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



Consultation Draft

Financial Audit Guidelines

(For internal use of OCAG Bangladesh)

January 2025

Acronyms and Abbreviations

AH	Actual Hours
AMMS	Audit Management & Monitoring System
AR	Audit Risk
BAC	Budget and Accounting Classification System
BS	Balance Sheet
CAFO	Chief Accounts and Finance Officer
CAG	Comptroller and Auditor General
CF	Consolidated Fund
CFE	Consolidated Fund Expenditure
CFR	Consolidated Fund Receipts
CGDA	Controller Genera of Defence Finance
CR	Control Risk
DCA	Divisional Accounts Office
DFPR	Delegation of Financial Power
DR	Detection Risk
EH	Estimated Hours
IBAS	Integrated Budget and Accounting System
IE	Income and Expenditure
IPSAS	International Public Sector Accounting Standards
IR	Inherent Risk
ISA	International Standards on Auditing
ISSAI	International standards of Supreme Audit Institutions
IT	Information Technology
LFAR	Long Form Audit Report
MUS	Monetary Unit Sampling
NBR	National Board of Revenue
OCAG	Office of the Comptroller and Auditor General
OCFOG	Classification of Functions of Government
OM	Overall Materiality
OR	Overall Risk
PAE	Public Accounts Expenditure
PAO	Principal Accounting Officer
PAR	Public Account of the Republic
SPA	Statutory Public Authority
TSA	Treasury Single Account
WC	Working Capital

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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's (Additional Functions) Act, 1974[2] further mandates audit by CAG of statutory public authorities, public enterprises and local authorities.

2. Government audit primarily consists of three types of audit, namely financial audit, performance audit and compliance audit. Of these, financial audit is most fundamental and is considered as the foundation of sound public financial management. The subject matters of financial audits are the financial position, financial performance, cash flow or other elements, which are recognised and measured against the criteria of financial reporting framework by the responsible party who presents the financial statements. OCAG, as the auditor is expected to gather sufficient and appropriate evidence to provide a reasonable basis for expressing an opinion and conclusion on the subject matter information which will provide a reasonable assurance to the intended users of the financial statements.

3. With the promulgation of 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 financial audit in consonance with the new Auditing Standards in our guidelines.

4. The CAG of Bangladesh is entrusted with the financial audit of many types of financial statements. These financial statements differ in form and contents as much as in the financial reporting frameworks. Government accounts are on cash basis while the accounts of many statutory public authorities and public enterprises are maintained on accrual basis. The tasks of auditing different types of financial statements are challenging as they require different skill sets and knowledge.

5. The first set of guidelines were issued in 2021 which were put into practice while conducting the model audits during 2023 and 2024. These guidelines have been updated considering the lessons learnt from the model audits. . .

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 significant step in this direction. The issuance of updated financial audit guidelines will further enhance our efficiency and effectiveness.

7. I put on record my deep appreciation of the officers and staff who have worked hard to update the 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 new Government Auditing Standards of Bangladesh, Code of Ethics and Quality Control System, it is necessary to issue fresh guidelines for Financial Audit.

2. The Comptroller and Auditor General (CAG) of Bangladesh draws his mandate from the Constitution and CAG's Additional Functions Act, 1974. Detailed rules relating to public audit are issued by him in the form of Audit Code. The Government Auditing Standards of Bangladesh promulgated by him reflect the mandates of the Constitution and the Act as also the directions provided in the Audit Code. The Financial Audit Guidelines presented here are expected to assist the staff of OCAG to carry out quality audit of financial statements in accordance with the mandate, directions and standards.

3. The guidelines will be updated every three years to ensure its continued relevance. While the 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.

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1. Chapter 1: Guiding Principles, Objective and Scope of a Financial Audit

1.1 Objectives of a Financial Audit

1.1.1 The overall objectives of the auditor are:

(i) To obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud /criminal act or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework and are true and fair or presents fairly.

(ii) To report on the financial statements, and communicate as required by the ISSAIs, in accordance with the auditor's findings; and

(iii) Communicate to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit as required by the ISSAIs or by legislation.

1.1.2 To achieve this objective, the auditor exercises professional judgment and maintain professional scepticism throughout the audit and, among other things:

(i) Identify and assess risks of material misstatement, whether due to fraud /criminal act or error, based on an understanding of the entity and its environment, including the entity's internal control;

(ii) Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks; and

(iii) Form an opinion on the financial statements and any additional objectives on which reporting is mandatory based on conclusions drawn from the audit evidence obtained.

1.1.3 The additional objectives refer to the fact that the objectives of audits in the public sector are often broader than those in the private sector. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include auditing and reporting instances of non-compliance with authorities including budget and accountability. There may also be public expectations regarding public sector auditors' reporting of non-compliance with authorities or reporting on effectiveness of internal control. Auditors keep such expectations in mind and remain alert to areas that may give rise to risks of non-compliance with authorities or risks relating to effectiveness of internal control when planning and performing the audit.

1.2 Nature of Financial Audit

1.2.1 Financial audits are attestation engagements. The subject matter of a financial audit is the accounting and related data of an entity, normally presented in the form of financial statements (the latter known as the subject matter information). OCAG as an auditor is required to obtain sufficient and appropriate audit evidence to provide reasonable assurance to the users, in the form of an audit opinion and/or report, as to whether the financial statements or other forms of presentation of financial information are fairly presented or gives a true and fair view of the entity.

1.2.2 The focus of financial audit thus is the set of financial statements prepared by the responsible entity other than the auditor, pertaining to a particular financial period. The auditor's responsibility is to examine these statements and obtain sufficient and appropriate

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evidence to enable him to provide an opinion whether the financial statements are prepared in accordance with the applicable financial reporting framework, whether the financial statements present a true and fair view of the state of the entity. The basis of such an opinion is the fact whether the financial statements are free from material misstatements due to fraud or error.

1.2.3 The auditing responsibilities of CAG of Bangladesh is more extensive than providing opinion on the financial statements. These responsibilities are carried out by OCAG by conducting compliance audits and performance audits. While these audits- notably compliance audits- may provide inputs for financial audits, the objectives of these audits are quite different from those of financial audits.

1.3 Comparison between Financial Audit and Compliance Audit

1.3.1 Financial audit should not be equated with Compliance audit even though both these audits may examine financial transactions. Broad differences are given below:

Table 1: Compliance Audit vs Financial Audit

	Financial Audit	**Compliance Audit**
Subject Matter	The financial position, financial performance, cash flow or other elements.	Financial and other transactions of an entity not necessarily pertaining to one single financial period.
Subject matter information	Financial statements pertaining to a single financial period.	--
Period of Coverage	Pertains to one financial period.	May cover more than one financial period.
Entity Coverage	Focuses on financial statements.	Focuses on auditable entities.
Reporting	Results in an audit opinion.	Results in an audit report, not an opinion.
Materiality	Material misstatements are the basis of the opinion.	May find irregularities, which may be material in the context of the audited entity, but not in the context of financial statement.

1.3.2 Similarly, during a Performance audit financial transactions including financial statements might be examined. However, such audits will also not be considered as Financial audits.

1.4 Authority for Financial Audit

1.4.1 The powers and jurisdiction of CAG are derived from the Constitution of Bangladesh and CAG's(Additional Functions) Act 1974[3]. Article 128(1) mandates CAG to audit public accounts of the Republic and of all courts of law and all authorities and officers of the Government and report thereon. Section 5(1) of the Additional Functions Act 1974 empowers CAG to audit any statutory public authority, public enterprise with at least 50% share or interest by the Government and local authority.

1.4.2 Neither the Constitution nor the Additional Functions Act specifically mentions types of audit to be conducted by CAG. Any of the three types of audit can be undertaken by CAG in terms of Article 128(4) of the Constitution. CAG and OCAG are competent to carry out audit of financial statements of the Budgetary Central Government, statutory public

[3] CAG's(Additional Functions) Act 1974

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authorities, and public enterprises with at least 50% share or interest by Government and local authorities.

1.5 Financial statements as the focus of Financial audit

1.5.1 It is to be noted that all entities and units are not required to prepare separate financial statements. The financial transactions of these entities are reflected in the financial statements of parent entities. For example, the Finance Account of the Government of Bangladesh reflects all receipts and expenditures incurred by all government entities and units.

1.5.2 The significance of financial statements being the focus of a financial audit should be clear from this point of view and marks the difference between financial audit and other types of audit, such as compliance and performance audits. A set of financial statements need to be handed over to audit for attestation purpose. These financial statements are normally prepared from the accounting records of financial transactions in more than one entity in accordance with the accounting and financial reporting framework. All such entities are also under the audit jurisdiction of CAG but for the purpose of financial audit, the significance of each entity may not be material.

1.6 Categories of Entities audited by OCAG

1.6.1 The whole gamut of entities which are audited by OCAG are divided into four categories:

1.6.2 Category I: Budgetary Central Government

Budgetary Central Government refers to entities and units, whose revenue and expenditure are regulated by means of 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 cash basis subject to any book adjustment allowed under any rule or order.

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

1.6.3 Category II Statutory Public Authorities other than Corporations

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

1.6.4 Category III: Local Authorities

Section 5(1) of the CAG's (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.

1.6.5 Category IV: Public Enterprises and Corporations

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.

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1.7 Only one auditor's report on Financial Audit

1.7.1 Plethora of Acts and Statutes provide a confusing picture relating to financial audit jurisdiction of CAG particularly regarding Statutory Public Authorities and Public Enterprises. It is therefore necessary to clarify. The following principles will apply on the financial audit of such bodies where any other act or statute provides for audit by Chartered Accountants as defined in Bangladesh Chartered Accountant's order 1973:

(i) The auditor's report including auditor's opinion on the financial statements will be provided by the Chartered Accountants where they are also the auditors by virtue of the Companies Act 1994 or the statute relating to the entity.

