules.

(iv) General Financial Rules (GFR)

(v) Treasury Rules.

(vi) Delegation of Financial Powers.

(vii) Development Projects Fund Release Order.

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(viii) Budget Documents.

(ix) Citizens' Charters.

(x) Bangladesh Accounting Standards.

(xi) Account Code Volume I to IV.

(xii) Appropriation Acts and Finance Acts.

3.3.4 Acts, Rules and Codes Specific to Sectors/ Departments

3.3.5 Defence

(i) Army Regulations Volumes I & II.

(ii) Joint Service Instructions.

(iii) Rules regarding TA/DA, Leave, Passage Regulations, Provident Fund.

(iv) Military Account Code.

(v) Military Audit Code.

(vi) MES Regulations.

(vii) Financial Regulations I and II

3.3.6 Railways

(i) Railway Establishment Code Volumes 1& 2.

(ii) Railway Fundamental and Supplementary Rules.

(iii) Railway Servants (Discipline and Appeal) Rules, 1968.

(iv) Railway General Code.

(v) Railway Engineering Code.

(vi) Railway Stores Code.

(vii) Railway Code for Accounts Department.

3.3.7 Public Works Department

(i) CPWD Code.

(ii) Book of Specification and Code of Practice.

(iii) CPWA Code.

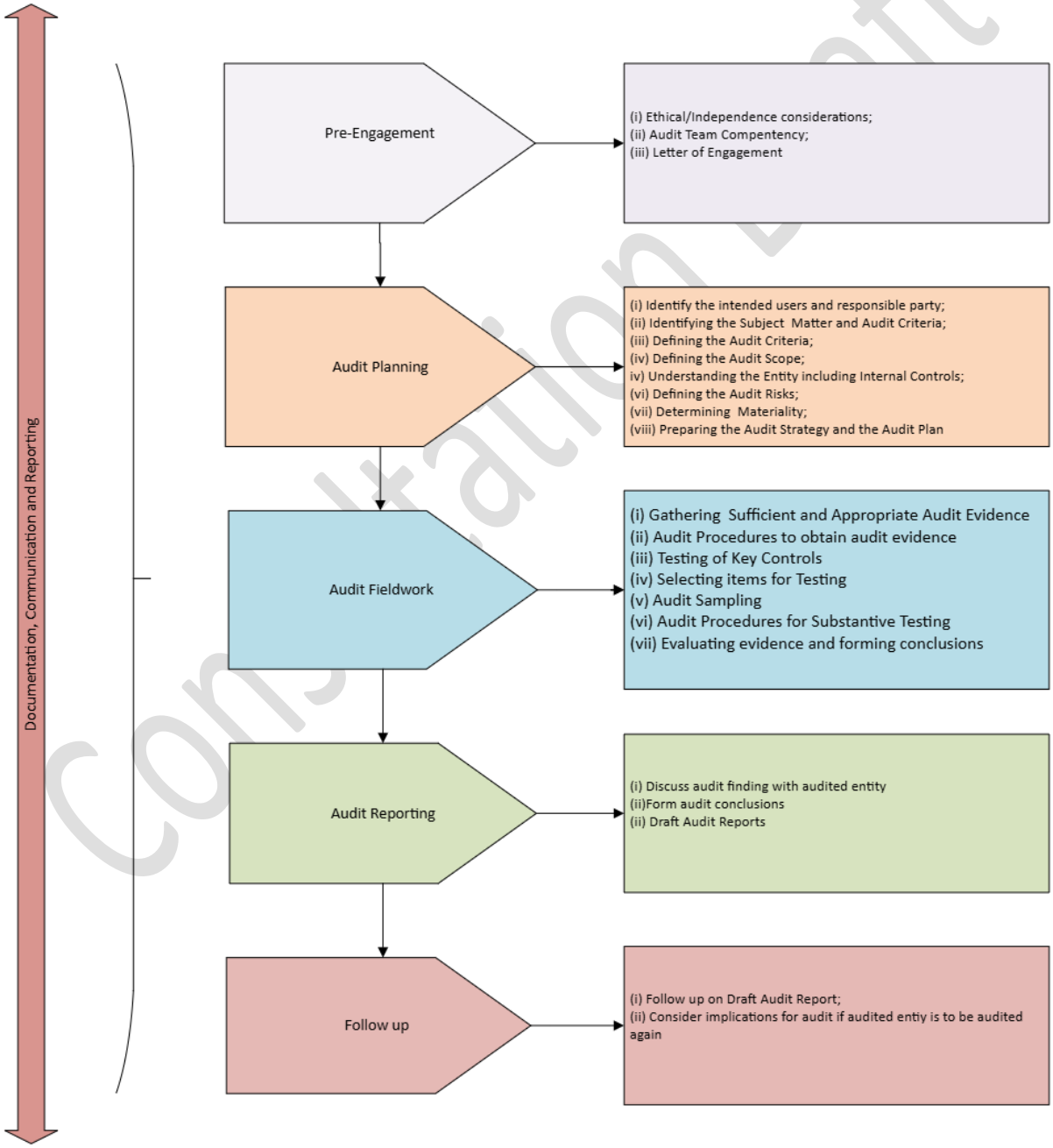
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4 Chapter 4: Compliance Audit Process

4.1.1 The OCAG compliance audits consist of a process of gathering, updating and analysing information from different sources, to make decisions, draw conclusions, based on sound professional judgment. Although the Planning, Fieldwork and Reporting Stages are presented sequentially in this Guideline, the whole process is iterative, as illustrated below.

4.1.2 Accordingly, OCAG auditors may perform some of the procedures concurrently or may, at any point in the process, return to and reconsider a previous step based on new information. Figure 1 below shows the key stages of Compliance Audit.

Figure 1 - Overview of the Compliance Audit Process



4.1.3 Each of these stages are elaborated further in these guidelines

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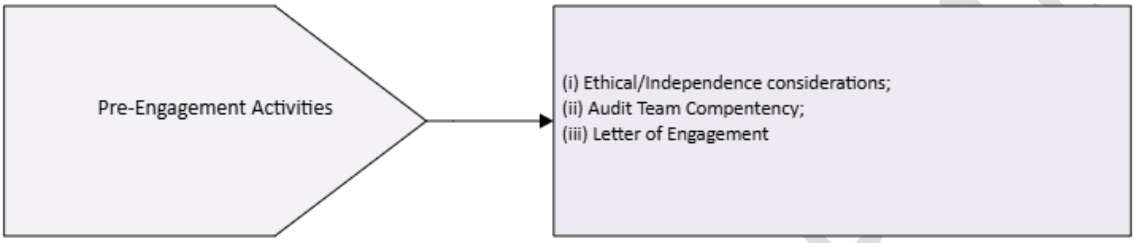
5 Chapter 5: Pre-Engagement Activities

5.1 Introduction

5.1.1 The requirements to be met regarding pre-engagement activities are outlined in ISSAI 4000. Before starting the financial audit mission, the OCAG must assess the existence of the necessary preconditions for the successful completion of the compliance audit.

5.1.2 The figure below shows the pre-engagement phase:

Figure 2 - Pre-Engagement Phase



5.2 Ethical/independence considerations

5.2.1 Auditors need to demonstrate professional behaviour and integrity, be objective, possess the required professional competence, and exercise due care. Auditors are also to maintain independence in fact and appearance and confidentiality regarding all audit matters (INTOSAI P-10. Mexico Declaration on SAI Independence, ISSAI 130. Code of Ethics).

5.2.2 To ensure that the audit is conducted objectively and independently, OCAG auditors should comply with the OCAG's ethical code of conduct based upon ISSAI 130 (Code of Ethics). It is also essential to ensure that auditors have no conflicts of interest with any entity they audit. It is required that OCAG auditors sign a written declaration that has been provided at Template 1 - Code of Ethics which confirms that:

- they comply with the principles set out in the OCAG Code of Ethics; and
- they have no Conflict of Interest. If a conflict of interest is identified at any stage of the engagement this should be declared and affected members of the team withdrawn from the audit.

5.2.3 OCAG auditors must formally identify, document and mitigate any ethical threats that may arise during audit, such as:

- self-review threat – an auditor performing review of their own work as a result does not identify the shortcomings within it (e.g. if the auditor was previously involved in the compliance department of the entity subject to audit);
- self-interest threat - financial or other interests of audit team members or their close family (e.g. auditor is currently applying for an accounting position at the audited entity);

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- familiarity threat - an auditor is too trusting of the audited entity because of a close relationship with them (e.g. an auditor's friend has a senior position in the compliance function of the audited entity)
- advocacy threat – an auditor is asked to promote the audited entity's position or represent them in some way, such as in court proceedings; and
- intimidation threat – an auditor is deterred from acting objectively by threats made against them, such as the threat of litigation

5.2.4 In this regard, the responsible Director will be required to put necessary safeguards in place, so as to reduce them to an acceptable level according to their professional judgement, in compliance with the code of ethics.

5.3 Audit team competency

5.3.1 The OCAG shall ensure that the audit team collectively has the necessary professional competence to perform the audit. The audit team is assembled to collectively have the necessary competence, knowledge, skills and expertise to perform the audit in accordance with professional standards.

5.3.2 Depending on the subject matter, this may include:

- Auditing skills and skills regarding data collection/analysis;
- Legal competence;
- An understanding and practical experience of the type of audit being undertaken;
- Knowledge of the applicable standards and regulations;
- An understanding of the audited entity's operations and appropriate experience for the type of entity and operations being audited;
- The ability and experience to exercise professional judgement; and
- The ability to produce an auditor's report that is appropriate in the circumstances.

5.3.3 The team should discuss the subject matter, how significant and material it is to the intended users and the initial risk assessment of non-compliance related to the subject matter and clarify that the entire team has the same understanding of the subject matter and work allocation.

5.3.4 The OCAG also determines whether their work is adequate for the purposes of the audit. Even if external experts perform audit work on behalf of the OCAG, the OCAG is still responsible for the conclusion(s).

5.4 Letter of Engagement

5.4.1 The pre-engagement process cumulates in the formal communication between the OCAG and the audited entity, on the following matters:

- The objective and scope (including subject matter and criteria) of the compliance audit;
- The responsibilities of auditors;
- The responsibilities of management;
- The mechanisms by which auditors will ensure an effective communication throughout the audit;
- Reference to the expected form and content of any reports to be issued by the auditor.

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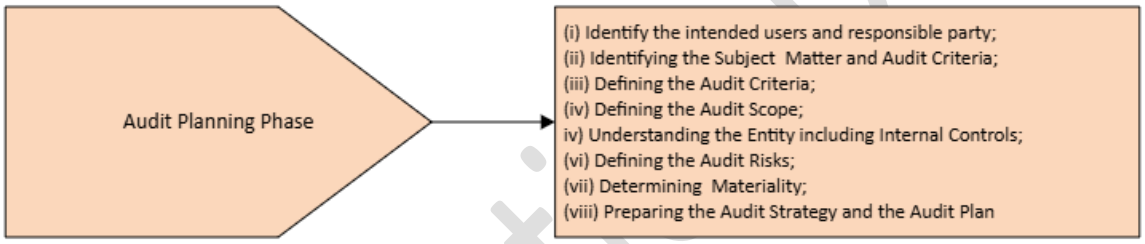
6 Chapter 6: Audit Planning Phase

6.1 Introduction

6.1.1 Auditors should plan their work to ensure that the audit is conducted effectively and efficiently. Planning for a specific audit includes strategic and operational aspects. Strategically, planning should define the audit scope, objectives, and approach. Audit scope basically refers to the area, extent, and period covered in the audit of a given subject matter. The objectives refer to what the audit is intended to accomplish. The approach will describe the nature and extent of the procedures to be used for gathering audit evidence. The audit should be planned to reduce audit risk to an acceptably low level. Operationally, planning entails setting a timetable for the audit and defining the nature, timing, and extent of the audit procedures. Audit planning should be responsive to significant changes in circumstances and conditions.

6.1.2 It is an iterative process that takes place throughout the audit. Figure 3 below illustrates the key steps for the audit planning phase

Figure 3 - Audit Planning Phase



6.2 Identify the intended users and responsible party

6.2.1 The intended users are the persons for whom the auditor prepares the compliance audit report. The intended users may be legislative or oversight bodies, those charged with governance, the public prosecutor, the media, or the general public. The responsible party is responsible for the subject matter, and is the subject of the audit[3]. The intended users and the responsible party are to be identified in order to consider the implications of their roles. This requires an understanding of the decisions made by the users, and the type of information they use for their decision-making purposes. On the other hand, the identification of the responsible party is important when setting the audit criteria.

6.3 Identifying the Subject Matter and Audit Criteria

6.3.1 Determining the subject matter and criteria is one of the steps to be carried out in planning and performing a compliance audit. Auditors have the obligation and interest in producing high quality audit reports. They need to focus/give importance to the subject matter and criteria in order to produce a report that will meet the expectations of the intended users. Thus, auditors should try to find the significant aspects of a subject matter, and whether suitable criteria are available for measurement of the subject matter.

[3] ISSAI 4000.102

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6.3.2 The following are examples of the subject matter of a Compliance Audit:

- Fund Utilization (use of appropriated funds)
- Revenue collection (e.g. local taxes, fines and penalties)
- Procurement
- Expenditures
- Service delivery – medical, education, etc.
- Heritage protection
- Health and safety
- Environmental protection
- Internal control framework
- Payments of social benefits, pensions
- Physical characteristics, zoning density, access to government buildings, etc.

6.3.3 The subject matter of a compliance audit should be identifiable, and can be assessed against suitable criteria. It should be of such nature that it enables sufficient and appropriate audit evidence to be gathered in support of the audit report, conclusion or opinion.

6.4 Defining the Audit Criteria

6.4.1 Audit criteria can be derived from:

(a) Laws, rules, and regulations (e.g. Republic Acts, Executive Orders, Circulars);

(b) International treaties and other agreements (e.g. Loan/Grant Agreements, Memorandum of Agreement, Terms of Reference); and

(c) Codes of conduct (e.g. Code of Conduct and Ethical Standards for Public Officials).

6.4.2 Also, suitable propriety criteria may be derived from (ISSAI 4000.116):

(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 the services and works; and

(c) Requirements for a transparent and unbiased allocation of public funds and human resources.

6.4.3 In some cases, laws and regulations require further interpretation in order to derive relevant audit criteria. If situations arise where there are conflicting provisions or there may be doubt as to what is the correct interpretation of the relevant law, regulation, or other authorities, auditors may consider the intentions and premises set out in developing the law, or to consult with the particular body responsible for the legislation.

6.4.4 Suitable audit criteria exhibit the following characteristics (ISSAI 4000.118):

a. Relevance

Relevant criteria result in subject matter information that assists decision-making by the intended user(s).

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b. Completeness

Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended user(s) made on the basis of that subject matter information.

c. Reliability

Reliable criteria result in consistent conclusions when used and examined in the same way, by another auditor, in the same circumstances.

d. Neutrality

Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.

e. Understandability

Understandable criteria result in subject matter information that can be understood by the intended user(s).

f. Usefulness

Useful criteria result in findings and conclusions that meet user(s)' information needs.

g. Comparability

Comparable criteria are consistent with those used in Compliance Audits of other similar agencies or activities and with those used in previous Compliance Audits of the audited entity being audited.

h. Acceptability

Acceptable criteria are those that independent experts in the field, audited agencies, legislature, media, and general public generally agree to.

i. Availability

The criteria are available for intended user(s) in such way that they understand the nature of the audit work performed and the basis for the audit report.

6.4.5 If, while executing the audit, the auditors identify breaches of other suitable audit criteria other than those criteria identified in the planning phase, auditors have the responsibility to report these breaches (ISSAI 4000.120).

6.5 Define the Audit Scope

6.5.1 The scope defines the subject matter, and what is going to be audited. The scope depends on the needs of the intended user(s), the decided level of assurance, the risk that has been assessed, and the competence and resources available (ISSAI 4000.44).

6.5.2 Audit scope basically refers to the area, extent, and time period covered in the audit of a given subject matter. It is a statement of the focus, extent, and limits of the audit in terms of the subject matter's compliance with the criteria. The scoping of an audit is also influenced by materiality, and it determines which authorities and parts thereof will be covered. The audit process as a whole should be designed to cover the entire audit scope.

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6.6 Understanding the Entity including the Internal Controls

6.6.1 The auditors need to obtain an understanding of all components of an internal control system: the control environment, the audited entity's risk assessment process, the information system, the control activities relevant to the audit, and the monitoring of control relevant to the audit (ISSAI 4000.135).

6.6.2 The INTOSAI GUID 9100[4] provides guidance on the components of internal controls. The components are:

a. Control environment;

b. Risk assessment;

c. Control activities;

d. Information and communication

e. Monitoring.

1. <u>Control Environment</u>

6.6.3 The control environment sets the tone of an organisation, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure. Elements of the control environment are:

a. The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control at all times throughout the organisation;

b. Commitment to competence;

c. The "tone at the top" (i.e. management's philosophy and operating style);

d. Organisational structure;

e. Human resource policies and practices.

The personal and professional integrity and ethical values of management and staff

6.6.4 The personal and professional integrity and ethical values of management and staff determine their preferences and value judgments, which are translated into standards of behaviour. They should exhibit a supportive attitude toward internal control at all times throughout the organisation.

Commitment to Competence

6.6.5 Commitment to competence includes the level of knowledge and skill needed to help ensure orderly, ethical, economical, efficient and effective performance, as well as a good understanding of individual responsibilities with respect to internal control.

The "tone at the top"

6.6.6 The attitude established by top management is reflected in all aspects of management's actions. The commitment, involvement and support of top government officials and legislators in setting "the tone at the top" foster a positive attitude and are critical to maintaining a positive and supportive attitude towards internal control in an organisation.

[4] GUID 9100

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Organisation Structure

6.6.7 The organisational structure defines the entity's key areas of authority and responsibility. Empowerment and accountability relate to the manner in which this authority and responsibility are delegated throughout the organisation. There can be no empowerment or accountability without a form of reporting. Therefore, appropriate lines of reporting need to be defined. In exceptional circumstances, other lines of reporting have to be possible in addition to the normal ones, such as in cases where management is involved in irregularities.

Human Resources

6.6.8 An important aspect of internal control is personnel. Competent, trustworthy personnel are necessary to provide effective control. Therefore, the methods by which persons are hired, trained, evaluated, compensated, and promoted, are an important part of the control environment. Hiring and staffing decisions should therefore include assurance that individuals have the integrity and the proper education and experience to carry out their jobs and that the necessary formal, on-the-job, and ethics training is provided. Managers and employees who have a good understanding of internal control and are willing to take responsibility, are vital to effective internal control.

2. <u>Risk Assessment</u>

6.6.9 Risk assessment is the process of identifying and analysing relevant risks to the achievement of the entity's objectives and determining the appropriate response. It implies:

a. Risk identification:

(i) Related to the objectives of the entity; comprehensive;

(ii) Comprehensive;

(iii) Includes risks due to external and internal factors, at both the entity and the activity levels;

b. Risk evaluation:

(i) Estimating the significance of a risk;

(ii) Assessing the likelihood of the risk occurrence;

c. Assessment of the risk appetite of the organisation;

d. Development of responses:

(i) Four types of responses to risk must be considered: transfer, tolerance, treatment or termination; of these, risk treatment is the most relevant to these guidelines because effective internal control is the major mechanism to treat risk;

(ii) The appropriate controls involved can be either detective or preventive.

Risk Identification

6.6.10 A strategic approach to risk assessment depends on identifying risks against key organisational objectives. Risks relevant to those objectives are then considered and evaluated, resulting in a small number of key risks.

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6.6.11 Identifying key risks is not only important in order to identify the most important areas to which resources in risk assessment should be allocated, but also in order to allocate responsibility for the management of these risks.

Risk Evaluation

6.6.12 To decide how to handle risk, it is essential not only to identify in principle that a certain type of risk exists but also to evaluate its significance and assess the likelihood of the risk event occurring. The methodology for analysing risks can vary, largely because many risks are difficult to quantify (e.g. reputation risks) while others lend themselves to a numerical diagnosis (particularly financial risks). For the former, a much more subjective view is the only possibility. In this sense, risk evaluation is more of an art than a science. However, the use of systematic risk rating criteria will mitigate the subjectivity of the process by providing a framework for judgements to be made in a consistent manner.

Assessment of the "risk appetite" of the organisation

6.6.13 An important issue in considering a response to risk is the identification of the "risk appetite" of the entity. Risk appetite is the amount of risk to which the entity is prepared to be exposed before it judges action to be necessary. Decisions about responses to risk have to be taken in conjunction with an identification of the amount of risk that can be tolerated.

Development of responses

6.6.14 Responses to risk can be divided into four categories. In some instances, risk can be transferred, tolerated, or terminated. However, in most instances the risk will have to be treated and the entity will need to implement and maintain an effective internal control system to keep risk at an acceptable level.

3. <u>Control Activities</u>

6.6.15 Control activities are the policies and procedures established to address risks and to achieve the entity's objectives.

6.6.16 To be effective, control activities must be appropriate, function consistently according to plan throughout the period, and be cost-effective, comprehensive, reasonable and directly related to the control objectives.