(ii) In such cases, CAG may conduct a supplementary audit of the financial statements by virtue of Section 5(1) of CAG (Additional Functions) Act 1974. The output of the financial audit of CAG would be supplementary comments on the financial statements. CAG may report these comments in the manner prescribed by Article 132 of the Constitution. In addition, CAG will be free to conduct such other audits as he would deem fit.

(iii) In all cases where CAG is the sole auditor in the statute, he will conduct the audit of the financial statements and will provide an opinion on the statements. His opinion and other reports relating to the financial statements shall be printed along with the financial statements.

(iv) In all other cases, the external financial audit will be conducted by CAG in the manner prescribed above by virtue of Section 5(1) of the CAG (Additional Functions) Act 1974.

1.8 Working on Draft Financial Statements

1.8.1 The formal process of attestation engagement can start only when financial statements, duly approved and signed by the competent authorities in the entities are received in OCAG for attestation purpose. However, preparation of financial statements is a long process and hence OCAG may initiate preparatory audit work on the draft statements provided to it or statements containing part of the information.

1.8.2 The draft should be exclusively used for checking and correction of figures and should always be compared with the final signed statements to ensure that the final statements are not at variance with the draft ones except corrections made at the instance of audit. In case of other variances, audit should be conducted to determine that no fresh material misstatements have crept in.

1.8.3 The Draft Financial statements can also come in the form of partial accounts. For example, pending preparation of the full appropriation accounts, part of it, say grant wise statements only with Budget Estimates and Re-appropriation order might be sent to OCAG for verification. There is no harm in initiating the auditing process on such statements to expedite the audit work.

1.8.4 In case of Statutory Public Authority (SPA) and Public enterprises, however, as far as possible audit work should commence only after receipt of full draft.

1.9 Responsibilities in OCAG for Financial Audit

1.9.1 The Directorate of Civil Audit is responsible for financial audit of the Finance and Appropriation accounts of the Government of Bangladesh except statements relating to Defence, Railways and Posts. The respective Directorates of Defence Audit, Transport Audit and Post Telecommunication, Science Information, and Technology Audit would be responsible for audit of financial statements relating to Defence Audit, Railways Audit and Posts and Telecommunications Audit.

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1.9.2 For audit of financial statements of SPA, public enterprises and local authorities, the concerned Directorate which is responsible for audit of the parent Ministry will be responsible.

1.9.3 Each Directorate will maintain a list of entities whose financial statements it is required to audit. It will also communicate with the entity to establish a timeline of annual programme of a financial audit.

1.9.4 The Director General will be overall in charge of each financial audit engagement.

1.10 Timelines for Financial Audit

1.10.1 In the case of Finance and Appropriation accounts, the audit is year-long as the monthly accounts and other documents like re-appropriation orders comprise the basis on which the final accounts are prepared and audited. In view of the complexity and volume of such accounts, the audit of Finance and Appropriation accounts is not treated as a seasonal end-of-the-year activity but a continuous one.

1.10.2 In the case of other entities, the complexity of the financial statements may vary. In the case of small entities, it can be treated as an annual activity but in the case of complex entities, the audit may be year-long but not as intense as in the case of Finance and Appropriation Accounts. The concerned directorate shall prepare the list of such complex entities separately.

1.10.3 The publication of financial statements within a time limit is often mandated by relevant legislations and hence it is necessary to maintain a strict timeline for the audit of financial statements. The preparations should be made in such a manner that not more than 45 calendar days are taken by the OCAG for completing the audit and issue of the audit opinion. All auditee institutions should be informed about the timeline well in advance.

1.11 Setting up Financial Audit

Audit Engagement Teams

1.11.1 Whether short duration or year-long, each audit of the financial statements shall be set up with specific steps indicated in the Auditing Standards and these guidelines. Such setting up of audit need not wait till the financial statements are received and can be done in anticipation of the receipt of financial statements for attestation engagements. The first step in setting up of the audit will be selecting the audit team.

1.11.2 The relevant requirements of the Government Auditing Standards of Bangladesh regarding an audit engagement team are as follows:

(i) An audit engagement team will always work under a Team Leader;

(ii) The audit engagement team should collectively possess appropriate knowledge and skills to undertake the engagement;

(iii) No member of the team should have such relationship with the audited entity that can affect application of his professional judgement or his independence of mind or appearance;

(iv) All members of the team should have sufficient knowledge and skills which include an understanding of:

(a) Auditing and Accounting standards;

(b) Statutory provisions, regulations, criteria relating to the financial statements; and

(c) Techniques and guidance relating to the specific financial audit.

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1.11.3 The composition of each audit engagement team will be approved by the Director General. An employee can be part of more than one audit engagement team.

1.11.4 In case of the Directorate of Civil Audit, the formation of engagement team in the above manner may not be convenient. The Director General should form suitable teams in such a manner that each statement is audited by a designated team under a team leader who should fulfil the requirements mentioned at Paragraphs 1.11.11 and1.11.12.

1.11.5 In case of audit of Finance and Appropriation accounts, particular attention will be paid to ensure that no audit personnel are engaged to audit any financial statement, which he has been responsible in preparing. As a measure of abundant caution, no personnel should be posted in the DCA from any of the accounting offices without a cooling off period of at least one accounting cycle. Same principle should apply to other audit directorates from any accounting and payment office.

Workshops

1.11.6 For audit of Finance account and Appropriation accounts and financial audit of complex and big statutory public authority and public enterprises, the audit engagement teams must participate in an entity-specific short workshop of three to five days preferably, after receipt of draft financial statements. This workshop should be utilised, among other things:

(i) to obtain a preliminary understanding of the entity;

(ii) to determine overall audit strategy;

(iii) to study and recapitulate issues relating to the entity in previous audits;

(iv) to consider feedback from compliance and performance audit, if any relating to the entity;

(v) to consider any additional information relating to the entity available in public domain

(vi) to study and consider information available relating to the entity in media, web or any other platform;

(vii) to consider major issues in the financial statements of the current year, if available or of the preceding year; and

(viii) to review monthly accounts and re-appropriation order in case of finance and appropriation orders.

1.11.7 The above list is only suggestive. Such workshops should also be utilised for intense interaction between the Director General and the audit engagement teams. This should be used as the first opportunity for the Director General to direct and supervise the engagement teams as envisaged in the Quality Control System and auditing standards.

1.11.8 The Director General may consider inviting external experts in such workshops.

1.11.9 For the sake of convenience, engagement teams of more than one entity may be combined in one workshop. The essence of such workshops- close interaction- should not be vitiated nor it is to be used as a training programme for many officers and staff. Such workshops should be engagement specific.

1.11.10 Regarding public enterprises, before the commencement of the financial audit season, OCAG wide general workshops should be organised among the personnel to be engaged on financial audits to discuss and review the new accounting standards or any other changes that might have been introduced since last financial audit season and may affect the current financial statements. Suitable sessions on ethics control system and Quality control system also should be included.

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Documents to be handed over to the Audit Engagement Team

1.11.11 As soon as the audit engagement team is selected, the team leader should be handed over the previous year's audit documentation by the custodian of such papers. No audit engagement team should undertake a financial audit without reviewing the documentations of the previous financial audit pertaining to the entity. In case they are not available, the matter should be brought to the notice of the Director General by the Team Leader in writing and an authorisation to carry out the audit in the absence of previous papers should be communicated to the team leader also in writing.

1.11.12 During the period of setting up the audit, the engagement team and the team leader should ask the following questions and find an affirmative answer:

(i) Do we professionally know each other well?

(ii) Do we know our roles in this audit engagement?

(iii) Do we know the name and nature of the entity?

(iv) Have we got the basic information about the entity?

(v) Do we know what type of entity it is? i.e. is it an autonomous body, statutory public authority or a public enterprise, or a local authority?

(vi) Have we got a fair idea about the financial reporting framework? (In other words, how their financial statements are to be presented?

(vii) How their financial statements are structured? How many statements and what are those statements?

(viii) Have we got a final copy of the financial statements or at least a draft copy?

(ix) What kind of time do we have to complete the audit? There may be statutory or other requirement to complete the audit within a particular time.

(x) Do we know the nature of output expected from us?

(xi) What kind of vetting of the output will be done and by whom?

(xii) Based on the above, have we created and documented a preliminary timeline for the audit?

1.12 Financial Audit Checklist

1.12.1 To assist the auditors, the following checklist can be used - Appendix 1 - Checklist for Financial Audit.

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2. Chapter 2: Understanding the Audit Entity's business

2.1 Guiding Principles

Guiding Principles – ISSAI 2315 (paragraph 25)
The auditor shall obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements.

Guiding Principles – Government Auditing Standard - chapter 6 (paragraph 6.6)
Before undertaking any audit engagement, the audit engagement team shall obtain an understanding of nature of the entity or programme to be audited.

2.2 Understanding financial statements

2.2.1 The gamut of the audit jurisdiction of OCAG is extremely wide. At one end of the spectrum are the financial statements of Government of Bangladesh- Finance and Appropriation Accounts and at the other end are the accounts of the public enterprise including banks, which contain very complex transactions. It is necessary for every audit engagement team to pay attention to the nature of complexities present in various statements.

2.2.2 One way of looking at the financial statements would be to understand the accounting basis. Government accounts are maintained on cash basis. Accounts of Government of Bangladesh, auditing of which are the responsibilities of CAG are maintained on cash basis. A transaction is therefore not recognised until the cash or cash equivalent has been received or paid out of the treasury.

Table 2: Some definitions from International Public Sector Accounting Standards Board[4]

Cash comprises cash on hand, demand deposits and cash equivalents; and **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to insignificant risks of changes in value.

2.2.3 The cash balance of the Government of Bangladesh is maintained by Bangladesh Bank, the Central Bank of Bangladesh. However, since it will be extremely inconvenient for the central bank to receive and pay money on behalf of Government at every receipt and payment point, Bangladesh Bank has also authorised Sonali Bank to deal with government transactions through its branches. It is however important to remember that government maintains a single account i.e. Treasury Single Account (TSA) with the Bangladesh Bank for all transactions pertaining to Government.