6.6.17 Control activities occur throughout the organisation, at all levels and in all functions. They include a range of detective and preventive control activities as diverse, for example, as:

(i) authorization and approval procedures;

(ii) segregation of duties (authorizing, processing, recording, reviewing);

(iii) controls over access to resources and records;

(iv) verifications;

(v) reconciliations;

(vi) reviews of operating performance;

(vii) reviews of operations, processes and activities;

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(viii) supervision (assigning, reviewing and approving, guidance and training).

6.6.18 Entities should reach an adequate balance between detective and preventive control activities. Corrective actions are a necessary complement to control activities in order to achieve the objectives.

4. Information and communication

6.6.19 Information and communication are essential to the realisation of all the internal control objectives. For example, one of the objectives of internal control is fulfilling public accountability obligations. This can be achieved by developing and maintaining reliable and relevant financial and non-financial information and communicating this information through a fair disclosure in timely reports. Information and communication relating to the organisation's performance will create the possibility to evaluate the orderliness, ethicality, economy, efficiency and effectiveness of operations. In many cases, certain information has to be provided or communication has to take place to comply with laws and regulations.

5. Monitoring

6.6.20 Monitoring internal control is aimed at ensuring that controls are operating as intended and that they are modified appropriately for changes in conditions. Monitoring should also assess whether, in pursuit of the entity's mission, the general objectives set out in the definition of internal control are being achieved. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of both, to help ensure that internal control continues to be applied at all levels and across the entity and that internal control achieves the desired results. Monitoring the internal control activities themselves should be clearly distinguished from reviewing an organisation's operations which is an internal control activity

6. Template

6.6.21 To Understand the Entity and its Internal Controls, Auditors are required to complete Template 2 - Internal Control Checklist (ICC). Any weaknesses need to be reported in the Audit Report with recommendations on how the internal controls both at the organisational level and at detailed transaction level can be improved. Areas such as the need for risk management, setting the tone at the top, communication are some examples of areas that audited entities should have at the organisational level. Lower levels of internal control should be in place to ensure that the transactions have been subject to adequate control before payment and on revenue collection.

6.7 Defining the Audit Risk

6.7.1 Audit risk is the risk that the auditors might provide a report that is inappropriate in the circumstances of audit. In case of compliance audit, it would mean that the auditor provides findings, conclusions and recommendations that are incorrect in the circumstances of the subject matter of audit. In very simple terms, this means that the auditor provides a wrong report. In case of compliance audit, it means that the auditor provides findings and conclusions which are incorrect in as much as the auditor may have failed to detect a deviation or non-compliance or have reported a deviation or non-compliance where it was actually not a deviation or non-compliance. Such wrong reports may emanate from inadequate risk analysis and consequently, from adopting inadequate and incorrect audit procedures. Incorrect audit procedures will in case of

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compliance audit include selecting the wrong criterion or failure to select an authority which applies to the transactions of the entity.

6.7.2 Audit risk is essentially a combination of three components. These are: Inherent Risks, Control Risks and Detection Risks. Inherent risk and Control risk pertain to the audited entities. These are the entity's risk. Detection risk falls within the domain of the auditors.

6.7.3 In practice, audit risk is unavoidable. In the public sector, audit risk is normally 5% for audits providing reasonable assurance. As a consequence, the degree of assurance = 100 – audit risk (5%) = 95%. However, the auditors need to consider if specific policies regarding this are in place in the OCAG. Auditors need to perform audit procedures to ensure that audit risk is 5% or less to provide reasonable assurance from the audit.

6.7.4 The proper way to reduce audit risk is to consider it during risk assessment. Risk assessment is the most important step in the planning process. It guides the auditor to focus on the key issues to be considered for audit, considering the resource and time constraints.

6.7.5 Risk assessment and audit risk must not be confused. Risk assessment is a process of assessing the risk that the subject matter is not in compliance with the criteria, and it is related to the intended users' need to be provided with information that can lead to sound decisions. Audit risk is the risk that the auditor might reach an incorrect conclusion, and it is related to the amount of audit evidence the auditor needs to collect to reach a conclusion with the necessary level of assurance. A compliance audit should be performed in a manner that would ensure that audit risk is reduced to an acceptable low level in the circumstances of the audit.

6.7.6 Another way to reduce audit risk to an acceptable low level is to ensure that audit teams collectively possess the knowledge, skills, and expertise necessary to successfully complete the audit. This includes an understanding and practical experience of the type of audit being undertaken, familiarity with the applicable standards and authorities, an understanding of the audited entity's operations and the ability and experience to exercise professional judgment. Common to all audits is the need to recruit personnel with suitable qualifications, offer staff development and training, prepare manuals and other written guidance and instructions concerning the conduct of audits, and assign sufficient audit resources. Auditors should maintain their professional competence through ongoing professional development.

1. Inherent Risk

6.7.7 Inherent risk is the risk related to the nature of the activities, operations, and management structures. This risk is described as "the susceptibility of a subject matter to material compliance deviation or error from the suitable criteria, before consideration of any related controls."

6.7.8 The inherent risk that a compliance deviation or error may occur can be assessed by the auditors' use of judgment to evaluate a range of factors, including:

- complexity of the framework/hierarchy of laws, rules, and regulations;
- complexity of laws, rules, and regulations; and
- introduction of new legislation or changes in existing regulations.

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6.7.9 As part of the risk assessment, the auditors determine which of the inherent risks identified are in their judgment risks that require special audit considerations (significant risks). For such risks, the auditors should evaluate the design of the related controls and determine through testing whether these controls have been implemented effectively and continuously throughout the period under review.

6.7.10 Understanding the framework of laws and regulations and using this information appropriately will assist the auditors in identifying potential material deviations (e.g. from new and complex legislation or a misinterpretation of legislation and its scope). This understanding helps the auditors to determine whether the inherent risk is to be classified as high or not high and in deciding upon the nature, timing, and extent of audit procedures to be performed.

6.7.11 The auditors' understanding includes knowledge of the reasons for the legislation and its objectives, as this will aid their understanding of any secondary legislation or subsidiary regulations. The extent of the auditors' work in obtaining a sufficient understanding of the legal and regulatory framework will depend on the nature and complexity of the laws and regulations. However, the auditors only need to understand the parts of the legislation that are relevant to the particular audit task. In all cases, the audited entity retains the responsibility for ensuring compliance with applicable laws and regulations; this includes ensuring that legislation and regulations are appropriately reflected at all stages with operational guidance.

6.7.12 Where the auditors are uncertain whether legislation has been properly interpreted and the effect could be material, it may be necessary to seek a legal opinion. If the laws and regulations do not change, the auditors may already have sufficient knowledge from previous audits.

2. Control Risk

6.7.13 Control risk is the risk that a material deviation could occur that would not be prevented, or detected and corrected on a timely basis, by the internal control systems. Where the auditors expect to be able to rely on their assessment of control risk to reduce the extent of substantive procedures relating to compliance, they make a preliminary assessment of control risks, and plan and perform test of control to support that assessment.

6.7.14 The auditors need to assess the control risk to determine whether controls can be relied upon, which affects the appropriate audit response. There are two stages involved in assessing control risk. The first level is the assessment of the design and implementation of relevant controls and the second level is the testing of the operating effectiveness of controls over the period of intended reliance. A control is considered to be relevant if it mitigates (can detect, prevent or correct) the risk of material noncompliance. If based on the understanding and review of controls, the design and implementation of the control is NOT adequate to address the risk, there is no reason to test the operating effectiveness of the control. Otherwise, the auditors need to proceed with the test of controls. There may be cases wherein the design and implementation of controls are adequate, but found to be ineffective upon testing the operating effectiveness of the controls. In such cases, the auditors should revisit the assessment of control risk.

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6.7.15 The assessment of control risk is affected by the result of internal control checklist, especially in the control activities element of the internal control system. The checklist can be found at Template 2 - Internal Control Checklist.

3. Combined Risk Assessment (CRA)

6.7.16 The auditors' risk assessment should determine the reasonable expectation about the potential level of deviations as regards compliance with applicable laws and regulations; thus, assessment of the inherent and control risks of the identified subject matter of the compliance audit is imperative. For example, non-compliance with law is inherent in procurement and therefore auditors should assess control risk, e.g. whether existing controls in procurement could be relied or not. The combined risk assessment (CRA) involves testing the operating effectiveness of the controls. However, before performing Test of Controls, an assessment of the design of controls e.g. whether controls are adequate or not must first be done. This is necessary because performing risk assessment procedures to obtain an understanding of the audited entity's internal control over compliance includes an evaluation of the design of controls and whether the controls have been implemented.

6.7.17 Moreover, the purpose of performing risk assessment in compliance auditing is to identify areas which are most exposed to high risk of noncompliance and allocate the scarce audit resources to audit areas that are critical to the success and sustainability of audited agencies. After assessing the risks associated with the strategic and operational activities of the audited entity, auditors need to determine the appropriate response to the material risks identified which involves consideration of the perceived level of maturity of internal controls. If the auditors identify risks of material noncompliance, they should develop an overall response to such risks. They have to design further audit procedures, including tests of details (which may include tests of transactions) to obtain sufficient and appropriate audit evidence about the audited entity's compliance with each of the applicable compliance requirements in response to the assessed risks of material noncompliance. Based on the evaluation of internal control, auditors will be in a position to decide on the appropriate audit approach and identify the audit evidence required in conducting the audit.

6.7.18 The combined risk assessment can be found at Template 3 - Combined Risk Assessment.

6.8 Determining Materiality

6.8.1 Materiality reflects the assessed needs of the intended user(s), and these needs have to be identified when planning the audit. Based on the selected subject matter, materiality is determined by identifying the level of noncompliance that is likely to influence the decisions of the intended user(s). In identifying materiality, the auditors pay attention to specific areas of legislative focus, public interest or expectations, requests and significant public funding as well as fraud (ISSAI 4000.126).

6.8.2 As discussed earlier, determining materiality is a matter of professional judgment and depends on the auditors' interpretation of the users' needs. In applying materiality in the planning phase,

6.8.3 In evaluating the materiality of any noncompliance, matters such as the criteria, the conditions, the cause, and the effect of noncompliance are also considered. This might be the case in situations where a law or regulation, or agreed-upon terms establish an unconditional requirement for compliance.

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4. Qualitative Factors in Determining Materiality

6.8.4 The relative importance of qualitative factors and quantitative factors when considering materiality in a particular audit is a matter of professional judgment. In some cases, the qualitative factors are more important than the quantitative factors. Public expectations and public interest are examples of qualitative factors that may affect the determination of materiality. Instances of excess spending over appropriations authorized by the legislature or introduction of a new service not provided for in the approved appropriations may be instances of noncompliance that are not material but may still warrant communication to the audited entity due to their nature. Qualitative factors may include the following:

- The interaction between and relative importance of various components of the subject matter information when it is made up of multiple components, such as a report that includes numerous performance indicators;
- The wording chosen concerning subject matter information that is expressed in a narrative form;
- The nature of non-compliance, for example, the nature of observed deviations from control when the subject matter information is a statement that the control is effective;
- Whether a non-compliance affects compliance with law or regulation;
- Whether a non-compliance is the result of an intentional act or is unintentional;
- When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance and
- When the underlying subject matter is related to a particular aspect of the program or audited entity is significant with regard to the nature, visibility and sensitivity of the program or audited entity.

5. Quantitative Factors in Determining Materiality

6.8.5 Quantitative factors relate to the magnitude of non-compliance relative to the reported amounts for those aspects of the subject matter information which may be:

- The number of persons or entities affected by the particular subject matter, or the monetary amounts involved; and
- The number of observed deviations from a control may be relevant quantitative factor when the subject matter information is a statement that the control is effective.

6.8.6 Quantitative materiality is determined by applying a percentage to a chosen benchmark as a starting point. This involves the exercise of professional judgment and reflects the auditor's judgment on what the users of the information are most likely to consider important.

6.8.7 A template for Materiality can be found at Template 4 - Materiality.

6.9 Preparing the Audit Strategy and the Audit Plan

1. Introduction

6.9.1 Audit strategy and audit planning of individual units are closely linked to the annual plan. The overall objectives of the annual plans segmented into half-yearly plans are to be achieved by an audit of individual entities and units. The annual plan in that

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sense is of the nature of a strategic plan and the half-yearly plans are in the nature of tactical plans and the audit of individual units must serve the purpose of the strategic and tactical objectives.

6.9.2 As has been stated earlier, risk-based audit planning is at the heart of audit plans. Seen from this point of view, the audit strategy of each individual audit engagement is essentially a response to the risks of non-compliance with authorities by the audit unit. The considerations that should determine the audit strategy are the objectives of the engagement, subject matter and criteria and resultant scoping of the audit.

6.9.3 Compliance audit strategy must address four basic questions namely (i) whom to audit (ii) what to audit (iii) when to audit and (iv) where to audit. Essentially this would mean the scoping of the audit. Treating each engagement as a disparate exercise without any thematic cohesion will defeat the purpose of the strategic and tactical audit plans and should be avoided.

6.9.4 Audit strategies in case of compliance audit can adopt any of the two basic approaches. The thematic approach endeavours to achieve thematic cohesion by undertaking a theme-based compliance audit in one or more entities and units. For example, to examine the functioning of Primary Health Centres (or even a narrower subject in these PHCs), a good sample of PHCs can be taken up for compliance audit in a year and results reported under one heading. The entity-based approach covers units under one entity to examine the functioning of the units under its control in general. The office of the DGHS and units under him can be undertaken for compliance audit. Multiple themes may emerge in these audits.

6.9.5 Peripatetic inspection parties without an overall objective should be avoided at all costs. The risk of audit reports being records of exceptions and of minor transgressions devalue the audit process and trivialise the audit reports. The overall purpose of any audit strategy in compliance audit must be substantive “takeaways” for the intended users, policy planners, members of the Parliament and citizens in general. Sporadic transgressions are forgiven easily.

6.9.6 The close linkage between the annual plan, half-yearly plan and the audit of individual units is, therefore of utmost importance. While determining the audit strategy for the individual units, the primary focus should be to fulfill the overall planned objectives.

6.9.7 Auditors need to complete templates: Template 5 - Audit Strategy and Template 6 - Audit Plan

6.10 Exceptions in case of IT systems

6.10.1 In several areas, particularly in compliance audit of IT systems, suitable criteria may not be found in government directives. The principle of equifinality in developing systems leads to systems being developed following different methodologies. The System Development Life Cycle methodologies can also differ from system to system. Similarly, aspects like IT security may take different forms.

6.10.2 Criteria to be adopted by the audit engagement team in compliance audit of IT systems may face problems of acceptability. Often steps of additional IT security need substantial investment.

6.10.3 In such a situation, the audit engagement team will adopt a consistent benchmarking framework and evaluate the systems against the benchmarks. Frameworks like

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COBIT are internationally accepted and audit engagement teams will use this framework to perform compliance audit of IT systems.

6.11 Audit Calendar

6.11.1 Each year, the A&R wing of OCAG will issue an audit calendar containing timelines for a full audit cycle from audit planning to reporting.

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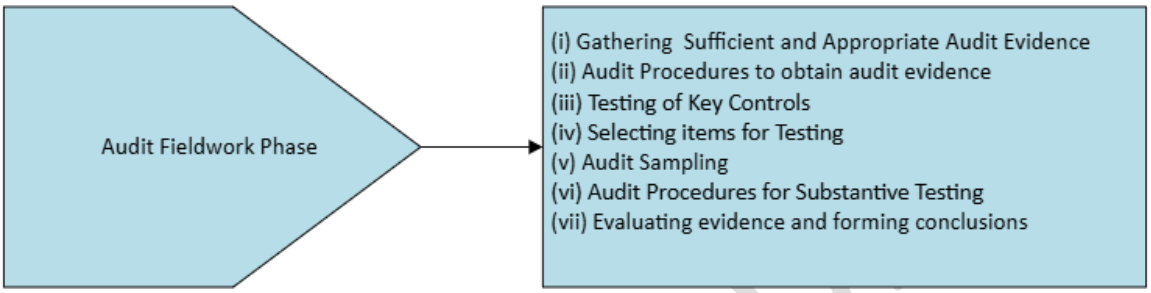
7 Chapter 7: Audit Fieldwork

7.1 Introduction

7.1.1 To gain overall audit assurance, the auditors need to execute the audit plan and audit strategy objectives that were prepared during the audit planning phase.

7.1.2 Figure 4 below shows the key stages for conducting the audit fieldwork phase:

Figure 4 - Audit Fieldwork Phase



7.2 Gathering Sufficient and Appropriate Audit Evidence

7.2.1 Sufficiency is the measure of the quantity of audit evidence. It directly relates to risk assessment and the auditor's response to the risks assessed. As the risks increase, the need for quantum of evidence also increases. Sufficiency of evidence also relate to the totality of the evidence. For example, sanction of an expenditure is not sufficient evidence that the expenditure has indeed occurred. Similarly, a document showing an intended journey like a tour programme is not sufficient evidence that a tour has indeed been undertaken. It is to be kept in mind that quantity alone cannot compensate for the poor quality of evidence.

7.2.2 Appropriateness of audit evidence refers to the quality of the evidence. It relates to relevance and reliability in providing support for the conclusions on the basis of which the opinion will be provided. As the quality of evidence increases, the need for additional corroborative evidence decreases. While the relevance of the evidence is related to the objective of the audit procedures, reliability refers to the nature and source of the information. For example, an independent confirmation from the recipient is more reliable than the record of the department regarding a payment.

7.2.3 In the case of compliance audit, evidence needs to be always evaluated against the authorities. Evidence in these circumstances, often constitutes details of a single transaction or a class of transactions. Sufficiency and appropriateness of evidence should not be confused with the inadequacy of authorities or incorrect interpretation of such authorities. As regards the details of transactions in the case of compliance audit, two elements of such details must be kept in mind. The first are the facts concerning the transaction. The second is the interpretation of those facts. Normally there should not be any divergent views about the facts. That a purchase order was placed on a supplier is a fact. That a tender was called and there was only one response is a fact. Whether there were adequate efforts to discover the lowest price can be a matter of opinion based on interpretation by audit of the circumstances of the facts. A distinction needs to be made between the two.

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7.2.4 The facts should not be based on hearsay or indirect or unverified set of information. Evidence based on documents averring the transaction is the best in case of compliance audit. Thus, a voucher of a payment is the best evidence that the payment has been made, not a sanction order for the payment or an entry in the account books.

7.2.5 Opinions and surmises are not direct evidence of an event happening or the nature of the event. For instance, a Secretary of a Ministry observing on a file that "the situation is bad" is not an evidence that the situation is indeed bad. At best it is the evidence of the fact that the Secretary thought that the situation was bad.

7.2.6 Inaccurate or incomplete information affects the relevance and reliability of audit evidence.

7.2.7 The following key principles should be kept in mind by the audit engagement teams while considering the relevance and reliability of the audit evidence:

(a) Evidence obtained directly by the auditors from original documents are more reliable than those obtained indirectly.

(b) Evidence gathered from originals are more reliable than from photocopies, or documents that have been filmed, digitised, or converted into electronic forms; The auditor is not an expert on document authentication and hence professional scepticism should be exercised while evaluating the authenticity of any document.

(c) Newspaper and magazine reports, unconfirmed data and reports, unverified complaints, anonymous complaints, photographs- digital or otherwise and similar documents are unreliable evidence for audit.

(d) Unscientific and unauthorised surveys, responses from randomly selected beneficiaries, contradictory responses, etc. are both irrelevant and unreliable.

(e) When information on the same subject is collected from different sources, consistency of the information is the key criterion of reliability of audit evidence.

(f) Corroboration of information is a key criterion in assessing the reliability of the evidence.

(g) Corroboration from a party independent of the entity (for example, banks) is thus a major source of assurance for the auditor regarding the reliability of the evidence.

(h) The evaluation of the relevance and reliability of audit evidence gathered during an audit engagement is a matter of the auditor's professional judgement and is the sole responsibility of the auditor.

7.3 Audit Procedures to obtain audit evidence

7.3.1 Broadly, the audit procedures to obtain sufficient and appropriate audit evidence are:

(i) Risk assessment Procedures;

(j) Test of Controls;

(k) Substantive procedures.

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7.3.2 The methods of these procedures are:

1. Inspection

7.3.3 Inspection involves examining records and documents, whether internal or external in paper or electronic format or physical examination of an asset. Inspection is probably the most important way for compliance audit. However, it should be borne in mind that such an inspection without a definite objective can turn out to be a search in darkness. Audit engagement teams should avoid trying to carry out a blind inspection without any audit strategy and audit planning.

2. Observation

7.3.4 Observation involves looking at a process or procedure being performed by others such as cash verification by the entity's personnel or checking physical verification of inventories.

3. External Confirmation

7.3.5 An external confirmation, widely practiced in the case of bank balances, and balances where third parties are involved is audit evidence as a direct written response to the auditor from a third party. The confirmation can be in paper form or in electronic form. In the case of financial audit, external confirmation of balances may constitute a very important part of audit procedures. In the case of compliance audit, such verification may cover a large number of areas, namely whether benefits have reached the stated beneficiaries, or whether a payment claimed to have been made has indeed been made to the claimant.