2.2.4 The accounts of the public enterprises are, on the other hand maintained on accrual basis. Simply speaking, in accrual basis of accounting, a transaction is recognised when it occurs not when cash is paid on account of the transactions.

2.2.5 There can be autonomous bodies and statutory public authorities who can also maintain their accounts on semi accrual basis or hybrid method. Simply speaking it means that

[4] IPSAS 2 Standard (paragraph 8)

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certain transactions are recognised on cash basis and the other ones are recognised on accrual basis.

2.2.6 It is important at the stage of setting up the audit to understand the basis of accounting. Each method has its own complexities and challenges.

2.2.7 Normally with any financial statements, there will be Notes to Accounts. These notes are considered as integral part of accounts. These notes serve many purposes. They document the accounting principles followed in preparing these accounts and changes in these accounting principles during the accounting period. They also contain schedules which provide detailed information on the line items shown in the main statements. These notes are of immense value from an auditor's point of view.

2.2.8 What are the factors that contribute to the complexity of the financial statements? We have already stated that accounts on cash basis are comparatively simple to accounts on accrual basis. However, we should consider other factors as well.

2.3 Value/Turnover

2.3.1 From the point of view of cash vs accrual, the government financial statements might be simple but from the viewpoint of value of transactions, the government accounts are extremely complex. The receipts and expenditure run into trillions and these transactions take place at every nook and corner of the country. The initial accounts are maintained at every corner. Compare this with the financial statements of an autonomous body whose accounts may be maintained on accrual basis, but the total receipts and expenditure might be quite modest.

2.4 Volume of Transactions

2.4.1 Closely related to value is the volume of transactions which add to the complexity of the financial statements. Volume of transactions has two aspects, first the number and second, the locations where the transactions are taking place. Now a days, due to computerisation of receipts and payments as also introduction of Core Banking Systems in the Banks, the location is losing its importance, but this factor still matters.

2.5 Nature of Transactions

2.5.1 The nature of transactions is another factor that adds complexity to the financial statements. From this point of view, the government accounts do not present too many complex transactions but in case of a huge commercial enterprise or a banking company or an import-export corporation, the transactions and the financial instruments will be extremely complex with investments in markets, forward contracts, complex nature of receivables and payables, hedging instruments, multinational and multi-currency transactions.

2.6 Uncertainty factor

2.6.1 Some state-owned enterprises and some transactions have inherent uncertainty. SOEs dealing with insurance or petroleum or mining etc. function in an inherently uncertain environment. Assets of a commercial bank can turn bad in an economic downturn. In the risk assessment section, we shall consider these factors while assessing inherent risk of the entity but here we are considering their impact on the financial statements.

2.7 Complexity Assessor

2.7.1 Obviously, a good point to start with any financial audit is to assess the complexity of the financial statements. This assessment, which is preliminary in nature should provide an easy way to gauge the complexity of the financial statements and plan manpower requirement, duration of the audit and an overall idea of the tasks relating to the audit. The manpower

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deployed should be commensurate with the complexity and so should be the preparation of the audit engagement team. The complexity Assessor can be found at

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2.7.2 Appendix 2 - Financial Statements Complexity Assessor.

Table 3: Explanation of the Complexity Assessor

The complexity assessor is expected to provide a first-hand idea about how complex the auditing of any set of financial statements would be. The questionnaire is designed in such a manner that it should be possible to provide the responses from the financial statements themselves without consulting any additional documents or any further studies. This is not to suggest that the other audit formalities should be dispensed with. If the scores are high, that should indicate that the audit engagement would entail considerable resources, both in terms of knowledge of the audit engagement teams and activities preceding the undertaking of engagement and subsequently performance of the audit.

The questionnaire has been designed in such a manner that commercial enterprises would turn out to be more complex and among them listed companies with high turnover. A few questions also pertain to the public interest angle of the entity.

2.7.3 It will be worthwhile to allot a complexity index to each financial statement based on the above factors. We keep the Finance account and Appropriation accounts separate as there is a separate directorate for audit of these statements, which also is year-long activity. The higher the scores of the financial statements, the more complex the financial audit is going to be.

Table 4: Legal and Regulatory Notes

1. The system of maintenance of accounts in an entity may be governed by more than one Act or Rules. It is important for the audit engagement teams to be aware of the legal framework of the entity in general and particularly in relation to provisions regarding accounts and audit.
2. The audit jurisdiction of CAG of Bangladesh originates from essentially three sources: (a) Article 128(1) of the Constitution of Bangladesh; (b) Section 5(1) of CAG(Additional Functions Act) 1974 and (c) Individual Statutes establishing the entities.
3. The provisions relating maintenance of books of accounts, financial statements and audit are often guided by the relevant acts and rules. As regards the public accounts of the Republic are concerned, the form and the manner of keeping of accounts are to be prescribed by the Auditor General with the approval of the President.
4. It is important for the officers and staff of OCAG, engaged in financial audit, to familiarise themselves with the provisions of the Constitution, CAG (Additional Functions) Act 1974 and the following:
    1) The Companies Act (Bangladesh) 1994 (Act No 18 of 1994);
    2) The Banking Companies 1991 (Act No 14 of 1991);
    3) The Financial Reporting Act 2015 (Act No 26 of 2015);
    4) The Financial Institutions Act 1993 (Act No 27 of 1993);
    5) The Insurance Act 2010 (Act No 13 of 2010);
    6) The Bangladesh Bank Order, 1972 (President's Order)

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2.8 Understanding the business including internal controls

2.8.1 The Auditing Standards require us to obtain an understanding of the Audited Entity and its business to enable us to design an audit approach which:

(i) is efficient. To target our resources on the areas of greatest risk and choose methods which meet the audit objectives at minimum costs;

(ii) is effective. To obtain sufficient appropriate evidence on the bases of which our audit opinion is given; and

(iii) adds value. To make a contribution in offering constructive advice on improving financial management and control.

2.8.2 The INTOSAI GUID 9100[5] provides details on Internal Control both at the Management Level and at the lower Level when processing payments and collection of receipts. This Chapter focuses on the Management Level Controls and the Lower-Level controls are covered in Chapter 7: Audit Evidence.

2.8.3 The purpose of obtaining a good knowledge of the audited entity is to obtain sufficient understanding to inform our judgements on materiality and risk which will consequently inform our audit approach. All members of the audit team should understand the Audited Entity and its business to plan and execute the audit efficiently and effectively.

2.8.4 The purpose of obtaining a good knowledge of the audited entity is to obtain sufficient understanding to inform our judgements on materiality and risk which will consequently inform our audit approach. All members of the audit team should understand the Audited Entity and its business to plan and execute the audit efficiently and effectively.

2.8.5 Although many of our Audited Entities share common characteristics each one is unique, and, at the planning stage, several factors must be considered in each audited entity. Firstly, we need to understand the objectives of the audited body and how these objectives will be delivered. Using the framework provided by the checklist, the auditor should provide a summary of the Audited Entity and its operations under the following headings:

(i) Entity's External Environment;
(ii) Compliance Framework (framework of authorities); and
(iii) The Entity's Overall Internal Control Environment.

2.9 Entity's External Environment

2.9.1 The first part of Appendix 3 - Understanding the Business and Internal ControlsAppendix *3* - Understanding the Business and Internal Controlsis on understanding the audit entity's business covers the audited entity's external environment and will help the auditor understand the objectives of the organisation, the Audited Entity's financial statements, the general legal framework and the extent of public and Parliament's interest. Some of the audited entity we audit are very high profile, others are almost unknown. A high level of Parliament interest may put pressure on the Audited Entity to achieve certain financial results and this may increase the audit risk.

2.10 Compliance Framework

2.10.1 The second part of Appendix 3 - Understanding the Business and Internal ControlsAppendix *3* - Understanding the Business and Internal Controls covers the general legal framework applicable to the audited entity and its operations. The auditor should obtain a general or high-level understanding of the legal and regulatory framework applicable to the entity and the industry and the mechanism the entity put in place to ensure compliance with that framework

[5] GUID 9100

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2.10.2 The effect of laws and regulations on the financial statements and on the operations of the entity may vary substantially. Some laws or regulations have a direct effect on the financial statements whilst others are fundamental to the operations of the entity (therefore impact indirectly). The auditor needs to consider the impact of both on the financial information presented and on the operations of the auditee.

2.10.3 Although Compliance is one of several audit objectives, being in the public sector and reporting to Parliament, there is a need to pay particular attention to whether Laws and regulations have been complied with, to the inconsistency of regulations, issues not regulated by law, and which should be regulated. The auditors' consideration here will include not only Laws and regulations but also any instructions issued, for example, by the Ministry of Finance which govern the way the audited entity operates. We expect any directives issued by the Ministry of Finance or any internal instructions issued by the Management of the Auditee to be consistent with the local Laws and Regulations and we report significant inconsistencies identified during our audit to the Parliament in the Notes to the Audit Report.

2.10.4 Auditors need to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations which have direct effect on the financial statements. For laws and regulations which are fundamental to the operations of the entity audit work may be limited to specific audit procedures to identify non-compliances with those laws and regulations where they are likely to have a material effect on the financial statements. Maintaining professional scepticism throughout the audit is important in this context.