7.3.6 External confirmation in compliance audit may also be an effective procedure to detect evidence of fraud and embezzlement, particularly in the case of disbursements. The audit engagement team must seek precise information from the third party including mode of payment, dates and other details. Electronic transfer itself is not a guarantee that the money is reaching the claimant.

4. Recalculation

7.3.7 Recalculation involves checking the mathematical accuracy of documents and records.

5. Re-performance

7.3.8 Re-performance- often used as part of test of controls- involves auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

6. Analytical Procedures

7.3.9 Analytical procedures consist of evaluations of information-financial or non-financial, through analysis of plausible relationships among both financial and non-financial data. Trend analysis is a good example of an analytical procedure. Such procedures involve identifying notable fluctuations and relationships among the datasets or that differ from expected values by a significant amount. Normally payroll expense in an entity in every month is expected to be similar with very little fluctuations. The auditor while comparing the payroll expenses might expect a 5% variation from month to month. Any variation beyond that needs an auditor's examination.

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7. Inquiry

7.3.10 Inquiry consists of seeking information of knowledgeable persons within the entity or outside the entity. Inquiry should be used throughout the audit but only in addition of other audit procedures. Inquiries may range from formal written queries to informal interviews and oral inquiries.

7.3.11 The auditor must apply professional judgement and professional scepticism to evaluate evidence emanating from inquiries-particularly oral informal inquiries.

7.4 Testing of key controls

7.4.1 The auditors perform tests of controls so as to confirm the preliminary assessment of those key controls upon which they intend to rely. If the tests of key controls confirm that these controls have operated continuously and effectively throughout the period under review, the auditors can rely on these controls, and will perform minimum substantive testing. If not, the auditors should reassess the audit approach, and increase the extent of substantive testing to be performed.

7.4.2 The techniques that are generally used to test key controls are observation and inquiry, inspection and re-calculation, or a combination thereof. In certain situations, the auditors may be able to use data analysis techniques, principally through the use of automated tools, to obtain evidence on the effectiveness of the operation of the key controls.

7.4.3 Tests of controls should focus on the key controls that are:

(a) relevant to the achievement of the audited entity's objective in complying with applicable laws and regulations; and

(b) at the highest level possible to satisfy audit objectives.

7.5 Selecting Items for Testing

7.5.1 An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained, will be sufficient for the auditor’s purpose. While selecting items for testing or while selecting the population from which the sample is to be chosen, it is necessary to keep in mind the issues of relevance and reliability of the evidence. The auditor must determine the relevance and more importantly the reliability of the information even before deciding on the testing. The means available to the auditor for selecting items for testing are:

(a) Selecting all items;

(b) Selecting specific items;

(c) Audit sampling.

7.5.2 The application of the selecting methods will depend on the practicality and efficiency of the method as also the circumstances.

7.5.3 In audit reports for public sector auditing, it may not always be possible to arrive at a conclusion on estimations based on statistical sampling.

8. Selecting All Items

7.5.4 Selecting all items may be necessary when it is most appropriate to examine the entire population of items. Such selection will be more common for the test of details. 100% examination may be appropriate when:

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(a) The populations consist of a small number of large value items;

(b) The risks are so significant that 100% of items need to be tested;

(c) When such testing is done using IT and is thus cost-effective.

7.5.5 In the case of a compliance audit, it may be worthwhile to carry out intensive checks in a few areas rather than doing a cursory check in a large number of areas. Risk assessment will provide a very useful tool in this respect.

9. Selecting Specific Items

7.5.6 The judgemental selection of selecting is subject to non-sampling risks. However, this can be resorted to in the following circumstances:

(a) High Value or Key Items: It may be decided to select specific items within a population because they are of high value or exhibit some other characteristics which are significant from the auditor's point of view. Such items can be particularly risk-prone, unusual or of particular professional interest to the auditor.

(b) All items over a certain value: It may be decided to select all items whose value exceed a certain amount. This may also help to verify a large proportion of the total amount of a class of transactions or account balance.

(c) Items to obtain information: It may be decided to examine items to obtain information about such matters to ascertain the nature of the entity or to understand the nature of the transactions.

7.6 Audit Sampling

7.6.1 Audit sampling is used to provide a reasonable basis to draw conclusions about the population from which the sample is selected. While drawing conclusions, factors like sampling methodologies, sampling risks, anomalies, etc. should be kept in mind. The following two terms need particular explanation:

(a) Tolerable misstatements: A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatements of the population. Tolerable misstatements thus are the application of performance materiality to sampling procedures. Tolerable misstatements should be the same amount of performance materiality or preferably an amount lower than the performance materiality.

(b) Tolerable rate of deviation: Mainly applied for testing of controls, a tolerable rate of deviation from the control procedure is set in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

(Example: Signing of cheques by at least two signatories is a critical control measure. The audit team might expect a ZERO rate of deviation to this. Even if one cheque in a sample selected following the statistical sampling procedure is found to be lacking two signatures, the auditor may have to reassess the control risks and expand detailed testing.)

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7.7 Examples of some of the common areas of Audit Testing

7.7.1 Some of the areas of common testing for compliance audit are listed in table below:

Table 1 - Common Areas of Testing

Audit Area	Audit Objectives
Cash and Cash Book Management	To examine whether the entity has managed the cash available to it on a day-to-day basis in accordance with rules and sound financial judgement. To examine that the cash book has been closed daily and balances struck and tallied with physical cash available in the cash chest. To examine that the cash chest has been physically verified by a person other than the cashier and his supervisors. To examine that no unauthorized cash advances have been made from the cash chest.
Spot(cash) purchase	To examine that the spot(cash) purchases have been made as per rules and sound financial judgement. To examine that the procurements have not been split to bring them within the permissible limit of local purchases. To examine that proper price discovery process has been resorted to in such purchases.
Maintenance of Registers and Records	To examine that all Registers and Records that are required to be maintained have been maintained.
Submission of Reports and Returns	To examine that all reports and returns that are required to be submitted to higher authorities have been submitted.
Plant and Machinery Efficiency (Particularly relevant in Welfare infrastructure like Health, Education, Community Development etc.)	To examine whether infrastructure available are being used properly or lying idle. To examine whether the entity has suffered any loss due to non-functioning of any equipment (e.g. X-Ray machine for lack of UPS/ Voltage Stabiliser). To examine whether both Hard infrastructure and soft infrastructure are available. (Doctors are available, but OT is not; OT is available but Nurses are not). To examine that the infrastructure that are available are in working condition and serviceable. To examine that the personnel are available to utilise the infrastructure.

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Audit Area	Audit Objectives
	To examine whether health professionals or educational professionals are available to run the health and educational facilities.
Audit of Sanctions	To examine that the sanctions are within the delegated powers. To examine whether funds are available. To examine requirements that have not been split to avoid referring the case to a higher authority.
Stocks and Stores	To examine whether all registers related to stocks and stores have been maintained properly. To examine that regular physical verifications are carried out. To examine that the unserviceable stores and stocks are verified. To examine the consumption of stocks and stores

7.8 Audit Procedures for Detailed Substantive Testing

7.8.1 Evidence is obtained at the audit fieldwork phase by carrying out a mixture of tests of controls, substantive tests of details and analytical procedures, as well as using information from other sources such as management representations and the work of others.

7.8.2 While the auditors often obtain much of their audit evidence by testing the records (e.g. computation or analysis), this alone is rarely sufficient audit evidence on which to base an audit conclusion and other procedures should also be used, e.g. inspection, observation, enquiry and seeking external confirmations.

Table 2 - Examples of Audit Procedures

Procedure	Examples
Re-performance	• Re-performing the tender selection process using the selection criteria to test that the correct bids (tenders) have been selected.
Analytical procedures	• Comparing increases and decreases in benefits payments (pension) from one year to the next with demographic information such as the number of citizens having reached retirement age within the last year. Investigation of unexpected changes for compliance failures
Inspection	• Examining an asset, such as a bridge or a building, to determine if it meets the applicable building specifications

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Procedure	Examples
	• Review of case files/relevant documents to determine if recipients of benefits met eligibility requirements.
Confirmations	• confirmation from suppliers to the audited entity that it has settled invoices in accordance with government payment deadlines • confirmation from the legislature as to how a specific piece of legislation is meant to be interpreted

7.8.3 Auditors should make a judgment as to which method of obtaining evidence will be suitably reliable, and balance the reliability of evidence against the cost/audit effort of obtaining it.

7.8.4 The auditors should document their audit evidence. Also, the audit team leader should monitor the adequacy of the documentation throughout the audit process as part of their supervisory role.

7.8.5 Appendixes 1 to 8 provide some guidance on conducting the testing on common subject matters.

7.9 Evaluating Evidence and Forming Conclusions

7.9.1 After gathering audit evidence using different techniques, the next step in the process is to evaluate audit evidence and form audit conclusions, as part of the audit execution. This chapter discusses the evaluation of the results of tests of controls and substantive testing and explains the steps in evaluating evidence and forming audit conclusions.

1. Steps in Evaluating Audit Evidence

7.9.2 In evaluating evidence and forming conclusions, the following should be performed:

- Step 1 Evaluate whether sufficient and appropriate evidence is obtained
- Step 2 Consider materiality for reporting purposes
- Step 3 Form conclusions
- Step 4 Communicate audit results

7.9.3 The auditors should evaluate the evidence obtained and determine whether it is sufficient and appropriate to reduce the audit risk at an acceptably low level and to form conclusions that would be able to withstand critical examination. When doing such evaluation, they should exercise professional judgment and scepticism, which involves considering the relationship between the cost of obtaining evidence and the usefulness of the information obtained.

7.9.4 In making the judgment of whether sufficient and appropriate audit evidence has been obtained, consider the following questions:

- Were the pieces of evidence regarding all relevant criteria obtained?
- Were instances requiring further evidence identified? If yes, were these documented?

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- Was the impact of identified issues on the nature, timing, and extent of further procedures considered?
- Were any significant matters identified and appropriately addressed? If yes, were theseconsulted and documented?
- Were all planned audit procedures performed?

7.9.5 For a balanced and objective view, the evaluation process entails considering all evidence provided about the audit findings (ISSAI 4000.182). If audit evidence obtained from one source is inconsistent with that obtained from another, or if there are any doubts about the reliability of the information to be used as evidence, the auditors should determine what modifications or additions to the audit procedures would resolve the matter and consider the implications, if any, for other aspects of the audit.

2. <u>Consider Materiality for Reporting Purposes</u>

7.9.6 The auditors evaluate audit findings about identified materiality for potential instances of material noncompliance when drawing a conclusion. What represents a material compliance deviation is a matter of professional judgment and includes considerations of quantitative and qualitative aspects of the transactions or issues concerned.

7.9.7 The noncompliance is quantitatively material if it equals or exceeds the materiality set. However, even if noncompliance is below the materiality set, it may still be considered material based on the auditors' professional judgment. The list below identifies some of the factors that you must consider in applying professional judgment to determine whether an instance of noncompliance is material.

- Importance of amounts involved (monetary amounts or other quantitative measures such as number of citizens, entities or organizations involved, pollutant emission levels, time delays about deadlines, etc.);
- Extent or monetary value of the non-compliance;
- Nature or applicability of the relevant authorities;
- Nature of the noncompliance – law, regulation, or internal procedure;
- The cause leading to the noncompliance – negligence or fraudulent act;
- Impact of noncompliance - Possible effects and consequences noncompliance may have (e.g., the noncompliance will result in pecuniary loss and audit disallowance);
- Circumstances;
- Visibility and sensitivity of the criteria or program in question (e.g., is it the subject of significant public interest, does it impact vulnerable citizens, etc.); and
- Needs and expectations of the legislature, the public, or other users of the audit report.

7.9.8 In compliance audit, the audited entity may have complied with nine provisions of the relevant law or regulation but did not comply with one provision. Professional judgment is needed to conclude whether the audited entity complied with the relevant law or regulation. For example, the auditors may consider the significance of the provision with which the audited entity did not comply, as well as the relationship of that provision with the remaining provisions of the relevant law or regulation.

7.9.9 While evaluating audit evidence, the auditors should consider whether material noncompliance is pervasive or not. If they are unable to obtain sufficient and

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appropriate audit evidence due to an uncertainty or scope limitation, the auditors evaluate whether it is both material and pervasive.

3. Form Conclusions

7.9.10 Based on the audit findings and the materiality, the auditors shall draw a conclusion as to whether the subject matter is, in all material respects, in compliance with the applicable criteria (ISSAI 4000.184).

7.9.11 The auditors assess that all the audit questions have been answered and that there is a conclusion for each criterion. Then the auditors form an overall conclusion on whether the audited entity has complied with the applicable criteria for the particular subject matter taking into consideration findings, risks and materiality.

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8 Chapter 8: Audit Documentation

8.1 Introduction

8.1.1 Audit Documentation is the record of all the audit processes and procedures performed, audit evidence obtained and conclusions reached. Audit Documentation often is referred to as audit working papers or work-papers. In simple terms, Audit Documentation includes all records from the beginning to the end of an audit engagement. Such documentation may include one or more Audit Files or Audit Folders.

8.1.2 Audit documentation is important for the following reasons:

(1) It is a record that should support the findings and conclusion of the audit engagement team;

(2) It serves at a later date, as a source of information regarding all that has gone into the audit engagement and as a reference for subsequent discussions at the Public Accounts Committee;

(3) It is a record of auditor's compliance with the standards and other materials;

(4) It enables effective direction, supervision and review;

(5) It enables independent assessment of the audit engagement at a future date and facilitates quality assurance of the audit engagement.

8.1.3 Audit Documentation should be prepared in such a manner that it should be sufficient to enable an experienced auditor who is not at all associated with the particular audit engagement, to understand:

(a) The nature, timing and extent of the audit procedures performed to comply with the auditing standards and applicable legal and regulatory frameworks;

(b) The results of the audit procedures and the audit evidence obtained; and

(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

1. <u>What should Audit Documentation include:</u>

8.1.4 Audit documentation in the form of audit files can be generally divided into two categories namely permanent file and current file. Permanent files typically contain information (information of continuing importance) that can be useful to the auditor for several assignments at the audited entity, whereas current files usually contain supporting documentation (information relevant to a single period) for a specific audit.

8.2 Permanent Audit Files

a) A permanent file should at least contain information on the following:

(i) The legal and organizational framework of the audited entity,

(ii) A description of an internal control system of the entity,

(iii) Extracts or copies of essential legal papers, agreements (e.g., loan agreements), and minutes that may be important and relevant for audit.

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(iv) Notes regarding significant accounting policies being followed by the entity.

8.2.1 A permanent file is an important reference for getting a preliminary understanding of the audit. Therefore, the file should be reviewed at least annually to ensure that outdated material is removed and that relevant documents from the most recent audit are included. Pertinent audit documentation should be retained in line with the document retention regulations. Permanent audit files should be retained and filed by the audit team responsible for auditing the entity concerned.

8.3 Current Audit Files

8.3.1 A current file must contain the information following:

(i) Audit Strategy and Audit Planning Documentation including revisions;

(ii) Risk Assessment documentation;

(iii) Any other record relating to audit strategy and audit planning;

(iv) Audit procedures planned and performed;

(v) Correspondence with the entity relating to the audit engagement including ALL

(vi) audit queries and audit memos and replies received thereto;

(vii) Audit evidence collected during the audit engagement;

(viii) Letters of confirmations and representations;

(ix) Analyses of audit evidence and replies of the entities;

(x) Checklists filled in where checklists are prescribed;

(xi) List of records demanded by the audit engagement team but not provided by the entity and the decision of the audit engagement team on this;

(xii) Records of collective professional judgement applied;

(xiii) Significant matters arising out of the audit engagement;

(xiv) The conclusions arrived at by the audit engagement team and the basis thereof;

(xv) Draft audit inspection report;

(xvi) Final inspection report.

8.3.2 The following guidelines should be kept in mind by the audit engagement team about Audit Documentation:

(i) The assembly of the final Audit Documentation file will be the responsibility of the Team Leader of the audit engagement team;

(ii) No audit query or audit memo or any other correspondence with the audited entity will be left out of the Audit Documentation;

(iii) Audit Documentation will include the responses of the entity and comments of the audit engagement team on such responses;

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(iv) The audit engagement team shall make a separate list of such communications with the audited entities to which no responses have been received;

(v) The Audit Documentation will be reviewed by the concerned Director General and his remarks including NIL remarks shall be part of the Audit Documentation.

(vi) After reviewing the Documentation by the Director General, the draft AIR shall be authorised to be issued to the audited entity or the management or to those charged with the governance of the entity, as the case may be.

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9 Chapter 9: Audit Completion Stage

9.1 Introduction

9.1.1 It is in the treatment of results of an audit that demands the highest qualities of understanding, balanced judgement and sense of proportion: and it is to enable him to deal with results adequately that the auditor has been accorded a high degree of independence and prestige. An auditor must develop an instinct for assessing the importance of an individual irregularity.

9.1.2 It should be remembered that, while financial and other rules must be observed, mere rigid and literal enforcement of such rules and orders may degenerate into wholly unintelligible audit. As a general rule, undue insistence on trivial errors and technical irregularities should be avoided, and more time and attention devoted to the investigation of really important and substantial irregularities with the object not only securing rectification of the particular irregularity but also of ensuring regularity and propriety in similar cases for the future. At the same time failure to appreciate the significance of what appears to be trifling irregularity may lead to failure to discover an important fraud or defalcation. Again, notice may be taken of the cumulative effect of numerous petty errors or irregularities as indicating carelessness and inefficiency in the maintenance of accounts or in financial administration generally.

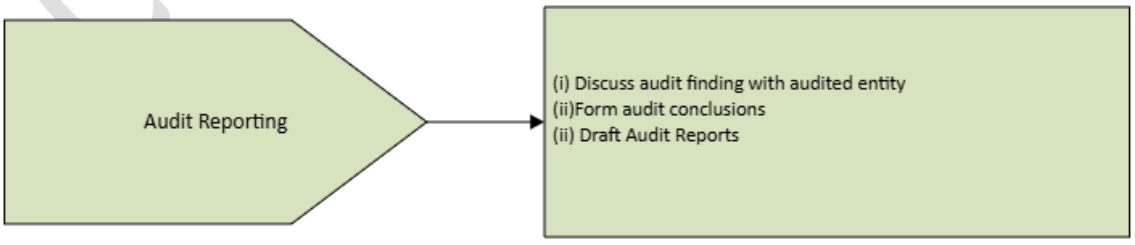
9.1.3 All observations and queries must be conveyed in courteous and impersonal terms, and must be legible and intelligible. It is of the utmost importance that any statement of criticism or irregularity in an audit report should be accurate, fair, moderately worded and dispassionate.

9.1.4 For Category I entities, reports of individual cases of serious financial irregularities (SFIs) should in first instance, be addressed to the Principal Accounting Officer. Moreover, all observations including non-SFIs should be addressed to the heads of apex agencies 13 concerned so that, responsible authorities communicate their responses with necessary documents and explanations to the auditor in time.

9.1.5 For Category II, III, and IV entities, all observations should be addressed to the heads of apex agencies with a copy to the Secretary of the concerned ministry /division, but their responses on SFIs should be routed through the Secretary of the concerned Ministry / Division.

9.1.6 This phase covers the following steps:

Figure 5 - Audit Reporting Phase



9.2 Audit Queries

9.2.1 An audit query is defined as a communication with an audited entity in which the audit engagement team requisitions records, documents, information, and confirmation to further proceed with the audit engagement. It is usual that the audit

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engagement team would require considerable information from the audited entity to begin with its work and as the engagement moves on, such queries will only rise.

9.2.2 While requisitioning records, documents etc. the audit engagement team should be precise in their requisition. In case it has an 'order' and wants to examine the background papers of which the team does not possess any precise information, the phrase "papers leading to the issue of order No" may be used. On the whole, the audit engagement team should avoid leading a fishing expedition while seeking records and documents.

9.2.3 The audit engagement team may have a meeting and in case it is required, more than one meeting to form an idea about the records before formally requisitioning them. Such meetings avoid infructuous work.

9.2.4 The following should be kept in mind while issuing audit queries:

(1) All audit queries should be numbered, dated and signed by the team leader who should pay attention to the preciseness of the requisition, the relevance and other factors of the contents;

(2) The audit engagement team may be required to examine registers. The names of the registers and the period of such registers should be mentioned.

(3) Books like cash book may be required by the entity on a day to day basis. It is recommended that suitable convenience should be worked out so that it does not disrupt the working of the entity. Such registers should not be kept in the custody of the audit team for a long time.

(4) Adequate time should be allowed to the entity to provide the records. Often this is extra work and no additional staff is available for this additional work. To the extent possible, the requisition of routine documents should be intimated to the audited entity even before the commencement of the audit engagement.

(5) All audit queries should be in courteous language. No unrealistic deadline should be given for the submission of records.

9.3 Audit memos

9.3.1 Audit observations are such communications through which the audit team communicates its findings and preliminary conclusions for seeking comments of the audited entity. The primary standard of such communication would be that it should be such that the reader should be able to understand the context, be aware of the authorities, comprehend the transactions and understand

9.3.2 the audit engagement team's point of view about non-compliance. The audit memo containing the observation should be comprehensive and to the point, precisely bringing out the context, the authorities, the transaction and the aspect of non-compliance.