2.11 Responsibility of management

2.11.1 It is the responsibility of management to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:

(i) Setting up of a risk register, that includes both operational and financial risks;
(ii) Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements;
(iii) Instituting and operating appropriate systems of internal control;
(iv) Developing, publicizing and following a code of conduct;
(v) Ensuring employees are properly trained and understand the code of conduct;
(vi) Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it;
(vii) Engaging legal advisors to assist in monitoring legal requirements; and
(viii) Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

2.12 Entity's Overall Control Environment

2.12.1 The final part of Appendix 3 - Understanding the Business and Internal ControlsAppendix *3* - Understanding the Business and Internal Controls deals with the entity's internal control systems. Internal control generally can be defined as all the policies and procedures put in place by an entity's management to ensure:

(i) The economical, efficient and effective achievement of the entity's objectives;
(ii) the adherence to external rules (laws, regulations) and to management policies;
(iii) the safeguarding of assets and information;
(iv) the prevention and detection of fraud /criminal act and error; and

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(v) the quality of accounting records and the timely production of reliable financial statements.

2.12.2 As well as this high-level review, our understanding of the business needs to include an appreciation of the accounting processes of the entity and the extent of automation in both financial and operational processes. The auditor needs to undertake a high-level review to determine the extent to which the Audited Entity's systems are computerised and the degree of complexity in these systems.

2.12.3 A more detailed assessment of the internal control system occurs later when we plan our approach to a specific account area. At that stage, we identify and assess the specific control procedures which affect a particular set of transactions. This is to determine whether it would be cost-effective to get some of our audit assurance from testing controls. Appendix 3 - Understanding the Business and Internal Controls should be completed as part of the audit planning process using the auditors' existing knowledge of the organisation, informed each year by our awareness of developments in the organisation and from the results of the previous years' audits. Once completed in full, Appendix 3 - Understanding the Business and Internal Controls need only be updated to reflect significant changes for subsequent years' plans.

2.12.4 Any issues arising from the review of the external environment or legislative framework should be recorded together with the implications for the audit strategy. Our review of the control environment needs to conclude on whether the controls in place are generally supportive of reliable accounting systems and effective internal control. If, based on our understanding, we have fundamental doubt about the effectiveness of accounting systems or controls, which could impact on our audit opinion, we should report this without delay to the Audited Entity/auditee.

2.13 Understand the IT Control Environment

2.13.1 Most government entities use computerised systems to process transactions, financial or non-financial alike. This poses a challenge for auditors as the influence financial systems have on the financial statements needs to be evaluated and understood. As part of understanding the operations of the auditee there is also a need to evaluate the IT environment. Appendix 4 - IT Internal control checklistAppendix *4* - IT Internal control checklist, provides a basic general control evaluation which should be undertaken for the IT system used by the auditee.

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3. Chapter 3: Audit Risk Assessment[6]

3.1 Guiding Principles

Guiding Principles *– ISSAI 2315 (paragraph 11)*
The objective of the auditor is to identify and assess the risks of Material misstatement, whether due to fraud or error, at the financial statement and assertion levels thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

Guiding Principles *– Government Auditing Standard - chapter 6 (paragraph 6.13)*
Through an understanding of the entity and in the light of the assessment of inherent risks and control risks the audit engagement team shall identify risks of different types of misstatements, deficiencies or deviations.

3.2 Definitions and Explanations

3.2.1 Audit risk is the risk that the auditors might provide a report that is inappropriate in the circumstances of audit. In very simple terms, this means that the auditor provides a wrong report. In case of financial audit, it means that the auditor provides an unqualified opinion where there are material misstatements in the financial statements or vice-versa i.e. the auditor provides a qualified opinion or adverse opinion where there is no material misstatement. In the 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.

3.2.2 Note: Auditors cannot provide absolute assurance. Their duty is to provide reasonable assurance.

3.2.3 Audit risk is essentially a combination of three components. These are: Inherent Risks, Control Risks and Detection Risks.

3.2.4 Inherent risk and Control risk pertain to the audited entities. These are entity's risk. Detection risk pertains to auditors.

3.3 Non-conforming engagement

3.3.1 If any audit engagement is performed without assessing the audit risks, the engagement will not be considered as conforming to ISSAI and to Government Auditing Standards of Bangladesh, regardless of the number of analytical procedures and substantive tests.

3.4 Inherent Risk

3.4.1 Inherent risk is a risk that something might go wrong[7] because of reasons of the nature of the organization or the activities of the organization and not due to any specific control failure.

3.5 Control Risk at Entity Level

3.5.1 Control risk at this level is to access whether the management has good and sound internal controls and corporate governance in place (such as setting up of an effective management board, risk registers and accessing the control). The team leader will be able to access from

6 Not applicable to Performance Audit.

7"Go wrong" is used in the sense that a material misstatement or a deviation or deficiency may occur. Essentially it would signify an event meriting auditor's attention.

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completing Appendix 3 - Understanding the Business and Internal Controls whether the Management of the Entity is managing the Entity well and reducing the risks of internal control failures.

3.6 Relationship between Inherent Risk and Control Risk

3.6.1 It is desirable that the higher the Inherent risk, Control risk should be lower. In other words, if the Inherent risk is perceived high, there should be more control measures in the Audited Entity so that the overall risk comes down. This will lead to low Control risks. However, Inherent Risks and Control Risks being entity risks and beyond the control of the auditors, the latter should use detection risk to minimize audit risk.

3.7 Relationship with Audit risk.

3.7.1 There is a direct relationship between audit risk, inherent risk and control risk. If Inherent risk is high, the audit risk will be high. Similarly, if the control risk is high, audit risk will be high.

3.7.2 So, AR ↑ when CR↑ or ↑

3.7.3 If the inherent risk is high or the control risk is high, then the chances of auditor not being able to detect a misstatement or deviation or deficiency goes up. This increases the audit risk.

3.8 How to bring down the Audit Risk

3.8.1 One way to bring down the audit risk (i.e. to minimize chances of not detecting a misstatement or deviation or deficiency) to increase scope and volume of audit test. This minimizes the detection risk.

3.9 Detection Risk

3.9.1 Detection risk is the risk of auditor failing to detect a misstatement, deviation or deficiency. It follows that if the audit testing is increased in scope and volume, chances of failing to detect a misstatement or deviation or deficiency would go down.

3.9.2 So, DR ↓ when Audit testing ↑

3.9.3 Relationship with Audit risk.

3.9.4 Audit risk has a direct relationship with the Detection risk.

3.9.5 So, AR ↓ when DR ↓

3.9.6 If the inherent risk and control risk is high, then a low detection risk can bring down the audit risk. In layman's language this would mean that if the inherent risk and control risk are perceived high, then the scope and volume of audit testing should be increased to reduce detection risk which will reduce audit risk.

3.9.7 OCAG's risk assessment would follow the above framework.

3.10 Role of professional judgement and professional Scepticism.

3.10.1 Officers and staff will apply professional scepticism to qualitatively and quantitatively assess the risks. Application of professional scepticism would mean that no audited entity would be considered as completely free from inherent risks and control risks. Professional judgement would mean that collectively the audit engagement team will assess the risks and allot quantitative values to each of these risks.

3.11 Assessment of Risks

3.11.1 Risks can be assessed both quantitatively and qualitatively.

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3.12 Norm of Qualitative assessment

3.12.1 There would be three levels namely High, Medium and Low. OCAG will keep the acceptable level of audit risk as "LOW". However, the Director General may decide in case of a particular entity or cluster.

3.12.2 To keep the audit risk level at "LOW", at least two levels of risks should be low and the third one at medium. Audit risk cannot be low if detection risk is high. The best scenario would be to have inherent risk and detection risk at low level and control risk at not more than medium level.

3.12.3 Quantitative value for risk assessment will be on a scale of 0 to 1.

3.13 Acceptable low level of Audit risk

3.13.1 Acceptable low level of audit risk should not be more than 0.02. However, the Director General may decide in case of an entity or cluster.

3.14 Inherent Risk and Control Risk assessment

3.14.1 To access the inherent and control risk the team leader should complete Appendix 5 - Audit Risk Assessment.

3.15 Detection Risks

3.15.1 While considering Detection risks, the following risks to the quality of the audit should be kept in mind and mitigating measures should be taken. The risks and illustrative mitigating measures are indicated below:

Table 5: Detection Risks and Mitigations

	Risks	**Mitigating measures**
(i)	The audited entity can be very specialized scientific or technical organisation and auditors may not have adequate knowledge of the subject matter and subject matter information.	External experts should be involved with the audit engagement team.
(ii)	The audited entity might have failed to cooperate fully with the audit engagement team in the past.	Matter may be taken up at the highest level and issues must be sorted out before undertaking the audit. It would be worthwhile to commit the working arrangements in writing duly signed by both the parties.
(iii)	The subject matter information may be maintained on a digital platform and to conduct audit the engagement team would require IT experts.	The risk should be mitigated by involving IT experts in the audit engagement team. It would also be necessary to work out suitable arrangements with the audited entity to gain suitable access to the systems and databases to facilitate the audit. Audit should have only "Read Only access" to the systems and databases. Audit engagement team should also develop suitable protocol for data authentication so that audit evidence can be authenticated by the audited entity.
(iv)	The financial statements are in arrears or financial statements are not prepared or there is no financial reporting framework.	Audit can take place only when the financial statements are ready for audit.

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	Risks	Mitigating measures
(v)	The information required to audit the line items, balances and assertions are dispersed over many locations.	The audit engagement team must collect a comprehensive list of such locations and ascertain the volumes and value of transactions. Any of the following two strategies can be used either individually or collectively: (a) Choose transactions on a sample basis and audit these irrespective of the locations; (b) Choose samples of locations and perform intense audit of the locations.

3.16 The Detection Risk Matrix

3.16.1 Logically, if 100% checks are done, then the Audit risk becomes zero. Similarly, if no test is done, then the audit risk remains entirely factored upon inherent risk and control risk. The audit engagement team should determine the extent of audit checks keeping this in view.

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4. Chapter 4: Materiality[8]

4.1 Guiding Principles

Guiding Principles – ISSAI 2320 (paragraph 8)
The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.

Guiding Principles – Government Auditing Standard - chapter 5 (paragraph 5.21)
The concept of materiality in the context of audit engagement shall be determined mainly on two factors:

(i) needs of intended users and significance in the overall context of the subject matter

(ii) misstatements including omissions shall be considered as material if they could reasonably be expected to influence decisions of the intended users of the subject matter information.

4.2 Definitions and Explanations

4.2.1 Materiality in the context of audit means that any misstatement or omission or deviation is of such magnitude that it could reasonably be expected to influence the intended users of the financial statements in case of financial audit or audit report in case of compliance audit.

4.2.2 The auditor's determination of materiality is a matter of professional judgement. However, this professional judgement is not ad hoc and is informed by the circumstances of the audited entity and the auditor's risk assessment.

4.2.3 Materiality is relevant both in planning and performance of the audit engagement. The overall materiality in the case of financial statements is normally set at the planning stage or even at the audit strategy stage.

4.2.4 It is important to keep in mind that materiality establishes an amount below which, the misstatements might be considered as immaterial to affect the true and fair view of the financial position of the entity or their adherence to the financial reporting framework. However, that is a general statement. The circumstances related to some of the misstatements might lead the auditor to evaluate them as material even if the amount is below the level of materiality.

4.2.5 The final decisions relating to financial statements will always be determined by the impact of the uncorrected misstatements.

4.2.6 For the ISSAI 2320, the following terms have the meanings attributed below:

Misstatement- A difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with applicable financial reporting framework. Misstatements can arise from error or fraud.

When the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those

8 Not applicable to Performance Audit.

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adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgement, are necessary for the financial statements to be presented fairly, an all material respects, or give a true and fair view.

4.3 Considerations specific to Public Sector Entities

4.3.1 In the case of a public sector entity, legislators and regulators are often the primary users of its financial statements. Furthermore, financial statements may be used to make decisions other than economic decision. The determination of materiality for the financial statements as a whole (and if applicable, materiality level or levels for classes of transactions, account balances or disclosures) in an audit of the financial statements of a public sector entity is therefore influenced by law, regulations or other authority, and by the financial information needs of the legislators and the public in relation to public sector programs.

4.4 Link between Risk assessment and Materiality

4.4.1 There is a close link between Audit risks and Materiality. Essentially, the auditor's judgement about materiality provides a basis for:

(i) Determining the nature, timing and extent of risk assessment procedure;
(ii) Identifying and assessing the risks of material misstatements; and
(iii) Determining the nature, timing and extent of audit procedures.

4.5 Three types of Materiality

4.5.1 The auditor needs to determine three types of materiality. These are:

(i) Materiality;
(ii) Performance materiality; and
(iii) Trivial materiality or clearly trivial materiality.

4.5.2 **Materiality** is the materiality level which is set by the auditor for the financial statements as a whole. One can say that it is set at the macro level, more to assist in planning and determination of performance materiality rather than determining the audit procedures.

4.5.3 When establishing the Audit Strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures, for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

4.5.4 **Performance materiality** is the materiality level set by the auditor below the level of overall materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. To put it simply, the performance materiality can be termed as the working materiality which assists the auditor to plan the audit procedures in respect of the account balances, class of transactions and disclosures.

4.5.5 The performance materiality for individual balances and class of transactions must therefore be less than the overall materiality but it should not be computed mechanically. The following factors should enable decisions relating to performance materiality in respect of line items, account balances, class of transactions and disclosures:

(i) Professional judgement;

(ii) Overall Risk assessment;

(iii) Understanding of the entity;

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(iv) Results of previous audits;

(v) Importance of each item in the overall context;

(vi) Expectation of misstatements in the current period.

4.5.6 **Trivial misstatements** or clearly trivial misstatements are such misstatements which are smaller in magnitude or of a nature that is considered inconsequential. The inconsequentiality of the misstatement will be judged by the criteria of size, nature or circumstances.

4.6 Key steps to Determination of Materiality

4.6.1 The key steps to determine Materiality are the following:

(i) Appropriate benchmark;

(ii) Determining a percentage of the benchmark; and

(iii) Explain the choice and the percentage i.e. explain professional judgement.

4.6.2 In an audit of public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for program activities. Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.

4.7 Appropriate Benchmark in respect of Finance Accounts

4.7.1 The Finance Accounts are the statements of receipts and expenditure, assets and liabilities including balances of debt, deposit and remittances of the Government of Bangladesh.

4.7.2 The public accounts of the Government comprise the Consolidated Fund and Public Account of the Republic. Unlike commercial accounts, Receipts and Disbursements of Government are independent of each other.

4.7.3 The appropriate benchmark for determining materiality will therefore be the total of Receipts and Disbursements of Consolidated Fund and Public Account of the Republic shown in Statement 3 of the Finance Accounts as all the receipts and payments are either received or paid out of the Consolidated Funds or the Public Account of the Republic.

4.8 Appropriate Benchmark in respect of Appropriation Accounts

4.8.1 Appropriation Accounts present expenditure against Budget. The statements follow the Demands for Grants structure and depict the Original Grant, Re-appropriations and Supplementary and Final Grants, expenditure against such Grants with reasons for variations. The Accounts are reported to the Parliament which sanctions the original Grants and Supplementary Grant. Each Demand for Grants relates to a particular Ministry or similar entity.

4.8.2 Since the benchmark for the Finance Accounts covers expenditure against Grants, no separate benchmark and materiality consideration is recommended for Appropriation Accounts. It is expected that there should be 100% checks of the Grants and re-appropriations and expenditure against these Grants should be reconciled with the figures appearing in the Finance Accounts pertaining to Consolidated Fund.

4.9 Appropriate Benchmark in respect of Foreign Aided Projects

4.9.1 The main objective of Foreign Aided Projects is service delivery. The appropriate benchmark for these Projects is recommended to be the expenditure in the Income and Expenditure Statement or an equivalent statement which present the inflow of resources in the Project and outflow of such resources to provide services or acquire assets to provide such services. The range is recommended to be 1-2%.

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4.10 Appropriate Benchmark in respect of entities not having commercial operations

4.10.1 The main objective of such entities is public service delivery. It is therefore recommended that the appropriate benchmark for such entities will be the expenditure incurred in the financial year.

4.11 Appropriate Benchmarks in respect of entities having commercial operations

4.11.1 Entities having commercial operations primarily work for revenue/profit. ISA 320 gives several examples of benchmarks that can be used. These include:

(i) profit before tax or normalised (or adjusted) profit before tax;

(ii) total income or total expenses;

(iii) gross profit;

(iv) total equity; and

(v) net assets.

4.11.2 It is recommended that the total income from operations and financial activities may be treated as the benchmark to determine overall materiality.

4.12 Determining a percentage of the benchmark

4.12.1 It is recommended that a range of 1-2% of the recommended benchmark should be considered as the appropriate level of overall materiality. It should rarely exceed 5% of the benchmark. However, while choosing the percentage, it should be kept in mind that it is auditor's professional judgement that should determine the percentage. The above percentage should be taken as indicative and not prescriptive.

4.13 Performance Materiality

4.13.1 In the case of Finance Accounts, the performance materiality should be proportioned between Consolidated Fund and Public Account of the Republic. In other cases, audit engagement teams should apply professional judgements to determine performance materiality among the account balances, class of transactions and disclosures.

4.13.2 Some of the important line items and balances[9] (illustrative) for which the performance materiality should be set are given below:

(i) Cash: (should be treated as very important);

(ii) Investments;

(iii) Current Assets;

(iv) Corpus Funds;

(v) Earmarked Funds;

(vi) Current Liabilities;

(vii) Sales;

(viii) Accounts Receivable;

(ix) Income;

(x) Expenses;

(xi) Taxes including Deferred Tax Assets and Deferred Tax Liabilities;

(xii)Accounts Payables;

[9]To be used where applicable.

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(xiii) Equity;

(xiv) Net Worth;

4.14 Revision as the Audit Progresses

4.14.1 Materiality including performance materiality and clearly trivial materiality can be revised because of change in circumstances that occurred during the audit, new information, a change in the auditor's understanding of the entity or any new fact coming into notice requiring change in the scope of audit.

4.15 Action on Misstatements identified during the audit

4.15.1 The following steps would be taken by the audit engagement teams in respect of identified misstatements.

(i) The audit engagement team shall accumulate all misstatements identified during the audit except those which are considered as clearly trivial;

(ii) The team will consider whether the overall audit strategy and audit plan need to be revised if:

a. The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exists which, when added to the identified misstatements, could be material; or
b. The aggregate of the misstatements identified during the audit approaches materiality;

(iii) The audit engagement team will communicate the identified misstatements in writing to the appropriate level of management with a request to correct them;

(iv) In case the management refuses to correct some of the misstatements in reasonable time, the team will obtain an understanding of the reasons for such a course of action on the part of the management and reassess (a) audit strategy and audit plan and (b) will take the understanding into account while evaluating the aggregate of misstatements; and

(v) The team's evaluation of the misstatements-in aggregate and individually will be based on the final uncorrected misstatements.

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5. Chapter 5: Audit Planning Stage[10]

5.1 Guiding Principles

Guiding Principles – ISSAI 2300 (paragraph 4)
The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

Guiding Principles – Government Auditing Standard - chapter 6 (paragraph 6.28)
Planning should define the audit scope, objectives and approach. The objectives refer to what the audit is intended to accomplish. This will also define the type of audit and if there has to be a mix of the types. The objective leads to the scope which includes the subject matter and the criteria to be used to assess and report on the subject matter. Approach includes the nature and extent of audit procedures to be used to obtain sufficient and appropriate evidence.

5.2 Objectives

5.2.1 The main objective of planning an audit of financial statements is to ensure that the audit should be performed in the most effective manner. Audit of financial statements requires the auditor to express an opinion whether the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework. Since OCAG deals with audit of general-purpose financial frameworks, the opinion entails an expression whether the financial statements are presented fairly or presents a true and fair view of the financial position of the entity. In cases where OCAG conducts a supplementary audit, such an opinion may not be necessary, but the reporting include such comments which impact the opinion expressed on the financial statements by another auditor.