9.4 Model Audit Observation

9.4.1 OCAG shall issue a separate instruction regarding the format of audit observation memos. The audit observation memos shall include the following elements and shall be communicated as audit memos mentioned above (although not necessarily in this order):

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(i) Title;

(ii) Context or Condition;

(iii) Criteria and authority;

(iv) Cause;

(v) Consequence of such transaction; and

(vi) Conclusion and recommendations.

9.5 Principal-Auditor Vs Sub-Auditor

9.5.1 Normally, each audit directorate is responsible for the audit of specific Grant(s) or Appropriation(s) or Entity(ies). If an audit directorate conducts an audit on a part of a grant/ appropriation / entity which is under the audit jurisdiction of another directorate then the latter will be known as the principal auditor and the former will be considered as sub-auditor. In this case, the findings of the sub auditor will considered to be included in the audit report prepared by the principal auditor. The A&R wing of OCAG shall issue a separate instruction for detailed procedures for this operation.

9.6 Audit Inspection Report (AIR)

9.6.1 An audit inspection report is the first report that is issued to the entity on completion of the audit engagement. This is not a report under Article 132 of the Constitution nor the audit inspection report is approved by the CAG at this stage. It is therefore important to remember that this cannot be termed as CAG's report, even though it is issued by OCAG.

9.6.2 The audit inspection report highlights cases of deviations and non-compliance to provide an opportunity to the audit entity to respond to such observations and bring on record new facts to explain the transactions. This also allows the entity to take remedial measures in the interim and inform audit about such measures. The audit inspection report is therefore to be considered as yet another stage of communication between the audit and the audited entity.

9.6.3 The AIR should contain a commentary on the entity's corporate governance. This should include the Audited Entities approach that they use to manage the risks by putting in a control mechanism in place that should migrate the risk.

9.6.4 Audit Inspection Reports (AIRs) will be issued by the concerned directorate and not by the audit engagement team. The Directorate shall follow the Audit Calendar to ensure that audit inspection reports are issued during the stipulated time period in accordance with the calendar. It will review the evidence obtained by the audit engagement team from the audit documentation file submitted by the team and edit and evaluate the draft inspection report submitted by the team before issuing it to the entity. The concept of materiality and the importance of the issue raised will be considered by the directorate before reaching a decision about the inclusion of an observation in the inspection report.

9.6.5 While reviewing the draft audit inspection report, the directorate shall combine the audit observations of the same nature under the same apex unit to which the AIR is issued. Each of these observations which are combined together shall have sufficient and appropriate audit evidence.

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9.6.6 The final AIR which is issued to the apex unit or entity is a refined version of the draft AIR. It shall be the duty of the directorate to ensure all quality control procedures as stipulated by the OCAG in accordance with the Quality Control System (QCS) before finalizing the draft AIR.

9.6.7 The audit inspection report will be divided into two parts, Part – I & Part – II. Part – II is further divided into two sub – parts: Part – II (A), Part – II (B). If required Part – II (C) may be added in the AIR. The structure with descriptions of the parts are as follows:

Part I

9.6.8 This part should contain the following information:

(i) Name of the entity;

(ii) Duration of audit from. (dd/mm/yyyy) to(dd/mm/yyyy);

(iii) Period covered by audit from (mm/yy) to (mm/yy);

(iv) Short introduction of the entity;

(v) Scope of audit;

(vi) Authorities used as criteria in audit;

(vii) Standards according to which the audit was conducted;

(viii) Names of the members of the audit engagement team including that of the team leader; ((ix) Location of audit including branches of the entity visited by the audit party;

(x) Field trip undertaken by the audit team to obtain understanding of the entity;

(xi) List of records, documents and information sought by the audit party;

(xii) List of records, documents and information provided by the entity;

(xiii) List of records, documents and information **not** provided by the entity;

(xiv) Number of meetings with officials of entity with dates and time;

(xv) Total number of audit queries issued to the entity by the audit engagement team during the course of audit;

(xvi) Number of audit queries replied to;

(xvii) Total number of audit observations issued to the entity by the audit engagement team during the course of audit;

(xviii) Areas of weaknesses of internal controls should be discussed and documented in this section;

(xix) Number of audit observations replied to;

(xx) Number of audit observations that have not been included in the draft inspection report submitted by the audit engagement team;

(xxi) Any finding or observation that was not raised during the course of audit but included in this report due to new facts coming to the notice of the audit team/OCAG. (Yes/No with Paragraph No);

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(xxii) A general request should be issued to respond in writing to the observations in Part II of the audit inspection report.

Part II A

(i) Part II A should contain such observations which have the potential of being considered for inclusion in the audit report to be submitted under Article 132 of the Constitution.

(ii) Each observation will be drafted in the format of the audit observations mentioned earlier. These should be detailed and should contain all relevant information and the exact nature of deviation/ non-compliance as well as the impact of such deviation or non-compliance. Pecuniary loss can be just one of the considerations. Other issues like potential loss of reputation, risk of accidents, damage to environment, impairment of asset, lack of controls, suspected fraud, should also be highlighted, should they pass the test of materiality.

(iii) The testing of external environment and internal controls should be reflected in this section and areas and weaknesses that have been identified should be noted for the Audit Report.

(iv) While pointing out risks of future happenings, the engagement team and the inspection report must provide cogent, objective and verifiable evidence to support the contention of audit. It is essential that professional judgement is applied in an unbiased manner.

Part II B

(i) Part II B should contain such observations involving deviations or non-compliance but do not have the potential of inclusion in the audit report under Article 132 of the Constitution.

Part II C

(i) Part II C should contain all other observations relating to the performance of audit procedures and findings. Such findings can be positive or negative. In case of positive and affirmative findings, additional care should be taken to describe the audit scope, the records verified and the limited nature of assurance. Observation included in Part II C should be such that no separate pursuance will be necessary.

9.7 Internal Action in OCAG

Part II – A

(i) For Category – I entities, SFIs will be issued to the Principal Accounting Officer with a copy to the Head of the Department. For other categories, SFIs will be issued to the head of apex agencies or those responsible for governance with a copy to the Secretary of the concerned ministry / division, and the responses to SFIs should be routed through the Secretary of the concerned ministry / division;

(ii) A separate register called SFI Register should be maintained in all directorates for each sector. All observations featured in Part II – A should be entered in this register individually with all details;

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(iii) Replies to the audit observations will be considered in the relevant audit documentation file and results will be noted in the Register;

(iv) All observations in the SFI Register must be reviewed in every quarter (a) to ascertain that replies have been received (b) to ascertain that the replies have been considered (c) to decide on the continuation of the observation in the Register in view of the replies;

(v) An observation, when included in the audit report or when relegated to Part II – B will be removed from the Register;

(vi) For SFIs which are not included in the audit report, if possible, additional information or evidence be collected in the following years and will be considered to be included in the audit report;

(vii) No observation will be retained in the Register beyond three calendar years even if it is not considered for inclusion in the audit report. The year in which the AIR is issued will be counted as the first year. At the end of the third year, the SFIs which are not included in the audit report shall be relegated to Part II-B and shall be included in the non-SFI Register. A list of SFIs which are removed from Part II – A to Part II – B shall be sent to the Principal Accounting Officer (for Category I entities) and the head of apex agencies (for Categories II, III, IV entities).

Part II – B

(i) For Category-I entities, non-SFIs will be issued to the Head of the Department. For other categories, non-SFIs will be issued to the head of apex agencies or those responsible for governance;

(ii) A separate register called the non-SFI Register should be maintained in all directorates for each sector. All observations featured in Part II – B and those relegated from Part II – A should be entered in this register individually with all details;

(iii) Replies to the audit observations will be considered in the relevant audit documentation file and results will be noted in the Register;

(iv) In any extremely rare case if additional information or evidence is collected, a Part II – B observation may have the potential to be included in the audit report. Part II – B observations, which individually may be below the materiality level but together with similar observations in other units within the same apex audited entity may have the potential to be included in the audit report. Such observations will be included in the SFI register.

(v) An observation, when included in the SFI register or the audit report will be removed from the Register;

(vi) All observations in the non-SFI Register must be reviewed every year (a) to ascertain that replies have been received (b) to ascertain that the replies have been considered (c) to decide on continuation of the observation in the Register in view of the replies;

(vii) The unsettled observations except those relating to withdrawal in excess of entitlement, direct loss of revenue, and misappropriation due to fraud, embezzlement, and defalcation will be pursued for three years. The audit

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directorates on review shall strive to remove such non-SFIs from the non-SFI Register within this period. The year in which the AIR is issued will be counted as the first year. At the end of the third year a list of non-SFIs which will not be pursued further will be sent:

(a) to the head of the departments for Category I entities with an advice to take necessary actions;

(b) to the head of apex agencies for Category II, III & IV entities with an advice to take necessary actions.

9.8 Audit Report Format

16.2 OCAG shall issue a separate instruction regarding the format of a compliance audit report. The audit report shall include the following elements (although not necessarily in this order):

(i) title;

(ii) identification of auditing standards;

(iii) executive summary (as appropriate);

(iv) commentary on the overall control environment applied by the Entity (this would include the assessment of corporate governance applied by the Entity, such as having risk registers in place, the introduction of key controls and monitoring mechanisms to test whether the controls are in place to migrate the risks);

(v) description of the subject matter and the scope (extent and limits of the audit);

(vi) audit criteria;

(vii) explanation and reasoning for the method used;

(viii) findings;

(ix) conclusion(s) based on answers to specific audit questions or opinions;

(x) replies from the audited entity (as appropriate);

(xi) recommendations (as appropriate).

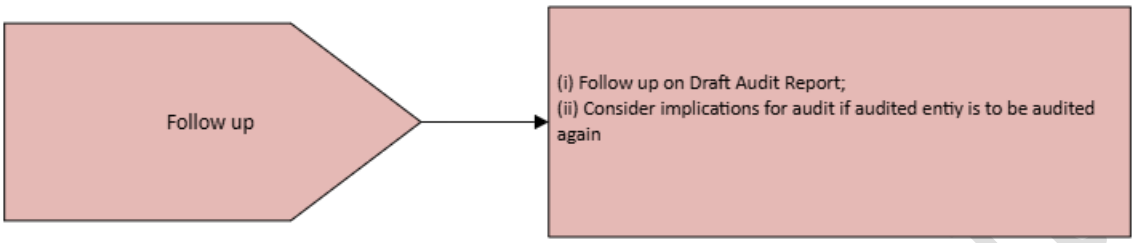
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10 Chapter 10: Follow-Up

10.1 Why is it necessary to follow up of audit recommendations?

10.1.1 The following figure shows the follow-up stages:

Figure 6 - Follow-up Phase



10.1.2 Follow-up on audits is a critical process conducted by Supreme Audit Institutions (SAIs) to ensure that the recommendations made during audits are implemented effectively by the audited entities. It involves tracking the progress of corrective actions, addressing any non-compliance or unresolved issues, and ensuring that improvements are made based on the audit findings.

10.1.3 The follow-up process helps to reinforce accountability and strengthen governance, as it holds public institutions accountable for addressing deficiencies identified during audits. Additionally, it fosters continuous improvement in public administration by encouraging timely and effective responses to audit recommendations. International guidelines, such as those from INTOSAI, emphasize the importance of systematic follow-up to close the loop on the audit cycle and contribute to greater transparency and efficiency in public sector management.

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Appendix 1 - Common Audit Checks for Compliance Audit

While the audit checks of records are common to all entities, a few important entities require checks of additional records. While the records listed are not exhaustive, these are important and in addition to the records mentioned in the previous chapter.

Educational Institutions

1. Additional records that need to be checked in educational institutions, as applicable, are as follows:
    (i) Register of Fees collected from Students;
    (ii) Counterfoils of Receipt Book of Fees;
    (iii) Register of Refund of Fees;
    (iv) Register of Scholarships;
    (v) Register of Stipends;
    (vi) Caution Money Register;
    (vii) Library Register;
    (viii) Catalogue of Library Books;
    (ix) Register of Books issued from Library;
    (x) Register of Fines;
    (xi) Hostel Accounts;
    (xii) Admission Register;
    (xiii) Register of concession to students;
    (xiv) Transfer Certificate Book.
2. The receipts of an educational institution may consist of the following:
    (i) Admission and Readmission Fees;
    (ii) Tuition Fees;
    (iii) Laboratory Fees;
    (iv) Fines;
    (v) Recoveries on account of breakages;
    (vi) Library and Laboratory Deposits;
    (vii) Hostel rents and Rent for quarters allotted to academic faculty and staff;
3. Cash Book: In addition to the checks as mentioned in Chapter 9, the cash book of an educational institution should be reconciled with the various fees received as recorded in the relevant fee registers.
4. It should also be examined whether grants-in-aid received from any authority have conditions attached to them and whether those conditions have been fulfilled. No amount should be diverted for any reason without proper authority.
5. Refunds of caution money should be verified with the original deposits.

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6. Stock registers of library books and laboratory consumables should be checked to ensure that these registers are properly maintained and there is no unusual issue of books or consumables.
7. Normally, institutions of higher education incur significant expenditure in the purchase of library books. It should be ensured that books have been purchased by following laid down procedures. In case such procedures are not documented, audit may point out a lack of documented procedures, which is a lack of internal control.
8. An educational institution may also have non-government funds as fees collected for extra-curricular activities, games and sports, cultural fetes etc. It should be checked that the institution has dealt with these funds responsibly and such funds have not been mixed up with the main funds of the institution.

Government Hospitals[5]

1. All common checks in Chapter 5 should be carried out.
2. Additional records that need to be checked in Government Hospitals, as applicable are as follows:
   (i) Rent of Pay Wards;
   (ii) Hospital charges including fees for medical attendance, pathological and other examinations and laboratory charges, cost of operations and drugs, recovery of diet charges etc. including recovery of rent from staff provided with quarters;
   (iii) Sale proceeds of medicines;
   (iv) Ambulance Hire and log books of ambulances;
   (v) Contributions from public bodies and income from endowments;
   (vi) Donations;
   (vii) Recovery of Charges for services provided to outside including blood bank services;
   (viii) Stock accounts (including Priced Stores Ledger Account) of Drugs and Medicines, Consumables, Sera and vaccines, Linens and Crockeries, Diet Materials;
   (ix) Stock accounts of Surgical Instruments and appliances;
   (x) Log Books of HVAC (Heating, Ventilation and Air Conditioning) facilities and medicinal gas;
3. The following additional checks for Hospitals are recommended:
   (i) Nominal registers of in-patients should be checked to ensure that these are filled in correctly and properly. These should be on a sample basis checked with reference to other information like issue of medicines, charges for pathological examinations, diet charges so that broad reconciliation is possible.

[5] Does not include Mental Hospitals

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(ii) The audit should examine thoroughly whether there are arrears in recovery of charges and the reasons thereof.

(iii) Dues from Governments/ Government Institutions as reimbursement of charges for patients otherwise entitled to cashless services should be examined.

(iv) On a sample basis, it should be checked that recoveries have been made as per the rates laid down.

(v) That all receipts are brought to the cash book promptly and deposited into the Government Account promptly.

(vi) Recoveries from staff have been made as per rules.

(vii) Pay and Allowances of medical professionals should be checked in detail,

(viii) All accounting books like bill books, receipt books, bill demand registers, bill collection registers etc. should be examined in detail and should be cross-verified from other records.

(ix) Local Purchase of medicines and other consumables should be examined in detail to ensure that the laid down procedures have been complied with, there is a price discovery mechanism for emergent local purchases and there is no undue delay in procuring life-saving drugs through local purchase.

(x) Wastage of medicines due to expiry may be examined in detail.

(xi) The kitchen accounts should be examined in detail to ensure that the diets are provided as per recommendations of the dieticians and there is a price discovery mechanism for daily supplies.

(xii) Stock book of diet articles should be examined in detail.

(xiii) The linen accounts including the accounts related to washing of linens should be examined in detail.

(xiv) The accounts relating to crockeries including those of breakages should be examined in detail.

(xv) Stock accounts of Drugs and Medicines, Sera and Vaccines, surgical instruments and appliances should be examined to ensure that all stocks received from all sources have been recorded in the registers under signature of proper authority.

Medical Colleges

1. The audit of medical colleges will be a combination of audit of government hospitals and educational institutions.

Upazilla Health Complex/Sub Centres

1. The records maintained in these health centres will map to the records mentioned in this chapter in respect of other audit units. The following audit checks are recommended:

(i) Proper record of drugs and medicines is maintained and the same is physically reconciled regularly.

(ii) Logbooks of vehicles and other instruments, if applicable, are maintained properly;

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(iii) The registers concerning the patients are maintained properly;

(iv) The Centres with in-patient facilities should be checked with reference to audit checks, as applicable to the scale of the centre, for the government hospitals;

Judicial Departments

1. Apart from the normal compliance audit, judicial departments may have considerable deposits. The deposit register(s) will be the main items of audit. The checks are:

(i) The credits in the registers should be agreed with the entries in the cash book and counterfoils of the receipt books;

(ii) The vouchers of repayment of deposits should be checked with the entries in the register of payment orders;

(iii) The repayment of deposits should be checked with the original credits;

(iv) That any repayment of deposits if paid from lapsed deposits, has been paid by following the extant rules and orders;

(v) The methods of cash deposits should be checked to ensure that cash is deposited in the government accounts promptly;

(vi) The government accounts balance and deposit registers should be independently reconciled by the audit engagement team.

Police Departments

1. In addition to normal compliance audit, the following areas in the Police Departments should receive the attention of the audit engagement team:

Police Transport, which inter-alia, should include examination (of):

(i) Register of vehicles and repair of vehicles;

(ii) Hire charges of vehicles;

(iii) Accounts of spare parts, unserviceable stores, condemned vehicles;

(iv) POL expenses;

(v) Contracts for repairs/ supply of POLs/ Spare parts;

Clothing equipment, which inter-alia should include examination (of):

(i) Stock registers tally with quantities received as shown in invoices, contingent bills and issues;

(ii) Articles are issued according to scale;

Arms and ammunition register, which inter-alia should include examination (of):

(i) That registers are maintained properly;

(ii) That arms are handed over to safe custody, when required and records are maintained

Personal Ledger Account

1. Personal Ledger Accounts are such accounts which are maintained on the principles of personal deposit accounts under the orders of the government. The most important aspect

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of these accounts is that money can be withdrawn from the Consolidated Fund and transferred to the Public Account of the Republic. Similarly, receipts which should otherwise go to the Consolidated Fund can be kept in the Public Account of the Republic.

2. The object of the audit of personal ledger accounts is to ensure that initial accounts of the amounts are properly maintained, that officers operating these accounts do not delay remittances into the accounts of moneys received by them and they do not make withdrawals to divert the funds to purposes unconnected with the account.

3. Apart from the general compliance audit, the following checks should be applied by the audit engagement team in respect of personal ledger accounts:

    (i) Receipts for moneys received by the administrator of the account are promptly issued and these amounts are brought to the account without delay i.e. on the same day;

    (ii) Withdrawals are for the purpose allowed for the account;

    (iii) Receipts and withdrawals agree with the amounts shown in the passbooks or similar records;

    (iv) All expenditures are supported by vouchers and sub-vouchers;

    (v) All expenditures are in accordance with the objective of the personal ledger account;

    (vi) Regular reconciliation is done by the administrator of the account with the records maintained in the accounts offices and discrepancies are resolved without delay;

    (vii) The circumstances of opening the personal ledger account continue to exist;

    (viii) Annual balances are worked out properly and agree with the balances reflected in the finance accounts of the government.

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Appendix 2 - Audit of Expenditure

1) Audit of expenditure constitutes a significant part of a compliance audit. As Government expenditure increases, so does the number of transactions. A transaction related to expenditure is normally recorded in the instrument of the voucher. The main objectives of audit of expenditure are to ensure:

   (i) that the expenditure has been incurred by an officer competent to incur it;

   (ii) that the expenditure has received the sanction of the authority competent to sanction it;

   (iii) that if it is a voted expenditure, it is covered by an allocation from a grant voted by the Parliament or by re-appropriation within such a grant or by a supplementary grant by the Parliament;

   (iv) that if it is a non-votable expenditure, there is a provision of funds sanctioned by the competent authority to cover it;

   (v) that the expenditure does not involve a breach of any canon of financial propriety;

   (vi) that payment has, as a fact, been made and has been made to the proper person and that it has been so acknowledged and recorded so that a second claim against the Government is impossible;

   (vii) that the charge is correctly classified and that if the charge is debitable to the personal account of the contractor, employee or other individual or is recoverable from him, it is recorded as such in the prescribed account.

2) The primary information on the subject matter for the purpose of audit of expenditure is the voucher or the record of information of payment in an IT system. It is the principle of the government expenditure that payment out of a government account cannot be made without a legitimate claim. A bill before payment is the claim and the same bill is treated as a voucher after payment for the purpose of recording. The Drawing and Disbursing officer prepares the claim in the form of the bill and submits the same before the payment authorities. Thus, the sequence of expenditure can be described as a claim leading to payment, if the claim is found legitimate and then the accounting of the payment. Audit of expenditure is primarily concerned with the vouchers as record of payment and thus a competent audit of vouchers is the main component of compliance audit of expenditure. Audit of transactions therefore takes place at the point of the Drawing and Disbursing Officer (DDO).

3) Compliance audit of expenditure, therefore, primarily centres around the Drawing and Disbursing officer, who maintains all records of expenditure. A voucher, in whatever form, is the primary record of expenditure. It contains, inter-alia, the amount, nature and period of payment, a chart of accounts under which the payment will be recorded and in addition contains a receipt or acknowledgement of acquittance of the person to whom the payment is due. As it is the duty of audit to verify the original records, the audit of vouchers is the first step and the most important step of a compliance audit.

4) The primary audit examination of vouchers should ensure that:

   (a) A proper sanction, specific or general, signed by the competent authority, authorising the expenditure exists: No expenditure can take place without an express sanction of the competent authority relating to the specific

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expenditure unless such expenditures are covered by a general order e.g. pay and allowances of staff. The sanction should clearly indicate the gross amount, the object of expenditure, conditions of payment, the classification code against which the amount would be accounted for, confirmations of budget availability and the payee.

(b) The sanction is accompanied by requisite budgetary allocation: For meeting expenditures out of the consolidated fund, budgetary provisions are required. Often the one-to-one relationship between the grants as passed by the Parliament and specific DDO may be missing, as the allocation of various grants is further subdivided into allotments for offices.

(c) Vouchers and Sub-vouchers are available and the total of sub-vouchers add up to the amount shown in the voucher: Most importantly, vouchers and sub-vouchers should be available in proper form. The following attributes of vouchers are to be checked:

(i) That the vouchers are in the prescribed form;

(ii) That they are numbered properly;

(iii) That they are signed in ink by the Drawing and Disbursing Officer;

(iv) That they bear a pay order;

(v) That the account classification codes are mentioned correctly and such codes represent the true nature of the expenditure;

(vi) That all details match the sanction;

(vii) Vouchers are arithmetically accurate: The details should work up to the totals.

(viii) Vouchers are supported by requisite documents: All supporting documents as required like sanctions, acquittance rolls etc. should be attached.

(ix) Payment is actually made to the proper person and proof of payment exists: There is Payee Stamped Receipt (PSR).

(x) Expenditure is not like advances withdrawn at the end of the financial year: Some of the crucial ingredients like PSRs etc. may be missing in such payments. However, in the case of such vouchers, it is worthwhile to examine the nature of sanctions and whether such sanctions have been signed by the competent authorities. Another point for examination would be to identify the purpose of the expenditure.

(xi) Money withdrawn from the government account has not been parked in any other account outside the government account or to avoid lapse of budget has not been transferred to any account under the Public Account of the Republic without any authorisation. The examination should specifically focus on the sanction, purpose and payee for the expenditure.

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(xii) No money is drawn unless is required for immediate disbursement: The occasion for payment should have arisen before the bill is presented.

(xiii) There is no erasing or overwriting in handmade bills: All overwriting must be duly attested and should be valid. Chances of fraud are real in such cases.

(xiv) If the voucher relates to stocks and stores, all materials and stores in the vouchers have been entered in the relevant stock registers: For stores already delivered, the stores ledger numbers should be recorded.

The quality and quantity of stores are certified before payment: The competent officer must certify the receipt of stores in the correct quality and quantity.

(xv) The rates paid are not in excess of the rates accepted in the sanction and they do not exceed either the market rates widely or any other rate laid down by the Government;

(xvi) The amount and quantity of stores and stocks agree with the entries in the stock register;

(xvii) Acquittance rolls are maintained properly and amounts are disbursed to persons who are entitled to receive the amount.

(xviii) All Travels are duly approved by the competent authority and allowances have been drawn as per entitlement.

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Appendix 3 - Audit of Procurement

1. Procurement is defined in the Public Procurement Act 2006 and Public Procurement Rules 2008 of Bangladesh as purchasing of goods or hiring of goods or acquisition of goods through purchasing and hiring and the execution of works and performance of services by any contractual means. In other words, procurement would mean acquiring or hiring of goods and services. Contractual agreement whether for the supply of goods or provision of services is the essence of procurement in the public sector.
2. The fundamental aspect of procurement in the public sector is to ensure transparency and accountability in the procurement of goods and services using public funds. The other equally important aspects are to ensure equal treatment and free and fair competition among all persons wishing to participate in such procurement. Inherent in the above aspects, is the principle of price discovery so that public procurement is carried out by ensuring value for money i.e. to procure quality goods and services at the least cost.

Elements of Procurement

3. The following elements must be present in a sound procurement system:

    (i) There should be graded financial powers i.e. officials of different hierarchies should have financial powers to approve procurement within those powers- i.e. a structured delegation of financial powers;

    (ii) There should be a written down decision making process- either collegiate or individual based- the decision-making process should involve determining necessity, price discovery process including tendering procedures, finalising the price and recommending the award of contract.

    (iii) There should be a mechanism to ensure contract management- that the goods and services required to be procured have indeed been procured in the quantity and quality envisaged;

    (iv) A payment system – that payments would be made on satisfactory fulfilment of the conditions in the contract;

    (v) A dispute resolution system- to have an impartial dispute resolution mechanism involving a third party, if necessary.

Principles of Audit of Procurement

4. The following principles must be kept in mind while auditing procurement cases:

    (i) Materiality and Reasonableness: The procedures adopted for procurement must commensurate with the value of procurement. Elaborate procedures for small-value procurements are neither cost-effective nor efficient. The audit should examine the economy, efficiency and effectiveness of the processes. Small procurements can be defined both in terms of the value of the procurement and the items. The audit should also examine the// reasonableness of the price paid for the procurement. The auditor's judgement about the value of the items

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will also play an important role in determining the reasonableness of the price paid in many small value procurements.

(ii) Rule-based Vs Principle-based: Normally all entities are expected to follow Public Procurement Act 2006 and Public Procurement Rules,2008 unless the government exempts. However, blindly following the rules may itself be self-defeating as the financial interests of the entity can be compromised by merely following the rules in a literal manner. For instance, by accepting the lowest quotation, low quality goods can be bought at a high price by accepting the lowest one. Other factors like cartelisation and reasonableness of price are principles that should be kept in mind.

(iii) Difficulty of Measurement: There can be several procurements which cannot be measured precisely. Different audit techniques must be adopted to audit such procurements. (Beautification of a venue for a government function with flowers and flower pots, coloured banners and flags are difficult to measure. Even if orders are placed for 10,000 flowers, it will be impossible to count 10,000 flowers.)

(iv) Objective of the Procurement: Finally, the objective of the procurement should be considered. Each procurement is required to serve a purpose and the procured goods or services should serve the purpose.

Points for Examination of Procurement Cases

5. Audit should be able to identify the following steps in a procurement process:

(v) Determination of Necessity: This is the first step in the procurement process. The determination of necessity can be (i) requisitions from the users {as in production facility}

(vi) (ii) periodical replenishment of stores {as in requirement of papers in an office} (iii) planned procurements {as in medical stores} (iv) one time procurements {as in armaments by Defence forces}. The necessity in important procurement cases are accepted by the competent authority. In many regular procurement cases, however, the acceptance can be implied in the procedures themselves and no separate formal acceptance of necessity may be necessary. Besides these, the necessity of procurement is also determined by strategic documents like the Five Year Plan, Sustainable Development Goals and other long-term and short-term goals.

(vii) One of the most important aspects of the Public Procurement Act 2006 of Bangladesh is the requirement of preparation of an annual procurement plan. (Section 11 of PPA 2006). The principles laid down in the Act need strict adherence.

(viii) It should be noted that approval of procurement, particularly in cases other than routine procurements may be based on some tentative cost estimates, as in the case of administrative approval of public works constructions.

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(ix) Audit should also link the current procurement with past procurements to ascertain the stock levels, procedures and quality of the procurement.

(x) Determination of method of procurement: While routine and small-value procurements may be carried out by simple procedures such as quotation, and limited tendering, in important procurements, this may involve several decisions. The method of procurement will require decisions on:

(xi) Should it be a domestic or international tender?

(xii) What is more important: Quality or cost. Based on this the tendering procedure may involve a quality-cum-cost basis of consideration.

(xiii) Should it be a two-stage tendering method i.e. should the technical offer and price offer be submitted separately? Normally in these circumstances, the technical bids are considered first and the price bids of only the technically qualified tenderers are opened for consideration.

(xiv) The technical specifications should be precise and comprehensive. It should not leave any doubt and should not be vague. Specification should be expressed in terms of performance or output requirements, rather than specifications linked directly to design or descriptive characteristics which may tend to limit competition. There shall be no reference, in technical specification of Goods, to a particular trade mark or trade name, patent, design or type, named country of origin, producer or service Supplier. Normally it is expected that after the technical qualifying stage, the price should be the only determining factor. Any change, particularly important change in technical specifications after the bids have been invited and especially after the technical bids are opened may be considered in audit as flawed technical specifications and indicative of a lack of adequate due diligence.

(xv) Should it be a limited tender by invitation or open tender? Limited tenders are normally called from pre-approved suppliers and such procedures are for goods and services which are complex or not freely available. The limited tender may also be resorted to for saving time.

(xvi) Have all conditions of procurement been decided in advance, preferably when the tender documents are prepared? Too many changes and too frequent changes after the bids are invited are normally indicative of bad planning and procurement.

(xvii) Decision-making process: How the decision is proposed to be made? Will it be by the committees and if so, at what levels and what types of committees? The audit should examine the expertise available in the committee. Based on Public procurement Rules the committees can be:

(i) Committee for cost estimation

(ii) Tender Opening Committee;

(iii) Tender Evaluation Committee;

(iv) Technical Sub Committee;

(v) Enlistment Committee;

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There may be other committees generally mentioned in the tender document

-Technical Inspection and Acceptance Committee;

-Contract Termination and Review Committee.

6. Nature of Services: If services are proposed to be procured, what kind of services are proposed to be procured? The services can be:

   (i) Physical services: the services with measurable outputs covering the supply of goods or execution of works relating to operation and maintenance of facilities or plants, surveys, exploratory drilling; or individual service-oriented contracts regarding security services, catering services, geological services or third-party services;

   (ii) Related services: the services related to contracts of supply of goods;

   (iii) Intellectual and Professional Services: means intellectual and professional services to be performed by consultants, which may be technical, advisory or supervising, transfer of knowhow, or development of computer software.

7. Communication with the prospective bidders: Whether there would be any pre bid meeting and any other consultation?

8. Nature of the invitation: Is the bidder required to offer a lump-sum price or indicate a percentage over the schedule of rates or any other method?

9. Parameters decided to determine the quality in a quality-cum-cost based selection. Are the parameters and evaluation criteria decided beforehand to ensure fairness and impartiality?

10. Consideration/Price: Is the Price finally agreed upon with estimated cost and market price? Has the approving authority disagreed with the recommendation of the evaluation committee and if so, on what grounds?

11. Salient Points of the Public Procurement Act 2006, Public Procurement Rules-2008 to be complied with.

   (i) Have the required tender documents been prepared? (Section 5/Rule 4)

   (ii) Have the committees been formed? (Sections 6& 7/Rule 7, 8, 9 & 10)

   (iii) Have the procurement plan been prepared and approved for development procurements? (Section 11/Rule 15, 16 & 18)

   (iv) Has adequate competition been ensured? (Section 13)

   (v) Have the features of the tender documents like validities, security deposits etc. been decided? (Section 14/Rule 19 to 28)

   (vi) Have the specifications etc. been prepared and approved? (Section 15/ Rule 29,30)

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(vii) Have the approval procedures been adhered to and the award of the contract been made? (Section 20/Rule 36, 38)

(viii) Has the post-procurement review been conducted? (Section 24/Rule 45, 46)

(ix) Have the provisions of Part 2 of the Act been followed in letter and spirit? (Sections 25-28/Rule 47,48,54, 55)

(x) Has there been any complaint under Part 3 and has the complaint been properly disposed of? (Sections 29-30/Rule 56,57,58)

(xi) Has the procurement followed the methods prescribed by the Act? (Section 31-36/Rule 61 to 89)

(xii) In case the procurement is of intellectual and professional services, have the provisions of the act and rules been followed? (Section 38-39/Rule 103 to 111)

(xiii) In case the procurement is an international one, have the procedures of the act and rules been followed in letter and spirit? (Section 33,39/Rule 83,84,84A, 84B, 84C, 84D, 8 5,86,88)

(xiv) Has the procurement been made in accordance with Sections 40 to 53 of Public Procurement Act 2006 and Rules 90 to 102 of the Public Procurement Rules, 2008?

(xv) Is there any instance of professional misconduct and offence and how has it been disposed of? (Section 64/Rule 128)

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Appendix 4 - Audit of Works

8.1 Compliance Audit of Public Works[6] is one of the most important areas of audit. Some of these are the oldest departments and have considerable literature to guide its work. Apart from significant annual expenditure, works divisions follow complex accounting mechanisms. Audit of works transactions is to be conducted following the general rules and principles of compliance audit described in the guidelines. However, works accounts present some unique features that need special attention and treatment in the audit.

8.2 The most notable feature of the works expenditure is cheque-drawing powers and their functioning outside the treasury system. The basic checks before payment, which otherwise are carried out by the CGA's organisations in the treasury system, are done by the divisions themselves. Monthly accounts are prepared by the divisions and submitted to the Chief Accounts and Finance Officers (CAFOs). The monthly account is an abstract of the entire receipts and disbursement of the month as detailed in various schedules and registers, depicting the opening and closing balances. Thus the divisions enjoy a certain amount of financial autonomy.

8.3 The public works departments are essentially the construction agencies of the government. The important feature of the divisions, particularly the building and construction divisions is that they are the spending audited entity of all construction activities even though the budget allotment is indicated in a different grant. The establishment is also divided into two categories namely the regular and work-charged establishment. While the salaries and other expenses of the regular establishment are paid through the normal treasury system, the establishment expenses of the work-charged staff is directly charged to the respective works.

8.4 The additional aspects of the works audit can be divided into the following sub-parts:

(1) Audit of Sanctions;

(2) Audit of Contracts;

(3) Audit of Receipts;

(4) Audit of Cheques and Bills;

Audit of Sanctions

8.5 Expenditure on a work must be covered by:

(1) Administrative approval: Administrative approval is accorded by the administrative departments based on the abstract estimates prepared by the works divisions.

[6] Includes Public Works Divisions, Roads a Highway Divisions, Public Health Engineering Divisions and Military Engineer Service (MES). These enjoy cheque drawing powers. Divisions like Local Government Engineering Divisions, Health Engineering Divisions and Education Engineering Divisions do not enjoy cheque drawing powers.

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Estimates are generally prepared on the basis of standardised rates available with the public works departments. Such estimates are tentative and indicative in nature to assist the administrative authorities in having a broad idea of the expenditure involved in any particular project. Administrative approvals are provided by officials at different levels according to the delegation of powers.

(2) Preparation of official cost estimate: Before advertisement, the procuring entity shall prepare an official cost estimate by a 3-member committee based on design/specification and market price. In most cases the rate of items are derived from the schedule of rates prepared by different audited entities. If the official cost estimate is higher than the estimate of the annual procurement plan, approval of the head of procuring entity (HOPE) is required.

(3) Technical sanction (where applicable): Technical sanction (where applicable) is accorded by the competent authorities in the departments dealing with public works based on detailed drawings and estimates. Mostly, these estimates are again based on the standardised rates available in the department. The revised technical sanction will be necessary after the tenders are finalised and the costs of the projects are firmed up. The technical sanctions are accorded according to the delegated powers of officials at different levels.

(4) Appropriations and Re-appropriations: Funds must be made available before any component of the project[7] is undertaken and expenditure is incurred. It is not necessary that the total cost of the project must be made available to the divisions. However, the timely flow of funds is an important issue and often contributes to the time and cost overrun of the project.

Audit of administrative approvals

8.6 The following points are required to be examined in the audit of administrative approvals:

(1) The administrative approvals have been accorded on the basis of realistic assessment of the costs: often approvals are accorded on the basis of lump-sum cost or on the basis of a precedent of a similar project. For big projects, it is a good practice that adequate homework is done before seeking administrative approval. The administrative authorities also should be wary of approving a project based on unrealistic costs as that creates a liability for the government for many years.

(2) For big projects, the Development Project Proposal(DPP) are prepared: DPP is an essential step for big projects. A good DPP should have not only the preliminary estimates but also analyse the pros and cons of the project including the risks to the projects. Such risks include risks of delayed clearances, non-availability of land (in particular, in cases of road projects), availability of materials, soil conditions. The audit should be particularly concerned with the calculation of rates of returns including internal rates of return and economic rates of return, which often are exaggerated to justify the projects.

[7] A project is generally a large works comprising several smaller works as its components

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(3) Clearances including environmental clearances have been obtained/ there are reasonable and realistic chances of getting the requisite clearances. The administrative authorities should be wary of any particular situation in the project which may jeopardise the prospect of clearances.

(4) Land required for the project is available/ reasonable prospects exist of availability of land: Risks of land availability including risks of protracted litigation on account of land is a major risk for any project. Risks of encroachment, requirement of shifting of existing buildings/ utilities etc. can pose major problems. There can be laws against felling of trees, which may jeopardise the project.

(5) That the administrative approval has been accorded by the competent authority.

(6) That the administrative approval is unconditional.

(7) That the administrative approval has been accorded after considering on record, all aspects of the project including all important points in the DPP and the risks if any, mentioned in the DPP have been considered and adequate measures have been ensured to mitigate the risks.

(8) That the wording of the approval is precise and unambiguous.

(9) That the costing of the projects has been prepared on realistic basis taking into account the current market rates.

(10) That the costs include rents, rates and taxes.

(11) That overall, the project is viable and is in public interest.

Audit of cost estimate and technical sanctions

8.7 The following points are required to be examined in the audit of cost estimate and technical sanctions:

(1) During the preparation of the official cost estimate market price as well as overhead, profit, risks, geographical location, VAT & AIT (Advance Income Tax) (where applicable) are considered. The estimates to which the technical sanctions have been accorded are realistic and drawn as per the latest orders and schedule of rates: the technical sanction is the most important phase of works execution and in particular in estimating the costs of the projects. The technical sanction is essentially an engineering sanction ensuring both the quality and quantity of the works to be undertaken. Tenders are invited on the basis of the estimates prepared to which technical sanction has been accorded.

(2) That the technical sanction has been accorded by the competent authority and the sanctions have not been split to get them approved by a lower authority.

(3) That the official cost estimate and technical sanction has taken into account the risks that have been flagged at the time of administrative approval and previous experiences have been taken into account.

(4) That the technical sanction covers all components of the works and if any component is left out, there are valid reasons for that and that the left-out

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components will not adversely affect the progress of the works. It should be ensured that the technical specification aims to maximize the competition and there are no limiting criteria .

(5) That the official cost estimate thatbased on drawings and estimates have been prepared by 3-member committee who are competent to do it.

(6) That detailed testing, like soil testing, has been carried out before preparing the estimates.

(7) That proper architectural pieces of advice have been taken where necessary.

(8) That the Bangladesh National Building Code (BNBC) and other laws like environmental laws have been taken into account, where necessary.

(9) That all drawings and other aspects have been inspected at two levels of maker and checker.

(10) That the approval of the technical sanctions is unconditional and unambiguous.

8.8 To conduct an effective audit of the soundness of the technical sanctions, the audit should always be carried out periodically to check whether the official cost estimate is prepared on a realistic basis. It is recommended that any big project should be audited at four stages namely (i) at the stage when 20% of the administrative approval has been incurred (ii) at the stage of 50% expenditure (iii) at the stage of 75% of expenditure and finally (iv) before completion of the project. The stage audits should examine all aspects and early-stage audit should enable the audit in its report to provide warnings regarding the overall implementation of the project. The aspects relating to the soundness of technical sanctions are mentioned below:

(1) The variations between the cost in the annual procurement plan, official cost estimate, and tendered cost. The reasons for such variations may be analysed. Normally the variations can be due to sudden anticipated price fluctuations or failure to estimate hindrances which caused the estimates to go awry. The price fluctuations are reflected in the tendered costs, though professional scepticism should be applied when the tendered costs submitted by more than one contractor are too close to the estimates and to one another. The presence of a cartel cannot be discounted.

(2) If there is significant cost over-run from the approved estimates, the estimates should be examined by audit to look into the reasons for variations. It is generally the experience that cost overrun at the early stages of the project implementation tends to aggravate further and rarely is made up. Some of the reasons for cost over-run at a very early stage are:

(i) Soil testing reveals that the earlier soil testing done before preparing the estimates failed to provide an accurate picture thereby delaying earthwork;

(ii) Reasons on account of tender processing including requirement of re-tendering.