5.3 Understanding Audit Strategy and Audit Planning

5.3.1 ISSAI 2300 states: "The auditor shall establish an overall audit strategy that sets the scope , timing and direction of the audit and that guides the development of an audit plan."

5.3.2 The audit engagement teams need to understand the distinction between strategy and plan as often these two terms are used interchangeably. The audit strategy is a record of key decisions about what needs to be examined during the audit engagement and why. Such strategy should prioritise among various tasks and should lead to a coherent audit plan which should indicate:

(i) who will audit;

(ii) how the audit will be performed;

(iii) when the audit will be performed; and

(iv) where the audit will be performed.

5.3.3 Considering the unique position of CAG and OCAG vis-à-vis audit of financial statements of the public accounts and other bodies, the selection of audit engagement teams may be done even without designing the audit strategy. In case of important entities, the audit

[10]Many provisions in this chapter are adapted from ISA 300 (ISSAI 2300) to tailor to the functional requirements of OCAG, Bangladesh.

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strategy will be determined at the workshop suggested in Chapter 1. In smaller audits, however, the audit engagement teams are required to determine the audit strategy and submit it for approval of Director General.

5.3.4 The audit engagement team should fill in the following form which will serve the purpose of audit plan at Appendix 6 - Audit Plan and Appendix 7 - Audit StrategyAppendix *7* - Audit Strategy.

5.3.5 The audit plan and strategy should be completed by the engagement team leader and should be approved by the concerned officer who oversees direction, supervision and review of the audit engagement. It should be adequately documented.

Table 6: Audit Planning Guidance Notes

The following illustrative guidance may be kept in mind while preparing the audit plan: (a) The audit plan is more elaborate than the audit strategy as it includes the nature, timing and extent of audit procedures to be performed by each member of the engagement team. (b) The overall control environment and internal controls (assessed at Appendix 3 - Understanding the Business and Internal Controls) need to be included in the Audit Plan; (c) The complex accounting areas comprise mainly classes of transactions, account balances and disclosures. The team should be alert to events which might impact on the financial statements. (d) While planning the audit, the risk of assets being overstated, or liabilities being understated should be kept in mind. (e) The engagement team should pay special attention to cash and cash-related assets. Movements of cash and investments during the year, particularly at the end of the financial year should be the focus of attention of the team. (f) Trend Analyses should be considered as an important analytical procedure. However, the engagement team should be able to further expand audit procedures or the scope of proposed audit procedures based on the results of the trend analysis. (g) While planning for audit, some account balances like "accounts receivables", "payables" etc., the team may require to examine the journals and ledgers (which include computerized data) of a period before and after the financial period. (h) Several audit procedures may require information from outside the general and subsidiary ledgers (including computerized data) and from third parties. Similarly, some account balances (Investments, Bank deposits) will require third party confirmations. The engagement team is advised to seek such confirmations from outside parties at the beginning of the audit engagement to enable timely receipt of such confirmations. (i) The engagement team will consider the disclosures early in the audit to enable the auditors to give appropriate attention to and plan adequate time for addressing disclosures in the same way as classes of transactions, events and account balances. (j) The team will identify potential assertions in the financial statements and address them in the audit planning.

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5.3.6 The audit plan must determine the materiality and document it. Such materiality will not be applicable in case of errors due to suspected fraud or misstatement related to cash and investments.

5.3.7 The main areas of audit and the gist of the overall audit strategy including timeline etc. can be communicated to the auditee if felt necessary and desirable. The risk assessment and other sensitive information should not however be shared. Such communication will assist in eliciting co-operation from the responsible party and smooth conduct of the audit. While sharing the documents, it should be made clear that the plan is subject to revision as allowed in the relevant auditing standards. Such communication and sharing do not change the auditor's sole responsibility to establish the overall audit strategy and audit plan including the nature, timing and extent of the procedures necessary to obtain sufficient and appropriate evidence.

5.3.8 OCAG shall record in AMMS 2.0, profile of each Organisation which shall serve the purpose of obtaining an understanding of the entity. Considering that OCAG is the perpetual auditor, it may not be necessary to undertake an elaborate exercise every year to obtain an understanding of the entity. The changes that might have taken place since the last audit might be explored, examined and studied during the workshop suggested above or in any similar exercise. Each directorate should keep records of such changes as and when these come to its notice.

5.3.9 Timely access to information and data is the key to the smooth conduct of financial audits. Suitable communication with the responsible party must be established with the request that a nodal officer may be nominated to liaison with the audit on a day-to-day basis during the engagement.

5.3.10 As a result of unexpected events, changes in conditions or the audit evidence obtained from the results of audit procedures, modifications in the overall audit strategy and audit plan may be carried out with the written approval of the officer in charge of direction, supervision and review. Such modifications will be informed to the responsible party as soon as possible if the initial audit plan has been communicated to them.

5.3.11 The documentation relating to the audit plan of each engagement will include (i) the overall audit strategy (ii) the audit plan and (iii) modifications made during the engagement to the overall audit strategy, audit plan and the reasons for such modifications.

5.3.12 In the case of supplementary audit, reasonable attempts may be made to gain access to the working papers of the auditor responsible for providing audit opinion. If no such access is provided, the fact should be communicated to the responsible party. It should also be mentioned in the relevant report that the Comptroller and Auditor General of Bangladesh submits in pursuance of Article 132 of the Constitution[11].

[11] Constitution

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6. Chapter 6: Sampling and Conducting the Audit

6.1 Guiding Principles

Guiding principles – ISSAI 2530 (paragraph 4)
The objective of the auditor, when using audit sampling, is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Guiding Principles – Government Auditing Standard - chapter 6 (paragraph 6.35)
Conducting the audit is essentially performing the procedures as planned in order to obtain sufficient and appropriate evidence and drawing conclusions after evaluating the evidence thus obtained.

6.2 Selecting Items for Testing

6.2.1 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. In fact, 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:

(i) Selecting all items;

(ii) Selecting specific items; and

(iii) Audit sampling.

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

6.2.3 In audit reports for public sector auditing, it may not always be possible to arrive at conclusions which will be the basis of providing opinions on the financial statements, on estimations based on statistical sampling.

6.3 Selecting All Items

6.3.1 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 test of details. 100% examination may be appropriate when:

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

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

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

6.3.2 In the case of audit of Appropriation Accounts, for example, testing of 100% items relating to Original Grant, Re-appropriations and Supplementary Grants and expenditure against Final Grants is recommended in view of the small number of items in each Grant Statement and the importance of the Appropriation Accounts prepared by the Principal Pay and Accounting Officers.

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6.4 Selecting Specific Items

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

(iv) 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 professional interest to the auditor.

(v) 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

(vi) 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.

6.4.2 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 , anomaly etc should be kept in mind. The following two terms need explanation:

(i) 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.

(ii) Tolerable rate of deviation: Mainly applied for testing of controls, 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: Authorisation of payments a critical control measure. The audit team might expect a ZERO rate of deviation to this. Even if one payment in a sample selected following statistical sampling procedure is found to be lacking Authorisation, the auditor may have to reassess the control risks and expand detailed testing.

6.5 Special Considerations: Inventory

6.5.1 Inventory is often material to the financial statements, especially in case of entities with commercial activities. It is thus important for the audit engagement team to obtain sufficient and appropriate audit evidence regarding the existence and condition of the inventory. The following audit procedures may be used by the team:

(iii) Attendance at the physical inventory counting often impracticable as the inventories are recorded on a particular date and there can be many entities using the same balance sheet date. OCAG will find it impossible to attend the inventory counting on the last date of the financial period which is the balance sheet date.

(iv) Evaluation of management's instructions and procedures: these instructions and procedures will reveal the soundness of these instructions and procedures, on one hand and on the other, the actual performance of the management in following these. Auditors should pay particular attention to slow moving, obsolete and damaged items and ensure that these items have not been included in the list of good inventories.

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(v) Record of physical inventory counting examination of records relating to actual counting of physical inventories should be examined. Such physical verification must be as close to the Balance Sheet date as possible. The audit team must specially examine the movement of inventories since physical verification to arrive at the account balance on the Balance Sheet date.

(vi) Inspect the Inventory: the audit team may inspect the inventory on a select date. However, in respect of the sample items, the audit team may arrive at the balance independently and physically verify that the balance tallies with the inventories available physically.

6.6 Special Considerations: Fixed Assets and Plant, Plant and Equipment

6.6.1 The above procedures can be applied to verify the account balances of Fixed Assets and Plant, Property and Equipment.

6.7 Special Considerations: Litigations and Claims

6.7.1 Litigations and claims are of material significance for the financial statements particularly in respect of disclosures and determinations of contingent liabilities. The procedures to obtain sufficient and appropriate audit evidence will be:

(i) Inquiry of management and others in the entity including in-house legal counsel

(ii) Reviewing minutes and correspondence between entity and external legal counsels;

(iii) Reviewing legal expense accounts;

(iv) Direct communication with the entity's legal counsels;

6.8 External Confirmations

6.8.1 The following audit procedures will be performed to obtain external confirmation requests:

(i) Determine the information to be confirmed or requested;

(ii) Determine the appropriate confirming party;

(iii) Draft the confirmation requests which should include request for return information, where applicable and a time limit;

(iv) send the requests including follow up requests.

6.8.2 Confirmations can be positive or negative. The audit team should suitably evaluate the nature of confirmations and apply professional judgement to determine whether the confirmations received can be treated as sufficient and appropriate evidence.

6.9 Audit Programmes

6.9.1 Once the team leader has selected the sample to be tested, the testing should be carried out on each item against the audit assertions. The ISSAI Financial Audit Handbook[12] section 5.56 contains the list of Audit Assertions which have been copied below in Table 7.

[12] ISSAI Financial Audit Handbook

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Table 7: Audit Assertions

A	Assertions about classes of transactions and events for the period	
No.	**Assertion**	**Description**
1	Occurrence	Transactions and events that have been recorded or disclosed, have occurred, and such transactions and events pertain to the entity.
2	Completeness	All transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
3	Accuracy	Amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.
4	Cut-off	Transactions and events have been recorded in the correct accounting period.
5	Classification	Transactions and events have been recorded in the proper accounts.
6	Presentation	Transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of requirements of the applicable financial reporting framework.
7	Compliance	The transactions and events have been carried out in accordance with law, regulation or other authority.
B.	**Assertions about account balances, and related disclosures, at the period end**	
No.	**Assertion**	**Description**
1	Existence	Assets, liabilities, and equity interest exist.
2	Rights and obligations	The entity holds or controls the right of assets and liabilities are obligation of the entity.
3	Completeness	All assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
4	Accuracy, valuation and allocation	Assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded, and related disclosures have been appropriately measured and described.
5	Classification	Assets, liabilities, and equity interests have been recorded accounts.
6	Presentation	Assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of requirements of the applicable financial reporting framework.

6.9.2 These audit assertions have been translated into an audit programme which can be seen at Appendix 8 - Line-Item wise Audit Steps including Test of Controls. The Team Leader should ensure that the audit programme steps are followed by the audit team when they carry out the testing of the examples. The audit programmes also include the testing of controls which must be carried out as well.

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7. Chapter 7: Audit Evidence

7.1 Guiding Principles

Guiding Principles – ISSAI 2500 (paragraph 4)
The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Guiding Principles – Government Auditing Standard - chapter 7 (paragraph 7.55)
The primary objective of all financial audits conducted by OCAG shall be to obtain sufficient and appropriate audit evidence. Sufficiency of audit evidence in the context of financial audit will mean the measure of the quantity of audit evidence. The quantity will depend on the audit engagement team's assessment of the risks of material misstatements and the quality of the evidence. Appropriateness of evidence in the context of financial audit will mean the measure of the relevance and reliability of the evidence.

7.2 Sufficiency and appropriateness of audit evidence

7.2.1 Audit evidence is information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.

7.2.2 Sufficiency of audit evidence relates to the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and by the quality of such audit evidence.

7.2.3 Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. This is particularly important when the auditor uses evidence from a prior year's audit, or an activity performed.

7.2.4 The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.

7.2.5 The sufficiency and appropriateness of audit evidence are interrelated. However, merely obtaining more audit evidence may not compensate for its poor quality. The following are applicable to the different types of evidence:

(i) Audit evidence from independent sources outside the entity is more reliable than that generated internally; this refers to evidence such as bank confirmations,

(ii) Audit evidence gathered internally is more reliable when the related controls are effective; for example, information included in the asset register is more reliable when it was found that controls are functioning effectively for asset management;

(iii) Audit evidence obtained directly by the auditor (e.g. observation of the application of controls) is more reliable than that obtained indirectly (e.g. by enquiry regarding the application of controls) or through a mediator;

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(iv) Audit evidence in the form of original documents and written representations is more reliable than oral representations; for example, evidence such as invoices for payments are more reliable as opposed to statements made by personnel of the audited entity during meetings or discussions. Oral evidence needs to be supported by other documented evidence. For example, when during a discussion a lack of a monitoring mechanism is discovered, this should be noted and confirmed through, for example, third party validation; and

(v) Audit evidence provided by original documents is more reliable than audit evidence provided by copies or facsimiles.

(vi) Audit evidence could be used by applying the Benford Test. Benford's Law[13] is commonly used in audit procedures to detect anomalies or potential fraud in datasets that are expected to follow a specific distribution of digits, especially financial data. Benford's Law states that in many naturally occurring datasets, the first digits are not uniformly distributed. Instead, smaller digits (especially "1") occur more frequently as the leading digits. This can help auditors identify if numbers have been manipulated or fabricated.

7.2.6 The auditor should assess whether the audit evidence obtained is sufficient, relevant and reliable. For example, when assessing the sufficiency of audit evidence, the auditor should consider:

(i) The risk of errors and misstatements;

(ii) The significance of a specific account area and its impact on the financial statements as a whole;

(iii) The experience gained during previous audits; and

(iv) The findings obtained from audit procedures.

7.2.7 When assessing the relevance of the audit evidence, the auditor should consider both the overall and specific audit objectives being addressed.

7.3 Sources of Audit Evidence

7.3.1 Some audit evidence is obtained by performing audit procedures to test the accounting records, for example, through analysis and review, re-performing procedures followed in the financial reporting process and reconciling related types and applications of the same information. Through the performance of such audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements.

7.3.2 More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a management representation. Information from sources independent of the entity that the auditor may use as audit evidence may include confirmations from third parties.

7.3.3 Some of the procedures for obtaining audit evidence are discussed further below:

(i) Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an

[13] Benford's Law

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asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorization.

(ii) Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.

(iii) Flowcharting plays a critical role in the auditing process by providing a clear and systematic visual representation of how transactions and processes flow through an organization. By breaking down complex systems into easily understandable steps, flowcharts help auditors gain a comprehensive overview of the entity's internal controls and operational procedures. This visualization makes it easier to identify critical control points, bottlenecks, or areas where errors, fraud, or inefficiencies may occur. It also highlights the interdependencies between different departments or systems, making it simpler to assess whether controls are functioning as intended or if additional testing is required.

In terms of audit evidence, flowcharting supports auditors in tracing the complete path of a transaction, from its initiation to its final recording in the financial statements. This enables auditors to verify the accuracy and completeness of records, ensuring that no critical steps or controls are overlooked. Flowcharts also enhance the auditor's ability to pinpoint potential risks or gaps in the control environment, thereby improving the quality of audit evidence and reducing the likelihood of material misstatements. Furthermore, they facilitate more effective communication with clients and audit teams by transforming complex processes into a format that can be easily understood, discussed, and analysed. Ultimately, flowcharting contributes to a more efficient audit, enhancing both the identification of audit evidence and the overall audit strategy.

(iv) An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements.

(v) Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

(vi) Re-performance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

(vii) Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

(viii) Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. Inquiry is used extensively

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throughout the audit in addition to other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. In doing this, the provisions of the Rules of Procedure must be adhered to. Evaluating responses to inquiries is an integral part of the inquiry process.

7.4 Evaluating the Results

7.4.1 The results from the examination of testing need to be evaluated to assess whether there is a material error on the Financial Statements which may impact on the Audit Opinion. The judgement that the auditors need to make is whether the error/s impact on the "true and fair" view of the financial statements. For more details, please refer to Chapter 9: Reporting.

7.4.2 The Audit Findings will need to be reported in the Audit Report, but for each audit finding there is a need for the audit team to identify which type of internal control failure has failed and recommend in the Audit Report on how the internal controls could be improved. The INTOSAI has published a guide "GUID 9100[14]" states that 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;

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

7.4.3 These are further explained below:

(i) Authorization and approval procedures

Authorizing and executing transactions and events are only done by persons acting within the scope of their authority. Authorization is the principal means of ensuring that only valid transactions and events are initiated as intended by management. Authorization procedures, which should be documented and clearly communicated to managers and employees, should include the specific conditions and terms under which authorizations are to be made. Conforming to the terms of an authorization means that employees act in accordance with directives and within the limitations established by management or legislation.

(ii) Segregation of duties (authorizing, processing, recording, reviewing)

To reduce the risk of error, waste, or wrongful acts and the risk of not detecting such problems, no single individual or team should control all key stages of a transaction or event. Rather, duties and responsibilities should be assigned systematically to several individuals to ensure that effective checks and balances exist. Key duties include authorizing and recording transactions, processing, and reviewing or auditing transactions. Collusion, however, can reduce or destroy the effectiveness of this internal control activity. A small organisation may have too few employees to fully implement this control. In such cases, management must be aware of the risks and compensate with other controls. Rotation of employees may

[14] INTOSAI GUID 9100

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help ensure that one person does not deal with all the key aspects of transactions or events for an undue length of time. Also, encouraging or requiring annual holidays may help reduce risk by bringing about a temporary rotation of duties.

(iii) Controls over access to resources and records

Access to resources and records is limited to authorized individuals who are accountable for the custody and/or use of the resources. Accountability for custody is evidenced by the existence of receipts, inventories, or other records assigning custody and recording the transfer of custody. Restricting access to resources reduces the risk of unauthorized use or loss to the government and helps achieve management directives. The degree of restriction depends on the vulnerability of the resource and the perceived risk of loss or improper use, and should be periodically assessed. When determining an asset's vulnerability, its cost, portability and exchangeability should be considered.

(iv) Verifications

Transactions and significant events are verified before and after processing, e.g. when goods are delivered, the number of goods supplied is verified with the number of goods ordered. Afterwards, the number of goods invoiced is verified with the number of goods received. The inventory is verified as well by performing stock-takes.

(v) Reconciliations

Records are reconciled with the appropriate documents on a regular basis, e.g. the accounting records relating to bank accounts are reconciled with the corresponding bank statements.

(vi) Reviews of operating performance.

Operating performance is reviewed against a set of standards on a regular basis, assessing effectiveness and efficiency. If performance reviews determine that actual accomplishments do not meet established objectives or standards, the processes and activities established to achieve the objectives should be reviewed to determine if improvements are needed.

(vii) Reviews of operations, processes and activities.

Operations, processes and activities should be periodically reviewed to ensure that they comply with current regulations, policies, procedures, or other requirements. This type of review of the actual operations of an organisation should be clearly distinguished from the monitoring of internal control.

(viii) Supervision (assigning, reviewing and approving, guidance and training)

Competent supervision helps to ensure that internal control objectives are achieved. Assigning, reviewing, and approving an employee's work encompasses clearly communicating the duties, responsibilities, and accountabilities assigned each staff member; systematically reviewing each member's work to the extent necessary; approving work at critical points to ensure that it flows as intended. A supervisor's delegation of work should not diminish the supervisor's accountability for these responsibilities and duties. Supervisors also provide their employees with the necessary guidance and training to help ensure that errors, waste, and wrongful acts are minimized and that management directives are understood and achieved.