(iii) Legal problems including problems relating to land acquisition;

(iv) Delay in getting clearances or clearances required were not known to the concerned authorities;

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(v) Delay in release of mobilisation advance due to paucity of budget allotment and/or overall budget crunch;

(vi) Natural causes like monsoon etc.;

(vii) Differences between authorities and contractors over interpretations of clauses in the conditions contract or specifications;

(viii) Sub-contracting and disharmony among different contractors about starting the work of interdependent components;

(ix) Lack of availabilities of capital equipment;

(x) Delay in departmental supply to the contractors;

(xi) Delay in providing facilities to the contractors as per the contract;

Audit of Tendering Procedures[8]

8.9 The following points should be examined while auditing tendering procedures:

(1) That detailed estimates showing quantities, rates and amount of various items of work to be done with specifications for each item of work have been prepared, sanctioned and kept ready before calling for tenders;

(2) That the tender documents have been kept ready before calling for tenders;

(3) That the tender schedules show clearly and correctly, item-wise, the bill of quantities, specifications, rates arrived at by the authorities and the total amount of the tender;

(4) That the tender notices have been publicised according to public procurement act and rules;

(5) That the tender /proposal documents have been priced reasonably and have been made available to all claimants as per rules;

(6) That the pre-tender meeting has taken place if warranted;

(7) That two-stage tendering has been followed, where warranted;

(8) That provisions have been made for any tenderer to attend the opening of bids;

(9) That the Earnest Money Deposit has been fixed correctly and reasonably;

[8] Though audit of tendering procedures is being featured in these guidelines under public works, the audit steps are applicable generally to all tendering procedures. Many of these points would be applicable for audit of procurements also.

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(10) That the tender, technical proposal and financial offer have been opened by the tender/proposal opening committee

(11) That the tender has been signed properly and there is no overwriting/ crossing:

(12) That the tender has been opened at the appointed time and date;

(13) That the attendance sheet at the time of opening the tender has been signed by everyone present;

(14) That no clause/condition in the tender documents has been changed between the dates of invitation of the tender notice and opening of tenders; If there are any changes it should be compatible with acts and rules.

(15) That there are adequate reasons and justification if any method is used other than the open tendering method.

Audit of Contracts

8.10 Audit of contracts can be divided in two categories. The first category is the audit of the process of entering into a contract, which ends with the signing of the contract and the second is the audit of contract management i.e. how the deliveries and other conditions are being fulfilled. Often the contract may be finalised following due process but the contract management turns out to be poor. From an audit point of view, it should also be kept in mind that the contract may be signed by one party but the deliveries or provision of services may be to another party. Often in government, a centralised contract is signed but the deliveries take place to different locations. This is as true of public works divisions as many other government departments and entities. Supply contracts generally are signed centrally with supplies to be made at various places. It is important for audit to examine the process of contracts as also the management of the contracts.

8.11 A contract is a legal agreement between the government and the contractor. A public works contract can be of two types, namely, piece work agreement and lump-sum contract. A works contract essentially is an agreement in which the contractor agrees to execute the work as per specifications and drawings within a time schedule and is responsible for the technical excellence. A piece work agreement is such that the rates are determined for individual element of the work and the contractor is paid for completion of each part of the work as per the rates agreed to. Price escalation is determined for each part of the work. The risk of price escalation is normally carried by the department. In the case of lump-sum contract, the contractor agrees to execute the contract for a lump-sum payment payable in instalments/stages. The risk of price escalation is borne by the contractor.

8.12 Normally contractors are classified depending on their technical and financial capacity. Tenders for particular work may be invited from among a particular class of contractors depending on the technical nature of the work and the value. In the case of open tenders, suitable conditions may be laid down to filter suitable contractors. These conditions normally should include both technical and financial abilities.

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8.13 For the purpose of public works, contracts can be of different types. These normally are (i) civil contracts (ii) electrical contracts (iii) transport contracts (iv) fabrication and erection contracts (v) road contracts (vi) public health engineering contracts. It should be noted that all types of construction works are now getting extremely specialised and hence specialisation among contractors is very common. However, the risk of this to the government is that the contracts tend to get split on activities and co-ordination among the contractors becomes difficult to achieve. Often one contractor is allowed to undertake the work in its totality with permission to enter back-to-back contract with specialised contractors.

8.14 While auditing the process of entering into the contract, the following aspects need to be examined:

(1) That the tender process complies with the laid down rules;

(2) That the tenders have been drawn in a manner that it does not favour any particular contractor;

(3) That the bids have been opened as per the existing procedures;

(4) That no condition in the tenders including specifications has been changed to favour, intentionally or unintentionally, any contractor;

(5) That if any condition has been changed due to some valid reasons, it has been notified to all concerned and all have been provided with reasonable opportunity to revise their bids;

(6) That solvency certificates and tax clearance certificates have been obtained from the contractor;

(7) That the contractor finally awarded the contract satisfies all conditions mentioned in the tender documents;

(8) That the contractor who has been awarded the contract is financially and technically competent to execute the work;

(9) That the contractor in the past has satisfactorily executed the works awarded to him;

(10) That the contractor has not been blacklisted by anybody or authority;

(11) That the contract has been drafted properly and no loophole has been allowed;

(12) That the contract is unconditional and unambiguous;

(13) That the interests of the government have been safeguarded adequately;

(14) That the payment schedules have been finalised keeping the interest of the government in mind;

(15) That there are provisions to recover the mobilisation advances granted;

(16) That the timeline of the execution of the work has been defined;

(17) That the bank guarantee has been deposited by the contractor and is valid and correct;

(18) That the price adjustment clauses are reasonable and based on objective conditions and does not favour the contractor;

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(19) That if the contractor is a foreign firm or any part of the contract has any links with the foreign supplier, adequate security clearance has been provided in the tender document;

(20) That there are adequate provisions for liquidated damages;

(21) That the government has been indemnified for any unlawful action of the contractor;

(22) That there are adequate and reasonable provisions of penalty for dereliction by the contractor;

(23) That there are provisions for recovery at the risk and cost of the contractor;

(24) That the agreement contains a satisfactory dispute resolution mechanism with arbitration as the last resort;

(25) That the arbitration procedure is neutral and not unduly biased towards the contractor;

(26) That the contractor has formally accepted the general conditions and specific conditions of the contract and the requisite papers have been signed by the accredited authority of the contractor;

(27) That the contract is legally binding on all parties.

Audit of contract management

8.15 Audit of management of contracts is perhaps the most important phase of audit of contracts. A good audit examination at different stages of the contract can reveal procedural flaws and errors in judgement at every stage of the contracts. It is necessary for the audit engagement teams to be conversant with the nature of the contract to perform a quality audit. Audit issues in contract management will depend on the nature of the contracts. Broadly, the contracts can be of the following categories:

(1) Contract of permanent nature: Such contracts may be for a longer period for supply of services, running facilities etc. Transportation contracts, canteen services, running of facilities etc. may be examples of such contracts.

(2) Supply contract: Such contracts may be for one one-time supply or supply for a continuous period.

(3) Contingent contract: Such contracts may be contingent on happening of an event. Maintenance contracts often are of this nature.

(4) Execution contract: Such contracts may be for executing works according to specifications;

(5) Manpower contract: Such contracts are for supply of manpower for different functions

(6) Services contracts: Such contracts are for providing services. It can be with an individual(s) or with an organisation to provide specific services either on a permanent basis or on specific occasions.

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8.16 The audit strategy and audit plan will depend on the nature of the contract and the services envisaged in the agreement. Timing is the essence of any contract and so is the deliveries envisaged in it. Any audit examination of the management of contracts should include the following major points:

(1) Has the performance of the contractor been as per the contractual terms and conditions? Broadly, examination of performance will emphasize the timing (whether schedule has been maintained?), quality (whether deliveries have been as per the specifications/ service conditions?). An analysis in audit will indicate the nature of such deviations and the reasons thereof. Impact of delay in supplies should be one of the major areas of compliance audit.

(2) Have any contract conditions been deviated from the original? (An analysis in the audit of all deviations will indicate the reasons for such deviations. Some deviations may be reasonable but may point to lacunae in the original planning and assumptions.)

(3) Has the supply been defective? What were the quality control measures? The impact of defective supplies should be one of the major areas of compliance audit.

(4) Has any condition been changed after signing of the contract either formally or informally, that would have impacted other vendors' decision regarding price or any other condition in the tender at the time of bidding?

(5) Has the price or any other payment conditions been changed from what is envisaged in the contract?

(6) Has the payment been made after verifying the supplies/ actual execution of the work? Have the measurement books and other documents have been maintained properly?

(7) Has the coordination between the department and the contractor or among the contractors been adequate? Has any work been delayed due to delay in work by some other contractor? (e.g. civil site not ready for installation of medical equipment.)

(8) What are the contributing reasons behind time and cost overrun?

(9) Has the cost escalation been anticipated in the contract? What are the reasons for deviation from the cost escalation formula?

(10) Has the cost escalation formula been adhered to?

(11) Has the fund flow (budget availability/ allocations) kept pace with the pace of execution of works?

(12) Has the cost overrun been so much as to require revised administrative approval/ technical sanction?

(13) Could all the hindrances be anticipated?

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(14) If the contract has been signed at the headquarters and deliveries are to be made at the field, roadside or sheds, do effective reconciliation mechanisms exist and have been activated?

(15) Often in public works, road and highway divisions, materials are supplied at sites which are remote and roadside. The materials need to be measured and security need to be provided to avoid pilferage. What steps have been taken to safeguard the supplies?

(16) Have the running account bills been supported by schedules, dockets, copies of measurement books and other dockets as required under the rules and codes?

(17) Have the regular instalments of mobilization advance been deducted from the running account bills?

(18) Have the deductions been made correctly for the departmental supplies?

(19) Have the duties and taxes been deducted as required under the law?

(20) Have the liquidated damages been recovered where applicable?

(21) Has the recovery of the cost of materials issued to the contractor outside the contract conditions been recovered as per the market prices?

(22) In case of lump sum contracts, the audit team should particularly examine whether all the conditions have been fulfilled and whether relaxation of any condition benefitted the contractor?

(23) In case of works expenditure, the audit engagement team should carefully examine the transfer entries passed in the divisions. The check should include whether such transfer entries amount to misrepresentation and misstatement in the accounting records.

(24) The audit engagement teams should examine all land acquisition cases and their impact on the pace and progress of major works in the division.

(25) The audit engagement team should carefully examine whether all relaxations and compensations paid on account of an "act of God" are justified.

Audit of Receipts

8.17 The receipts of the public works departments are to be audited in accordance with the general principles of receipt audit. In other cases, where receipts are collected by general departments, the amounts are deposited into the TSA by the departments. Under codal provisions, departments following a departmentalized system record receipts in their cash book as and when received. In their monthly accounts, these receipts are incorporated and details of the receipts are required to be indicated in the schedules.

8.18 The unique receipts of public works divisions are the centage charges which are recovered when the public works divisions act as an audited entity. These are to be

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treated as government revenue and should not be offset with expenditure by reduction of expenditure.

Deposit works

8.19 This term is applied to works of construction or repair the cost of which is met, not out of government funds, but out of funds from non-government sources, which may either be deposited in cash or otherwise placed at the disposal of the Divisional Officer. Works executed for municipalities and other public bodies fall under this category. The following additional points will be included in the audit checks:

(i) Whether administrative approval has been obtained from the concerned agencies before commencing the works?

(ii) Whether the tentative estimates prepared for administrative approval are realistic and take into consideration all costs?

(iii) Whether the technical sanction and expenditure sanctions differ substantially from the administrative approval and reasons thereof.

(iv) Whether expenditure of one work has been booked under another work due to availability of budget.

Audit of cheques and bills

8.20 The divisional officers being self-drawing officers, audit of cheques and bills, particularly of transmissions of cheques and encashment of cheques should be carefully verified. The steps suggested for financial audit may be followed. In the case of cheques and bills, remittances, deposits (contractors' deposits, deposit work), records of CAFO (cheque bill register, remittance, contractors' ledger, deposit work) should be verified in addition to that of records kept at the concerned division.

Audit of Suspense Heads

8.21 The suspense heads and balances under these heads should be carefully examined to ensure that amounts have not been kept under the suspense heads to hide lack of budget allocation.

Manual of the Works Audit Department 1980.

8.22 In addition to these guidelines, guidance may be taken, where appropriate, from the Manual of the Works Audit Department 1980.

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Appendix 5 - Audit of Cash

9.1 The cash book is an important instrument to maintain the accounts of cash and also acts as a control register. Financial propriety entails that cash books are maintained properly and any cash transaction is entered in the cash book instantly. Cash books are required to be closed daily and any corrections or overwriting must be duly attested by the competent authority. In entities where cheque drawing facilities are available, the blank cheque books are considered to be valuable. Accounts of all valuables are required to be maintained and these are also required to be audited. In Category II, III and IV entities, cash and bank balances would constitute an important area of audit. These assets are highly prone to misappropriations, embezzlement and fraud.

9.2 While auditing Cash and Bank Balances, the audit engagement team must obtain sufficient and appropriate evidence to corroborate management's assertions regarding the following:

(a) **Existence:** That the Cash and Bank Balances as recorded in the cash books and other records existed;

(b) **Completeness**: That there are or were no unrecorded Cash and Bank Balances of the entity;

(c) **Availability:** That the liquid assets are available to the entity as and when required;

(d) **Matching:** That the cash transactions as recorded in the cash book or bank book match with day books and other journals.

Internal Control Evaluations

9.3 It is important to examine the system of internal control procedures in the entity concerning Cash and Bank Balances to determine the nature, timing and extent of other audit procedures. The following aspects should be considered for examination:

(a) Segregation of duties relating to authorisation of cash transactions including handling of cash, writing of cheques, signing of cheques, issuing of cheques and recording the issue of cheques in the accounting books;

(b) Policies relating to rotation of personnel responsible for the duties at (a) above;

(c) Cash Book maintenance including daily closing of Cash books and physical verification of Cash with the balances available in the Cash Book; in case of computerised maintenance of

Cash Books, printing of daily scrolls and physical verification of the balances as per the Scrolls with the Cash available in the Cash Chest; provision of periodic surprise verification of Cash Balances;

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(d) Policies and procedures regarding Cheque Books including the safe keeping of Cheque Books and pre-printed stationery, where applicable, system of pre-numbering of Cheques, and periodical stock verifications;

(e) The necessity of multiple cash chests in the same location and premises should be examined in depth;

(f) Periodical reconciliation of Bank Balances and vigorous and timely pursuance of unreconciled outstanding items.

Verification of Cash in compliance audit

9.4 The following audit procedures will be performed by the audit engagement team in compliance audit to obtain sufficient and appropriate audit evidence about Cash balance:

(a) Examination of cash books to ascertain that all records pertaining to cash and bank balances are verified regularly by officials of the entity other than the cashier;

(b) The Audit engagement team may verify the cash balance for one day during the engagement. It should be ensured that all cash balances in the same location are verified simultaneously;

(c) All cash balances lying outside the cash chest(s) and with officers or in their individual bank accounts should be thoroughly checked and the necessity for the maintenance of such cash with individuals should be examined;

(d) All imprests with individual officers must be physically verified and accountal and adjustments of such imprests must be examined;

(e) Post-dated cheques on hand on the date of the Balance Sheet should be verified for encashment and unusual large-scale withdrawals immediately after encashment should be examined thoroughly;

(f) All fixed deposit receipts and other documents relating to deposits and investments must be examined in original.

(g) All cheque books including unused leaves must be physically verified and those issued should be reconciled, on a sample basis, with payment scrolls received from the banks. If the counterfoil is not available, the cheque numbers should be taken from the cash books;

(h) Payments made in cash directly by the entity should be checked with muster rolls/ acquittance rolls on a sample basis. While choosing the sample, the whole of the acquittance roll/ muster roll should be checked. In other words, the population in this case should be the muster rolls and acquittance rolls and not individual payments. In case of cash payment to a large number of persons outside the entity, a sample beneficiary check should be conducted;

(j) A general visual check of the cash book should be carried out to identify corrections and overwriting. All such cases of corrections and overwriting should be examined. If the incidence of corrections is large, the matter should be examined in detail to ascertain the cause of such a large number of corrections;

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9.5 The engagement team should evaluate the evidence obtained as a result of such audit procedures and report suitably, where warranted, either as an emphasis of matter or in the Long Form Audit Report. The team should be particularly alert to the possibility of misappropriations, embezzlement or fraud and report the matter to the senior officials ON THE SAME DAY. While reporting conclusions on the audit evidence obtained, the following guidance may be kept in mind:

(a) Unduly large balance of cash in excess of normal requirement on a regular basis must be brought out in the auditor's report;

(b) If the cash in hand is not in agreement with the balance in the book, the same should be brought up in the auditor's report;

Verification of Bank balance

9.6 The following procedures will be used by the audit engagement team to obtain sufficient and appropriate audit evidence about bank balance:

(a) The audit engagement team should advise the management of the entity at the very beginning of the audit engagement to send letters to all its bankers to confirm the balances on the date of the Balance Sheet, directly to the auditor. Such requests should include dormant accounts and accounts closed during the financial period.

(b) The audit engagement team should examine the bank reconciliation statements in respect of all Bank accounts as on the date of the Balance Sheet as also should examine the reconciliation statements on other dates. The most important aspect of the bank reconciliation statements is to examine (i) the cheques issued by the entity but not presented before the bank and (ii) cheques deposited for collection by the entity but not credited to the bank account(s). The audit engagement team should also examine the reverse credits and debits and the reasons for the same.

(c) The audit engagement team should examine closely the long-standing items in the reconciliation statements which are pending.

(d) If a large number of cheques have been issued or deposited in the last days of the financial period and remain outstanding after the end of the financial period, the same might have been done to understate creditors or debtors and overstate bank balances. The audit engagement team should examine all aspects of these transactions and may seek independent confirmations from the parties concerned. The same is true if the entity has a large number of cheques on hand on the date of the balance sheet and such cheques have remained undeposited or uncleared in the subsequent period.

(e) In case of fixed deposits or any other type of deposits, the audit engagement team must see the original receipts or certificates duly supported by bank advice.

(f) Remittances shown in transit must be examined to ensure that they have been credited in the subsequent period.

(g) In case the entity maintains accounts with foreign banks with exchange control restrictions, which are under liquidation or moratorium, the same should be disclosed appropriately.

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(h) If the number of bank accounts maintained by the entity is disproportionately large, the audit engagement team should examine the genuineness of the transactions and balances. The responsibility of operations of these bank accounts also should be examined.

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Appendix 6 - Audit of Revenue

10.1 The CAG of Bangladesh under Article 128(1) of the Constitution and Section 5(1) of the CAG (Additional Functions) Act of 1974 is mandated to audit of revenues into the public accounts of Bangladesh as also of the Statutory Public Authorities, Local Authorities and Public Enterprises. Such revenues are reflected in the financial statements and an audit of financial statements will be conducted in accordance with the financial audit guidelines. In this chapter, the focus is on compliance aspects of the revenues.

10.2 Revenues of the government can be tax revenue and non-tax revenue. While tax revenue is charged to an individual or an entity, non-tax revenue is charged for services provided by the government agencies. Tax rates and attendant conditions are normally approved through legislation by the Parliament (Finance Act) because of not quid pro quo, whereas non-tax revenue may be departmentally levied through administrative orders, supported by general statutory powers. Though the contents of this chapter do not explicitly apply to the sales revenue of a commercial enterprise, audit examination of such revenues may include application of relevant guidelines, if apposite.

10.3 Broadly, the objectives of a compliance audit of revenues are:

(i) That adequate statutory authorities exist for the charge;

(ii) That adequate systems and procedures exist to assess, demand, collect and account for the revenues earned;

(iii) That assessments where necessary, have been carried out in accordance with the statutory provisions;

(iv) That collections of revenues including advance tax, where applicable have been carried out efficiently;

(v) That revenues received have been accounted for correctly and without delay;

(vi) That revenues received have been deposited into government TSA, where applicable without undue delay.

(vii) That adequate controls are in place and active to avoid leakage of revenues;

10.4 In no case, should independent enquiries be made among the tax payers or general public. CAG's mandate as regards the audit of revenues does not allow OCAG to audit any tax payer or third party or seek information directly from a tax payer or third party. All information required in the audit should be sought from the audited entity/unit and in case the required information or evidence is not forthcoming, the concerned directorate in OCAG would take up the matter with the higher authorities in the administrative set-up.

10.5 Should a situation arise that despite best efforts, the required information/ evidence is not forthcoming or non-availability of information/evidence is recurring and has attained such a proportion that obtaining sufficient and appropriate evidence is adversely affected, the matter will be considered from the point of view whether a modified opinion needs to be provided or an emphasis of matter is required to be added to the opinion on the financial statements of the entity

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as part of financial audit and the matter be separately be reported in the compliance audit report.

10.6 The audit of revenues shall largely be regulated with reference to the statutory provisions or financial rules and order applicable to the particular class of revenues involved. If the audit examination reveals any defect in such statutes, rules or orders, the advisability of amendments may be brought to the notice of responsible party. Normally audit examination will not question an authoritative interpretation of such statutes, rules or orders. Similarly, in no case audit will question a judicial decision or a decision given by an administrative authority in a quasi-judicial capacity. This however does not debar OCAG from bringing to notice any conclusion deducible from the examination of a number of such decisions.

10.7 Several classes of receipts, notably belonging to the Public Account of the Republic are repayable. Government agencies act as a banker or a remitter. CAG has audit jurisdictions by virtue of Article 128(1) of the Constitution. Audit examination will, therefore, cover such receipts and repayments including checking each repayment against the original receipt.

Compliance Audit of Tax Revenue

10.8 Compliance audit of tax revenues is an examination of effectiveness of systems and procedures relating to tax assessment and collection through individual assessment files as also overall performance of the concerned audited units. The following activities of the department should normally be examined during such audit:

(a) Identification of potential assesses ensuring prevention and detection of tax evasion and better compliance;

(b) Follow-up of all demands and claims;

(c) Prompt and proper investigation of cases of losses, fraud, default or errors;

(d) Proper pursuance of cases by the department before appellate authorities;

(e) Recovery of arrears;

(f) Prevention of harassments of honest taxpayers;

(g) Prompt and correct assessments of returns, where such assessments are due;

(h) Rebates, Refunds and Exemptions are allowed as per law.

(i) Quantum and category of exemptions are in accordance with relevant statutes, rules and orders and are not allowed on ad hoc/discretionary basis.

10.9 Three most important aspects of any tax administration are (i) Assessment (ii) Collection and (iii) Accounting. The primary objectives of compliance audit of tax administration would therefore be to obtain assurance that (i) assessments have been carried out in accordance with the rules and regulations (ii) collections have been carried out promptly and (iii) such collections have been accounted for and promptly deposited into government treasury. This is true of all tax administrations.

10.10 With increasing self-assessment cases and systems of e-payments, audit should also examine such cases to ensure that self-assessments are reasonable and correct.

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Integrity of data including provisions of privacy and effectiveness of systems controls to prevent data loss and breach.

10.11 Audit shall have access to all assessment files, computerised facilities and data relating to tax administration. Denial of such access will be treated as violation of Article 128(1) of the Constitution.

10.12 It shall be the duty of the Director General, Directorate of Revenue Audit to effectively liaison with National Board of Revenue (NBR). The objectives of such liaison would be to keep track of latest SROs and other decisions including judicial and quasi-judicial decisions on income tax issues, effective audit planning and to ensure prompt replies to observations of the audit engagement teams.

Income Tax

10.13 Income tax is a direct tax on the income of individuals and legal entities mainly business enterprises. Income tax on individuals is known as personal income tax and that on business entities is known as corporate income tax. Most important authorities for compliance audit of income tax are :

(i) Income Tax Ordinance, 1984;

(ii) Income Tax Rules, 1984;

(iii) The Finance Acts;

(iv) Statutory Rules and Orders (SROs), Circulars and notifications issued by the National Board of Revenue (NBR)

(v) The Gift Tax Act 1990;

(vi) The Travel Tax Act 2003;

(vii) Income Tax Nirdeshika for the relevant year.

10.14 The key information on the subject matter for the purpose of compliance audit of income tax are income tax returns submitted by the tax payers and the assessment report. The audit unit for the purpose is the circle, which is the administrative unit for the purpose of tax administration. There are at present 29 zones under which 638 circles are operational. There are 140 companies' circles, dealing with companies, 86 salaries circle, 2 contractors' circles and the remaining are normal circles. While circles can have mixed jurisdictions, the salaries circles deal with income tax cases of salaries and the contractors' circles with the cases of contractors. The normal circles are territorial dealing mainly with sole proprietorships and partnership businesses.

10.15 The annual audit plan and the half yearly audit plans must reflect the risk-based approach towards audit planning. While figures of collections would be the main criteria for selection of audit units, other risk factors like the number of cases, nature of assessees covered by a circle, potentiality of tax evasions, low collection against high expectation of tax revenue, past audit observations etc. should also be considered. Most importantly, selection of units should be such that all types of assessments are represented in the audit reports to provide a comprehensive picture. All Large Taxpayers Units (LTU) must be taken up for compliance audit every year.

10.16 Records to be checked during the compliance audit of income tax:

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(i) Assessment orders under different sections of the Act and Rules;

(ii) Income Tax Returns submitted by the individuals with particular emphasis on computation of income by the department;

(iii) Accounts, where applicable;

(iv) Tax Audit Report;

(v) Details of financial statements submitted by the individuals;

(vi) Agreements like sales deed, property deed, rent agreement etc.;

(vii) Documents relating to tax already paid;

(viii) Assessment of previous years;

(ix) Any other information relevant to assessment.

Audit checks for Income Tax

10.17 The common audit checks in relation to income tax audit are as follows:

(i) Are there arithmetical and transcription errors? Such errors do not automatically mean less computation of taxes as taxes are paid in advance. Audit should also check whether such errors have resulted in refund or wrong demand.

(ii) Whether the rates of taxes have been applied correctly?

(iii) Is there any period of default and whether penalty/interest have been levied?

(iv) Whether all the disallowances have been calculated properly and whether they are in accordance with the law? Audit checks should also keep in mind that such disallowances, wrongly calculated may affect the taxpayer adversely. This also should be the concern of audit.

(v) Whether all income earned from all sources have been taken into account in computation of income and the slabs of rates have been properly applied?

(vi) Whether refunds including interest on such refunds have been calculated correctly?

(vii) Whether interest on refunds of previous years is shown as income?

(viii) Whether the incidence of refunds is on a high side hinting payment of higher advance tax by taxpayers to fulfil the targets of the income tax office, if any?

(ix) Whether expenditure claimed in the computation of taxable income is admissible and is actually forming part of the profit and loss account?

(x) Whether amortization of expenditure, as claimed, is admissible?

(xi) Whether exemptions and deductions have been correctly computed and correctly allowed?

(xii) Whether such exemptions and deductions, losses from previous years set off against current taxable income, depreciations etc. match with Tax Audit Report?

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(xiii) Whether the provisions of tax deducted at source(TDS) have been followed and TDS have been deposited into government account promptly?

(xiv) Whether accounts have been audited, where necessary?

(xv) Whether the returns have been signed by authorised person?

(xvi) Auditors should link up past assessment records to link the following information:

(a) Methods of valuations not accepted in the past requiring adjustment of opening stock and closing stock;

(b) Brought forward transactions of previous years not shown correctly in the return;

(c) Admissibility of deductions on the basis of past records.

(xvii) If revised return has been submitted, the original return should have been submitted within time.

Specific Audit Checks: Income from Business

(i) Whether expenditure has been incurred for non-business purpose?

(ii) Whether capital expenditure on which the benefits would accrue over a number of future years, has been wrongly classified as revenue expenditure?

(iii) Most of the businesses maintain their account on accrual basis. The Tax Audit Report and other documents need to be examined to ascertain that the assertions are in accordance with the Income Tax laws. Notes on accounts also need to be checked thoroughly.

(iv) Specific attention should be given to amortization and claims relating to them.

(v) Whether credits and debits for all receipts and expenditure that have become due during the financial year have been taken into account.

(vi) Special attention should be paid to all provisions for which claims of deductions have been made.

(vii) Whether there are caps for any kind of deductions and those caps have been implemented.

(viii) Whether remunerations have been authorised?

(ix) Whether the conditions in the partnership deeds/ memorandum of association etc. having impact for the purpose of the income tax have been taken into account properly.

(x) Carrying forward of losses from previous years has been done as per rules.

(xi) Special attention should be given to international transactions and tax implications of these transactions.

Checks for non-assessment activities

(i) Revisions and rectifications have been done in time and as per rules.

(ii) Was any revision carried out suo-moto and reasons thereof.

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Refunds

(i) Entitlement of interest should be looked into.

(ii) Refunds and interest have been calculated correctly.

10.2 Primarily, the audit of Income Tax is an audit of assessment files and orders. Controls and compliance with laws, rules and regulations will be examined with reference to individual assessment files and orders.

Custom and Excise Duties

Customs

10.3 Customs Duty is an indirect tax on merchandise imported into and exported out of the country. The main authorities governing customs are:

(i) The Protective Duties Act, 1950;

(ii) The Customs Act 1969;

(iii) Bonded Ware House Licensing Rules, 2008;

(iv) Transfer of Residence Rules, 2000;

(v) Tourist Baggage Rules, 1981;

(vi) Baggage Rules 2011;

(vii) Statutory Rules and Orders (SROs), Circulars and notifications issued by the National Board of Revenue, Bangladesh (NBR);

(viii) Tariff Schedules;

(ix) Finance Act of relevant years;

(x) Prescribed Bill of Entry and Bill of Export Order 2001;

(xi) Import Policy Order.

10.4 The cases of non-compliance noticed in audit in relation to customs duties can be broadly categorised as

(i) Incorrect application of General exemption notifications;

(ii) Misclassification of imports;

(iii) Incorrect levy of applicable rates and other charges;

(iv) Non-compliance of provisions of various Export promotion schemes;

10.5 For imported goods into Bangladesh shipping agents submit manifests electronically to the Customs authority. Once the IGM (Import General Manifest) is submitted online, the nominated C&F agent or the importer himself completes the goods declaration i.e. Bills of Entry (BE) from their own premises and submits

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the goods declaration to Customs systems through ASYCUDA World. The BE is submitted in a specific format known as SAD (Single Administrative Document).

10.6 The following documents are submitted for release of goods from Customs. These documents are of primary interest to conduct compliance audit of customs duty:

(i) Letter of Credit (L/C);

(ii) Invoice;

(iii) Bill of Lading/ Air Waybill / Truck Receipt/ Railway Receipt;

(iv) Packing List;

(v) "Country of Origin" certificate;

(vi) Insurance Policy / Cover Note;

(vii) VAT/ BIN[11] Certificate

1 1 Business Identification Number

Following additional documents are required for specific types of goods:

(i) A certificate from BSTI[12] to clear items for which BSTI certification is mandatory, if the import consignment does not have a certificate from an accredited laboratory of the exporting country;

(ii) Radioactivity Test Report from the concerned authority of the exporting country for food items;

(iii) Clearance certificate from Bangladesh Atomic Energy Commission for food items to the effect that the radioactivity level found in imported food stuff is within acceptable limits;

(iv) Pre-shipment inspection test report for milk food products and powder milk, and hard coke, Break Acrylic, M.S. Billets and for items where the value of a single item authorised for import by public sector agencies is Taka fifty lac or above;

(v) Approval letter of Chief Inspector of Explosives of the Ministry of Power, Energy & Mineral Resources for import of explosives;

(vi) Copy of intellectual property certificate in the case of import of branded goods registered under any law relating to Intellectual Property Rights. Bangladesh.

Following files, registers and documents are of interest to audit:

(i) Pre-shipment inspection agencies' certificates;

(ii) valuation and certification files;

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(iii) Bond registers and bond documents;

(iv) Register of customs duties receipts/ print outs of receipts;

(v) Register of Penalties;

(vi) Register of Seizures, Attachments and Forfeitures;

(vii) Register of unclaimed goods;

(viii) Importer/Exporters' ledgers;

(ix) Chalans of revenue paid;

(x) Duty Drawback/exemption papers;

(xi) Letters of Credit;

The above documents are the primary information on the subject matter for the purpose of compliance audit.

Audit checks for Customs

10.7 The following are the important compliance audit checks of Customs assessments

(i) All required documents and certificates were and are available at the time of assessment and clearance of imported goods;

(ii) Assessments were carried out following the laid down procedures;

(iii) Goods declared in the manifests, invoices and insurance documents match;

(iv) Value of goods as evident from manifests, invoices and insurance (and other subsidiary documents) matches;

(v) While calculating duties on ad valorem basis, all components like freight, insurance are included;

(vi) The goods have been classified correctly for the purpose of imposition of tariffs;

(vii) Concessions, if granted, are in accordance with the relevant rules and supported by proper orders issued by the competent authority with special attention to individual discretionary concessions by NBR;

(viii) The VAT/BIN Registrations of the importer match with other documents;

(ix) Bonded warehouse facilities have been used as admissible; Each case where goods are lying in the bonded warehouse for unusually long time should be examined in audit;

(x) Each case of re-export, re-import and transit goods should be examined in audit.

Excise Duty

10.8 Excise Duty is an indirect tax mainly on domestic production. However, in Bangladesh, such excise duties are levied on some services as well. The main authorities governing excise duties are:

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(i) Excise and Salt Act 1944, as amended from time to time;

(ii) Excise SROs and General Orders

10.9 The various registers and documents which are of interest to audit are:

(i) Application forms for trade license in excisable goods;

(ii) Register of excisable goods;

(iii) Register regarding payment of duty;

(iv) AR forms for movement of goods;

(v) Warehouse/Store room register.

10.10 The following audit checks of assessments are suggested:

(i) All necessary documents including declarations are available and was available at the time of clearance of goods at the factory gate;

(ii) The excise officer has verified the correctness of the declarations and other forms;

(iii) Necessary post clearance audit has been performed.

Value Added Tax

10.11 VAT (Value Added Tax) is an indirect tax charged on consumption. The main authorities governing VAT are:

(i) Value Added Tax Act 1991;

(ii) Value Added Tax and Supplementary Duty Act 2012;

(iii) Development Surcharge and Levy (Imposition and Collection) Act 2015;

(iv) Amendment of VAT Rules, 1991;

(v) Value Added Tax and Supplementary Duty Rules 2016;

(vi) Value Added Tax Rules 1991;

(vii) VAT SROs and GOs

10.12 Enlistment is to be done by traders and entities as specified in rules and orders. VAT is calculated on the basis of actual sales price. Some of the important features of VAT, which are of interest to audit are:

(i) Enlistment and Registration can be done paperless without submitting any documents;

(ii) Input Tax benefits are available;

(iii) To avail of input tax, document required are (a) Purchase contract or (b) Form VAT 6.3 for local purchase or (c) Bill of Entry for import purchase;

(iv) Accrual basis accounting will be maintained;

(v) Accounting for the purpose of VAT will follow commercial accounts system;

(vi) A trader can use the VAT for a maximum of 45 days for use in his business;

(vii) Periodic payment of VAT can be done on submission of VAT chalan;

(viii) Payment of VAT can be done either manually or on-line;

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(ix) VAT Return will be the only document based on which tax will be assessed;

(x) VAT Return will be treated as claim for refund, if refund is due;

(xi) Refund will be paid within three months from the submission of the return;

(xii) Claim for refund will be treated as approved if claim is pending for more than 3 months;

(xiii) Appeal can be preferred on line and appeals will also be disposed of online.

10.13 Compliance audit of VAT will, inter-alia, be audit of VAT returns with supporting documents and assessments. While classification of goods is one of the most important audit checks, the following general audit checks are recommended:

(i) Are all returns received? The checks will involve comparing the enlisted/registered traders with the number of returns received in the Commissionerate.

(ii) Are advance tax deposited by the traders commensurate with the amount of VAT declared in the return?

(iii) Are assessments carried out regularly and in time?

(iv) Are the returns accompanied by the required documents?

(v) Are the supporting documents complete and valid?

(vi) The taxes paid according to the return are in consonance with the supporting documents. This will involve arithmetic check, checks of classification and rates of taxes and of input costs exemptions;

(vii) Are the refunds claimed correct and if the assessment could not be done within 3 months, has the refunds been paid correctly? Checks of greater number of such cases are desirable.

(viii) Are the cross checking done by the assessing officer? Audit should also do independent cross checking {Cross checking in audit means that a claim by a seller is cross checked with the claim of the buyer. If Y claims that he bought goods from X and paid VAT and claims input tax, does the return of X show the sale and receipt of VAT}

10.14 It is to be noted that Tax audit involves continuous updating of knowledge on the part of auditors, as fresh rulings, judgements and other guidance are issued very frequently. An auditor needs to be absolutely current in his knowledge.

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Appendix 7 - Audit of Non-Tax Revenue

10.15 Traditionally tax revenues have been the main source of revenue of the governments. Audit of non-tax revenues has thus been of less importance than audit of tax revenues. However, as economies expand and governments are hard pressed to resort to newer avenues to bolster resources, non-tax receipts are often seen as important source of revenue.

10.16 Broadly, non-tax revenues can be classified into three categories. These categories are:

(a) Revenue earned by allowing private persons to exploit resources which are intrinsically sovereign assets. Radio waves, mining licenses, exploitation of natural resources are examples of such resources.

(b) Governments in order to augment revenues, sells assets which are owned by it. Shares in government companies, land owned by government organisations, government buildings are examples of such assets.

(c) Government recovers fees for services rendered by it. Such fees can be semi-permanent in nature as in case of fees for educational institutions, or temporary as in case of entry fees for exhibitions and fairs.

10.17 While the first two categories of revenue can be substantial, the third category of revenues is often of less importance and does not fully recover the cost of services provided. However, the third category can be regular and semi-permanent, the first two categories are case specific and more complex.

10.18 Compliance audit of first two categories should keep the following characteristics in view, while planning and executing the audit:

(a) Activities relating to these are within an overall framework of laid down policies. Such policies may be laid down through an act or a pronouncement by the government. Audit of such cases must therefore use the policy framework as one of the criteria.

(b) Resource raising activities can take the form of public private partnership which is essentially contractual arrangement.

(c) Valuations, future revenue projections, discount rates, assumptions relating to rate of returns play a very important role and can influence the arrangements significantly. It may be difficult to establish clear benchmarks to evaluate the valuations.

(d) Innovative price discovery methods can be used. Reverse auction, Swiss challenge method etc. are examples of such innovations. In many cases, it is almost impossible to have realistic price discovery through traditional methods.

(e) Many elements of sound procurement system are, nevertheless applicable.

(f) Consultants outside government play significant roles. Such consultants provide financial, legal and other services. Little independent evaluation of the advices are done of such advices. OCAG can be the only audited entity to evaluate the processes independently. Services of such consultants are in turn subject to procurement procedures.

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(g) It is often difficult to arrive at any conclusion with the audit certitude expected of OCAG. Impartial application of professional judgment and transparent reporting are important.

(h) Complex financial instruments and concepts play important roles. The audit engagement teams from OCAG should be fully conversant with these instruments and concepts.

10.19 The following are the compliance audit checks for such non-tax revenue arrangements:

(i) What is the source of revenue?

(ii) What are the arrangements for collection of revenue?

(iii) Are the arrangements continuous or one time?

(iv) Is the revenue for sale of assets or provision of services?

(v) What is the overall policy framework for raising revenue?

(vi) Is asset valuation involved?

(vii) In case asset valuation is involved, what are the asset valuation methodologies adopted?

(viii) Are these valuation methodologies realistic done by competent persons?

(ix) Is public private partnership involved?

(x) Is monetisation of assets involved?

(xi) Has any public asset been allowed to be exploited for non-public purpose and if so, consideration for the same?

(xii) Does the arrangement has the approval of the competent authority?

(xiii) Has the competent authority used any discretionary powers and if so, is he within his competence to do so?

(xiv) Is calculation of Future Value and Net Present Value involved and if so, are the assumptions including discount rates realistic?

(xv) What are the value discovery processes adopted?

(xvi) Are the value discovery processes commensurate with the asset?

(xvii) Has any asset been transferred which was outside the ambit of valuation?

(xviii) Are the arrangements in the interest of government?

(xix) Are there loopholes in contractual arrangements?

(xx) Are contractual arrangements in the interest of government revenues?

(xxi) Are there any post contractual concessions agreed to which vitiate the procurement process.

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Appendix 8 - Audit of Stores and Stocks

11.1 Audit of Stores and Stocks, particularly of purchase of stores will be conducted in accordance with the mandate of CAG under Article 128(1) of the Constitution and Section 5(1) of CAG (Additional Functions) Act, 1974. This audit primarily will be compliance audit. However, to assess the effectiveness of procurement procedures and other related matters pertaining to stores and stocks, performance audit of selected areas can also be undertaken. This chapter deals with compliance audit of stores and stocks.

11.2 Audit of stores and stocks has four key areas. These are (i) audit of purchase of stores (ii) audit of custody and issue of stores (i.e. aspects of storekeeping) (iii) audit of stores management (iv) audit of stores records.

Audit of purchase of stores

11.3 Audit of purchase of stores will be audited in accordance with the guidelines relating to audit of procurement described elsewhere in this guidelines. Broadly, however, the following points need to be kept in mind while auditing purchase of stores:

(i) All purchases are properly sanctioned in writing either on file or by separate specific or general order;

(ii) All purchases have been carried out in accordance with the rules and regulations;

(iii) Quantities purchased have been calculated on realistic basis and taking into account the requirements in a reasonable time span;

(iv) Adequate storage facilities are available for quantities purchased;

(v) Funds for the purchase are available and payments have been made after supply or proof of despatch; necessary safeguards have been taken when payments have been made in advance;

(vi) The rates paid are reasonable and in the auditor's professional judgement, corresponds with the market rates;

(vii) Purchases have not been split up to remain within the delegated powers;

Audit of custody and issue of stores

11.4 The following audit checks are recommended while auditing custody and issue of stores;

(i) A particular official has been made responsible in the organisation for the custody of stores;

(ii) Physical verification of stores is carried out as per procedures and regularly;

(iii) Discrepancies, if any, between the book balances and physical balances have been reconciled;

(iv) Stores like stone chips etc. have been measured rationally and reasonably;

(v) Clear responsibilities have been established to safeguard stores at site;

(vi) Efforts have been made to transfer surplus stores to other sister offices/departments;

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(vii) Stores have been issued against proper indents;

(viii) If there is system of priced ledgers, the value of stores have been correctly recorded;

(ix) Normally in government "First in First Out" methodology is adopted; exceptions to these need to be examined; in case the policy is "Last in First out" or any other method, the rationale of the same should be examined.

Audit of stores management

11.5 Audit of stores management may overlap with other key areas. However, the distinguishing audit checks relating to audit of stores management are provided below:

(i) Stores procured involve capital blocked and long period of stores remaining locked up leads to wastage of valuable resources;

(ii) Sound stores management should lay down parameters like stores to be held, authorised balance level triggering further procurement and issue of stores only against requirement;

(iii) Audit of write off of stores will form important step in audit of stores and stocks. Writing off and disposal of unusable stocks indicate poor planning resulting in unnecessary procurement. Irrespective of value earned in disposal of old and obsolete stocks, it indicates poor planning; the fundamental principle at work is that government and government agencies procure stores for their own use and not for sale;

Audit of stores records

11.6 Audit of records of stores will remain an important part of audit of stores and stocks. The following audit checks are recommended:

(i) Proper records are kept relating to stores. These will include stores registers, goods received sheets, bin cards, indent register, master list of stores including priced ledger nomenclature of stores;

(ii) Proper system exists to maintain the documents and periodical verifications are carried out of the records;

(iii) Documents like bin cards are maintained on chronological basis based on receipts and issues;

(iv) Indents are kept on chronological basis;

(iv) Issue registers are kept up to date and periodically verified.

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Template 1 - Code of Ethics

Prepared by:		**Date:**	
Reviewed by:		**Date:**	
Approved by:		**Date:**	

For the purposes of the audit of [insert the name of the audit entity], I confirm that:

1. *I fully understand the requirements of INTOSAI Code of ethics applicable to me on this audit.*
2. *Myself, or my any members of my immediate family do not have a financial interest[9] in the [insert the name of the audit entity].*
3. *I do not have any business relationships with the audited entity or any of its directors, officers and employees.*
4. *I have not received any benefits or gifts in the past from persons employed by or associated with the auditee.*
5. *I am not, and have not been in the last two financial years, an officer, employee or director of the audited entity.*
6. *I do not have any immediate or close family member(s)[10] that currently hold(s) a financial reporting and oversight role[11] at the audited entity or held such a position during the financial year under audit.*
7. *I do not have any other relationship with any director officer and employee of the entity under audit that may impair my independence.*
8. *My independence was not impaired by the attitude of management and / or staff of the auditee through intimidation.*
9. *I understand the requirements in the INTOSAI Code of Ethics as far as:*
   - 9.1 *I should exercise due care and perform the audit in a professional manner and to the best of my abilities.*
   - 9.2 *I should perform the audit with honesty, integrity, impartiality and political neutrality.*
   - 9.3 *The confidentiality of information obtained during the audit process and that I should not disclose such information to third parties.*

Circumstances which may impair my compliance with the above statements for the audit:

[List circumstances where applicable]

DECLARATION

I, the undersigned fully understand the requirements and responsibilities contained in the Code of Ethics. Where applicable, I have disclosed the circumstances which may impair my compliance. In addition, should any circumstances arise during the audit to impair my compliance with any of the above provisions, I undertake to communicate them without delay.

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[9] Including the ownership of shares, loans or guarantees to or from the entity, its directors or officers.

[10] Including any dependents of the team member, parents, step-parents, children, step-children and siblings

[11] A financial reporting oversight role refers to those persons exercising influence over the accounting records or financial statements. This would include a member of the board of directors or similar governing body, chief executive officer, chief financial / operating / accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

Template 2 - Internal Control Checklist (ICC)

Prepared by:		**Date:**	
Reviewed by:		**Date:**	
Approved by:		**Date:**	

1. Objective

After identifying the elements of compliance auditing and understanding the identified subject matter and suitable criteria, the auditors should understand all the components of an internal control system: the control environment and internal controls relevant to the subject matter.

The internal control checklist contains a set of questions for each internal control component. The questions provided herein will guide the auditors in obtaining an understanding of the audited entity-level controls set by the audited entity management.

2. Accomplishing this Tool

I. ICC Questions (please see template below)

3. Internal Control Component-

Probing questions are provided for the following internal control component:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

NOTE:

Auditors are not only limited to the questions provided in this questionnaire. Additional questions may be developed by the team, if deemed necessary.

Yes/No/ Not Applicable- Answer each probing question with the appropriate response as a result of the auditor's validation of each internal control component.

Remarks- Provide any remark or comment that the auditor may have on the related probing question as a result of its validation. Examples of remarks may include identification of areas needed to be focused for the audit engagement or possible fraud indicators. Documents presented as references for evidence should also be provided in the remark's column.

Initial Assessment- After each component of the audited entity's internal control, make an initial assessment as to whether (a) the control design is present and adequate (b) the control is functioning or being implemented. Provide an explanation/reason of such initial assessment for each component.

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4. ICC Summary

Observations- Document the observations obtained during the understanding of the audited entity level controls relevant to the subject matter. Observations may include deficiencies noted on the design of audited entity-level controls or red flags that may be noted on the process which may indicate source of fraud risks. Incidentally, audit teams may need to issue an Audit Observation Memorandum (AOM) to call the attention of the audited entity for the observations noted.

Recommendations- Provide a recommendation (if applicable) for each key observation noted.

AOM Reference- Indicate the AOM reference number for those observations issued with an Audit Observation Memorandum

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I. Internal Control Component Questions

Internal Control Component	Yes	No	NA	Remarks
A. Control Environment				
1. Do the top management and other Officials support integrity and ethical values?				
2. Do the top management and other Officials lead the commitment to integrity and ethical values by example in their day-to-day activities and demonstrate through their directives, actions and behaviour the importance of integrity and ethical values?				
3. Are the Code of Conduct and/or Ethics policy, as well as other policies regarding acceptable practices, conflicts of interest, etc., comprehensive and have been clearly and adequately communicated throughout the audited entity?				
4. Does the top management strictly prohibit circumvention of established policies and procedures, except where specific guidance has been provided? Does it also demonstrate commitment to this principle and take appropriate disciplinary action in response to violations of established policies and procedures?				
5. Do the top management and other Officials act to remove or reduce incentives or temptations that might prompt personnel to engage in dishonest, legal, or unethical acts?				
6. Does the top management give appropriate attention to internal controls, including regularly educating and communicating the importance of internal controls to its employees?				
7. Does the top management show willingness to consult with the internal control reviewers or the external auditor on significant matters relating to internal control and accounting issues?				
8. Do the audited entity's oversight bodies give adequate consideration to understanding management's processes for monitoring risks affecting the audited entity?				
9. Is the overall audited entity structure appropriate and does it facilitate the flow of information both up and down within each function, as well as across other functions? Is the structure reviewed and modified to accommodate changes in operating conditions, as necessary?				
10. Are there appropriate policies for such matters as creating new Offices/Divisions/Units, reviewing potential conflicts of interest, approving transactions and implementing security practices and are they adequately communicated throughout the audited entity?				

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11. Is there adequate supervision and monitoring of decentralized operations (including accounting and information systems personnel and services)?				
12. Do the top management and other Officials demonstrate commitment to provide sufficient training to audit, information technology, technical and administrative personnel to keep pace with the growth and complexity of the audited entity's operations?				
13. Do the audited entity's personnel have the competence and training necessary for their assigned level of responsibility and the nature and complexity of their assigned responsibilities?				
14. Are there standards and procedures for hiring, training, motivating, evaluating, promoting, compensating, transferring, and terminating personnel that are applicable to all functional areas (e.g., auditing, accounting, information systems, administration, etc.)?				
15. Are there screening procedures for job applicants particularly for employees with access to assets susceptible to misappropriation?				
16. Are human resources policies and procedures (i.e. written job description, Personnel Handbook/Manual) clear and issued and updated on a timely basis?				
17. Are Human Resource policies and procedures effectively communicated to personnel?				
18. Do the top management and other Officials set realistic (i.e., not unduly aggressive) operational targets and expectations for operating personnel?				
19. Is job performance periodically evaluated and reviewed with each employee by supervisory personnel?				
Initial Assessment				
Control Design- ***Is it present and adequate?***				
Control Implementation- ***Is it functioning?***				
Explanation/Reason:				

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B. Risk assessment				
20. Has the audited entity established and clearly communicated its mission, operating strategy, and objectives?				
21. Is a process in place to periodically review and update the audited entity-wide strategic plans? Are these plans reviewed and approved by the top management?				
22. Are feedback mechanisms in place and do they enable the audited entity officials to periodically assess whether audited entity-wide objectives have been achieved?				
23. Are objectives established for audited entity processes? Are they clearly linked to the audit clients' strategies and their overall objectives in support? Are the objectives clearly understood by employees responsible for achieving the results?				
24. Are there adequate mechanisms in place for identifying audited entity risks and barriers to achieving its objectives, including those resulting from: Entering new program/projects or lines of operation; Taking on new policies; Offering new services; Complying with privacy and data protection compliance requirements; Adapting to other changes in the political, social, economic and regulatory environment in terms of auditing and reporting etc.?				
25. Does the top management consider how much risk it is willing to accept when setting strategic direction and does it strive to maintain risks within those levels?				
26. Do the top management and other Officials oversee and monitor the risk assessment process? Do they take action to address the significant risks identified?				
27. Do the top management and other Officials prepare risk assessment of audited entity operations to consider risk related to fraudulent activity and how the operations could be impacted?				
28. Does the assessment of fraud risk consider the opportunities for unauthorized acquisition, use or disposal of assets, altering the reporting records or committing other inappropriate acts?				
29. Are periodic reviews performed or are other processes in place to anticipate, identify, and communicate to the appropriate levels of audited entity's management events or activities that may affect the audited entity's ability to achieve their objectives, as well as avenues to address these changes?				
30. Do other Officials report to the top management on the changes in both the external and internal environment that may have a significant effect on the audited entity?				

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Initial Assessment				
Control Design- ***Is it present and adequate?***				
Control Implementation- ***Is it functioning?***				
Explanation/Reason:				
C. Control Activities				
31. Are appropriate policies and procedures developed, documented and implemented for each of the audited entity's critical processes?				
32. Does appropriate audited entity management level have ownership of the policies and procedures? Do the process owners review the policies and procedures periodically to determine if they continue to be appropriate for their own activities?				
33. Is there is an appropriate segregation of incompatible activities within span of control?				
34. Is the physical security over the audited entity IT assets reasonable given the nature of its operations?				
35. Are policies and procedures clearly communicated to personnel to ensure that they are applied consistently and conscientiously?				
36. Are job roles, responsibilities, and related system/access privileges periodically reviewed for proper segregation of duties?				
Initial Assessment				
Control Design- ***Is it present and adequate?***				
Control Implementation- ***Is it functioning?***				
Explanation/Reason:				
D. Information and Communication				
37. Do the top management and other Officials receive relevant, sufficient and timely information to allow them to fulfil their responsibilities?				
38. Has the audited entity management documented the relevant controls that mitigate the risk of errors in information systems?				

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39. Does the audited entity's information system generate information that is of sufficient quality to support the effective operation of controls? Has management developed and implemented controls related to: completeness and accuracy of data; capture of data at the necessary frequency; providing information when needed; protection of sensitive data; retention of data complying with (relevant) audit and regulatory needs?				
40. Is there a current audited entity continuity plan and disaster recovery plan for the significant components of critical functions and processes, including IT infrastructure, network components, operating system components, databases, applications and data files? Are these plans tested at least annually and updated for changing conditions?				
41. Are application programs and data files backed-up regularly?				
42. Is there a process to quickly disseminate critical information throughout the audited entity when necessary?				
43. Are policies and guidance generated and used throughout the audited entity adequate and contain sufficient and meaningful information so that its officials and employees can measure actual results against their objectives?				
44. Are audited entity employees' roles and responsibilities communicated clearly and effectively (ie. Through written job description, reference manuals) by top management? Are these roles and responsibilities uniformly understood?				
45. Are all reported audited entity employees' potential improprieties reviewed, investigated, and resolved in a timely manner? Is the top management notified of improprieties and the actions taken to address them?				
46. Is there is an Ethics Hotline or any process which provides employees with an anonymous and confidential channel through which they can report, among other things, complaints related to overall operations, accounting, internal controls over financial reporting, or auditing matters?				
47. Is the availability of the Ethics Hotline well communicated throughout the audited entity? Are the procedures in place to appropriately handle the receipt and retention of any issue raised? Does management treat all issues raised with serious concern for confidentiality, integrity, and ultimate resolution?				
48. Is the Audited entity able to prepare accurate and timely financial reports (or operations reports), including interim reports?				
49. Are external stakeholders satisfied with the audited entity's systems for transaction and information processing, including the reliability and timeliness of reports it produces?				

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50. Is there a process for tracking communications to the public, vendors/suppliers, regulators, and other external parties? Is ownership assigned to members of the audited entity management to help ensure that it responds appropriately, promptly, and accurately to these communications?				
Initial Assessment				
Control Design- ***Is it present and adequate?***				
Control Implementation- ***Is it functioning?***				
Explanation/Reason:				
E. Monitoring				
51. Do the top management and/or other Officials review the audited entity's operational process controls to ensure that the controls are being applied as expected?				
52. Are audited entity procedures in place to monitor when its operating controls are overridden; and, to determine if the override was appropriate?				
53. Do the internal control reviewers have the authority to examine any aspect of the audited entity's operations?				
54. Are audited entity policies and procedures in place to ensure that corrective action is taken on a timely basis when control gaps or exceptions occur?				
55. Do the top management and/or other Officials take adequate and timely action to correct its internal control deficiencies reported by the Internal Audit Office, audited audited entity external auditor and/or other parties (e.g., consultants)?				
Initial Assessment				
Control Design- ***Is it present and adequate?***				
Control Implementation- ***Is it functioning?***				
Explanation/Reason:				

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II. ICC Summary

Observations	Recommendations	Audit Observation Memorandum

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Template 3 - Combined Risk Assessment

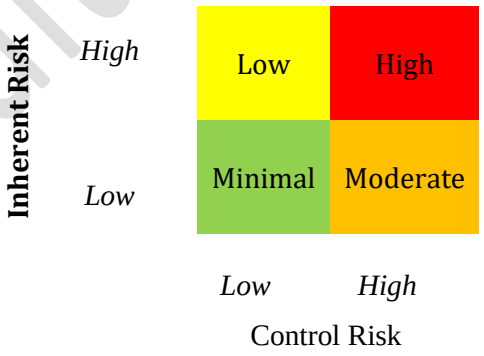
Prepared by:		**Date:**	
Reviewed by:		**Date:**	
Approved by:		**Date:**	

1. Objective

The Combined Risk Assessment Template facilitates the auditor's documentation of the assessments made on the inherent risk and control risk in order to determine the most appropriate audit response to address those risks.

2. Accomplishing this Tool

- Identified Risk(s)- Lift from Understanding the Subject Matter Template.
- Inherent Risk – Assess whether High or Low considering the susceptibility of the subject matter to compliance deviations arising from complexity of the framework/hierarchy of laws, rules and regulations and the laws, rules and regulations itself, introduction of new legislation or changes in existing regulations, extent of judgment applied in interpreting laws and regulations, human errors, and potential fraud, if any. Justifiy or explain your assessment.
- Control Risk – Assess the control risk as Low if the relevant controls are capable of mitigating or addressing the risk of noncompliance, otherwise, assess it as High. Justify or explain your assessment. After the initial assessment of risk based on the adequacy of the control design, revisit this template to reflect the result of the test of operating effectiveness of controls.
- Combined Risk Assessment – determine the combined assessment using the following matrix:



- Audit Response – based on the combined risk assessment, determine if the audit response iseither Test of Controls, or Substantive Testing. Design the appropriate audit response with the guidance of the table below:

Combined Risk Assessment	Approach in designing risk response

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High	Audit response to be focused on improving internal controls through assessment of improved plans
Moderate	Evaluate and monitor the development of risk level
Low	Focus on obtaining assurance that controls continue to operate as designed and that there is consistency in risk management
Minimal	Audit response to be focused on compliance issues

3. COMBINED RISK ASSESSMENT TEMPLATE

Identified Risk(s)	Inherent Risk	Control Risk	Combined Risk Assessment	Audit Response
	☐ High ☐ Low Justification:	☐ High – Not Rely ☐ Low – Rely Justification:	☐ High ☐ Moderate ☐ Low ☐ Minimal	

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Template 4 - Materiality

Prepared by:		**Date:**	
Reviewed by:		**Date:**	
Approved by:		**Date:**	

1. **Objective**

Materiality is applied by the auditor in planning and executing the audit, and in evaluating the effect of instances of non-compliance. In the planning phase, assessing materiality helps the auditor to identify the audit questions which are of importance to the intended user(s). In performing the audit, the auditor uses materiality in the decision of the extent of audit procedures to be executed and the evaluation of audit evidence. In evaluating and concluding the audit, the auditor uses materiality to evaluate the scope of work and the level of non-compliance to determine the impact on the conclusion/opinion.

This template guides the auditor in determining quantitative materiality which will form as basis for the design of the audit. The computed materiality must be reassessed as to its appropriateness throughout the audit.

2. **Accomplishing this tool**

- Sensitivity of the Subject Matter – The sensitivity of the subject matter should be considered from the viewpoint of the intended users. Factors affecting the sensitivity of the subject matter are media interest, significant compliance audit issues in prior years, nature of the transaction involved, and officials or employees involved, among others.

- Materiality Benchmark – the selection of the appropriate benchmark shall consider the most relevant aspect of the subject matter in relation to the selected audit criteria. The auditor shall consider the nature of the audited entity and the subject matter, and the intended users' focus.

- Measurement percentage – based on the sensitivity of the subject matter, the auditor shall choose the predetermined percentage. There is an inverse relationship between the sensitivity of the subject matter and the materiality percentage. The higher the sensitivity, the lower the materiality percentage.

- Benchmark amount – After selecting the most appropriate benchmark, the auditor shall determine the benchmark amount. The benchmark amount may be in the form of monetary value or number of items for a certain period of time, or for a specific period of time.

- Source of the benchmark – The source of the benchmark must be reliable and must be linked with the audit scope

- Computation – Materiality is simply computed by multiplying the benchmark amount by the measurement percentage. The product will be the basis in developing conclusion on the compliance of the subject matter with the selected audit criteria.

Note: The subject matter is not compliant with the criteria if the audit findings are equal to or above the materiality amount.

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MATERIALITY TEMPLATE

Determine the sensitivity of the subject matter (check one):

	Very Sensitive
	Sensitive
	Not Sensitive

1. Identify the Most Appropriate Materiality Benchmark

Select the most relevant materiality benchmark (check one):

	Monetary amounts involved (expenditures, revenues, etc.)
	Number of citizens or entities affected by the subject matter
	Others –(specify)

Select the measurement percentage by degree of sensitivity (check one):

	Very Sensitive ½ %
	Sensitive ½ - 2%
	Not Sensitive 2%

(a) Indicate the benchmark amount (monetary value)

(b) Indicate the source of the benchmark (based on audit scope)

(e) Calculate materiality

Benchmark Amount		Measurement Percentage		Materiality Amount
	X		=	

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Template 5 - Audit Strategy

Prepared by:		**Date:**	
Reviewed by:		**Date:**	
Approved by:		**Date:**	

Part I

Name of the Entity	
Financial Period to be covered (MM/YY to MM/YY)	
Directorate	
Annual Plan Reference No	
Thematic/Entity Based	
Audit Engagement Code	
Audit Engagement Team	
Team Leader	
Officer responsible for Direction, Supervision and Review	

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Part II

Brief Description of the Subject matter of the Engagement	
Authorities	
Category as per the guidelines (I/II/III/IV)	
Proposed Commencement Date of the Audit	
Proposed End Date of the Audit	
Experience of Previous audits of the entity	
Locations and Units to be visited for Field Work	
Audit Inspection Report to be submitted by (Date)	
Preliminary Inherent Risk Assessment	
Preliminary Control Risk Assessment	

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Part III

Period to be covered in Audit **(MM/YY to MM/YY)**	
Judging by preliminary Inherent and Control Risk assessment, efforts required of the engagement team **(High/ Medium/Low)**	
Whether expert from outside is necessary	
Range of Transactions required to be verified	
Range of documents required to be verified	
Range of other information to be verified	
Whether data are available on IT and to audit	
Preliminary assessment of the possibility of carrying out substantive procedures on data available to audit by using CAATs	
Proposed Date of meeting management/ entity personnel to set up the audit (DD/MM/YY)	
Are there any issues to be noted from the assessment of Internal Controls (both at the organisation or transaction level controls?)	
Other important points including significant industry development/ changes in laws or any other relevant development	

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Template 6 - Audit Plan

Prepared by:		**Date:**	
Reviewed by:		**Date:**	
Approved by:		**Date:**	

No	Main Areas	Sub questions	Auditor's response
1	Preliminary Information	Name of the Entity	
		Financial Period to be covered (MM/YY to MM/YY)	
		Period of Audit	
		Name of the members of the Audit Engagement Team	
		Total Number of Working Days Planned for the Audit	
2	Knowledge of the Entity	Important Characteristics of the Entity	
		Financial Performance/Parameters	
		Risk Management	
3	Risk Assessment	Inherent Risk Assessment	
		Control Risk Assessment	
		Detection Risk	
4	Materiality	Overall Materiality Benchmark	
		Overall Materiality in Bangladesh Taka	
4	Complex Transaction Areas		

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5	Main Audit Areas	Main Audit Areas	
		Performance Materiality	
		Estimated Manhours	
		Actual Manhours	
		Revision, if any	
6	Procedure Details	Proposed Analytical Procedures	
		Detailed Testing Procedures	
7	Documents consulted before preparation of the Audit Plan		

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