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8. Chapter 8: Audit Documentation[15]

8.1 Guiding Principles

Guiding principles *- ISSAI 2230 (paragraph 5)*
The objective of the auditor is to prepare documentation that provides:
(a) A sufficient and appropriate record of the basis for the auditor's report; and
(b) Evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.

Guiding Principles – *Government Auditing Standard - chapter 5 (paragraph 5.29)*
In all audit engagements undertaken by OCAG, the audit engagement team shall be responsible for preparing audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained, and conclusions reached.

8.2 Definitions and Explanations

8.2.1 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 workpapers. In simple terms, Audit Documentation include all records from the beginning to the end of an audit engagement. Such documentation may include one or more Audit Files or Audit Folders.

8.2.2 Audit Documentation should be prepared and documented in AMMS 2.0 in such a manner that it should be sufficient to enable an experienced auditor who is not at all associated with the audit engagement, to understand:

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

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

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

8.3 Classification of Audit Files

8.3.1 For each audited entity, working papers would normally be classified into permanent and current files. Permanent and current audit files are essential components of an organized audit process, each serving distinct purposes. The permanent audit file contains documents and information that are of continuous relevance to the client and the audit over multiple periods. On the other hand, the current audit file pertains to documents specific to the current audit period, such as audit planning documents, financial statements, working papers, test results, and audit evidence gathered during the current year's audit.

8.3.2 Permanent Audit Files

The permanent audit file should be stored in AMMS 2.0, and it should contain:

(i) The governing legislation of the audited body,

(ii) internal control systems descriptions;

(iii) incorporation documents;

15Not applicable to Performance Audit.

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(iv) organizational charts,

(v) prior years' audit reports;

(vi) prior year audit opinions, and

(vii) details of accounting policies.

Permanent audit files 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.

8.3.3 Current Audit File

AMMS 2.0 should be used for all current files and should include the following for each audit assignment:

(i) Checklist for Financial Audit – which can be found at Appendix 1 - Checklist for Financial Audit

(ii) The complexity assessment – which can be found at Appendix 2 - Financial Statements Complexity Assessor;

(iii) Assessment of Internal Controls at Entity level – which can be found at Appendix 3 - Understanding the Business and Internal Controls;

(iv) IT Internal Control Checklist – which can be found at Appendix 4 - IT Internal control checklist

(v) The Audit Risk Assessment – which can be found at Appendix 5 - Audit Risk Assessment.

(vi) Audit Plan – which can be found at Appendix 6 - Audit Plan;

(vii) The Audit Strategy – which can be found at Appendix 7 - Audit Strategy;

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

(ix) Audit procedures planned and performed;

(x) Correspondence with the entity relating to the audit engagement including ALL audit queries and audit memos and replies received thereto;

(xi) Audit evidence collected during the audit engagement;

(xii) Letters of confirmations and representations;

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

(xiv) List of records demanded by the audit engagement team but nor provided by the entity and the decision of the audit engagement team on this;

(xv) Records of collective professional judgement applied;

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

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

(xviii) Draft audit report and Draft Audit Opinion.

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9. Chapter 9: Reporting

9.1 Guiding Principles

Guiding principles ***- ISSAI 2700 (paragraph 6)***

The objectives of the auditor are:
(a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
(b) To express clearly that opinion through a written report.

Guiding Principles – *Government Auditing Standard - chapter 6 (paragraph 6.41)*

The reporting process of OCAG has several layers and passes through intense scrutiny at every stage. The first draft report shall be prepared by the audit engagement team in field, which shall indicate the end of the audit engagement in field. The draft report must also be accompanied by audit documentation.

9.2 Reporting Outputs

9.2.1 There are two outputs from a financial audit, they are the audit report and the audit opinion. All the Reports, whether Short or Long Form Reports and the Audit Opinion should be registered on AMMS 2.0. The Audit Report (whether it is the short or long form) should be submitted under Article 132 of the Constitution[16] and must be presented to the President who should cause it to be laid before the Parliament.

9.3 Audit Report Format

9.3.1 There are two options of reporting, which are short report format and long form audit reports. The key difference between a short form audit report and a long form audit report lies in their scope and detail.

9.3.2 A short form audit report provides a concise opinion on whether the financial statements present a true and fair view, focusing primarily on the compliance of the statements with accounting standards, and is typically directed at external stakeholders like Parliament and Ministry of Finance.

9.3.3 In contrast, a long form audit report offers a comprehensive review that goes beyond the financial statements, providing detailed insights into the company's internal controls, operations, risk management, and governance. The long form report is more narrative-driven, often customized for internal stakeholders such as management or regulatory bodies.

9.4 Suggested Structure and Contents of Short Form Audit Reports

- **Opinion on Financial Statements**: The core content is focused on whether the financial statements are prepared in accordance with the relevant financial reporting framework.
- **Conciseness**: The report is brief, typically 2 to 4 pages long.
- **Standardized Format**: Audit standards (such as ISSAI) prescribe a uniform format:

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(i) **Title**: "Independent Auditor's Report"
(ii) **Addressee**: The intended users (e.g., Parliament or Ministry of Finance, or Audited Entity).
(iii) **Opinion Section**: The auditor's formal opinion on whether the financial statements give a true and fair view.
(iv) **Basis for Opinion**: Explanation of the audit approach.
(v) **Key Audit Matters (KAMs)**: Only included if the auditor deems it necessary to communicate key areas of interest, such as complex transactions.

- **Management and Auditor Responsibilities:** A brief outline of what both parties are responsible for.
- **Conclusion: The final opinion.**

9.5 Suggested Structure and Contents of Long Form Audit Reports

- **Detailed Analysis:** The long form report includes a far more comprehensive analysis, covering not just financial statements but also the audited entity's operations, internal controls, and governance practices.
- **Variable Length:** It is much longer, often running to dozens or even hundreds of pages.
- **Custom Format:** There is no universally mandated structure, but it typically includes:

(i) **Detailed Overview of the Entity:** Including business operations, management structure, and systems in place.
(ii) **Financial Statements and Commentary:** In-depth commentary on specific line items in the financial statements.
(iii) **Internal Controls and Risk Management:** An evaluation of the audited entity's internal control systems and how risks are managed.
(iv) **Detailed Findings:** These are extracted from the audit testing.
(v) **Recommendations:** Each recommendation should state which type of internal controls have failed and recommended how they could be improved.
(vi) **Management Response:** Management Responses are important so that they take ownership to action the audit recommendation.

9.6 Structure of the Opinion Section

9.6.1 The following would be the structure of the Opinion Section:

- Shall have the heading "Opinion".
- Shall identify suitably the entity whose financial statements have been audited which would include the dates and period to which the financial statements pertain.
- Shall state each segment of the financial statements have been audited including Notes and Disclosures.
- Shall refer to the auditing standards according to which the financial statements have been audited.

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- Shall refer to the responsibilities of the responsible party regarding the preparation of financial statements and the responsibility of the CAG regarding audit of the financial statements.
- Shall, in clear terms, provide an opinion on the financial statements.

9.6.2 Some examples of the Audit Opinion can be found from Appendix 9 - Sample of Unmodified opinion on Finance Accounts to Appendix 12. Submission of the Audit Report and Audit Opinion.

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10. Chapter 10: Follow-Up

10.1 Guiding Principles

Guiding Principles *- GUID 9040 - Principle 7 Page 13*
SAIs report on the follow up measures taken with respect to their recommendations.

Guiding Principles – *Government Auditing Standard - chapter 6 (paragraph 6.50)*
OCAG shall have a role in monitoring action taken by the responsible party in response to the matters raised in any audit report.

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

10.2.1 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. 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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11. Chapter 11: Special Considerations for Audit of Cash and Bank Balance

11.1 Introduction

11.1.1 Cash and Bank Balances constitute significant assets of an entity and are extremely important from an auditor's point of view. These assets are highly prone to misappropriations, embezzlement and fraud.

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

(i) Existence: that the Cash and Bank Balances as recorded in the financial statements existed at the year-end on the Balance Sheet date;

(ii) Rights and Obligations: that the Cash and Bank Balances asserted as assets of the entity represent assets, and the entity enjoys full rights and obligations on these assets;

(iii) Completeness: that there are or were no unrecorded Cash and Bank Balances of the entity.

(iv) Valuations: that the foreign currencies held by the entity on the Balance Sheet date, apart from satisfying the above conditions have been valued correctly in accordance with the accounting principles and rules as applicable and the same has been disclosed fully and unambiguously.

11.2 Internal Control Evaluations

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

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

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

(iii) 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;

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

(v) Necessity of multiple cash chests in the same location and premises should be examined in depth;

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

11.3 Verification of Cash balance

11.3.1 The following procedures will be used by the audit engagement team to obtain sufficient and appropriate audit evidence regarding Cash balance:

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(i) While it may not be possible to verify Cash on the date of the Balance Sheet, the team shall try to physically verify the Cash balance based on surprise at any time close to the date of the Balance Sheet. The surprise inspection should be carried out after calculation by the team taking the balance on the date of the Balance Sheet as basis and then working out the balance on the date of verification by considering all the transactions that have taken place since the date of the Balance Sheet;

(ii) All Cash balances in the same location should be verified simultaneously;

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

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

(v) 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.

11.3.2 The engagement team should evaluate the evidence obtained because 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:

(i) Unduly large balance of Cash more than normal requirement on a regular basis must be brought out in the auditor's report;

(ii) 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;

11.4 Verification of Bank balance

11.4.1 The following procedures will be used by the audit engagement team to obtain sufficient and appropriate audit evidence regarding Bank balance:

(i) The audit engagement team should advise the management of the entity in 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. A typical proforma is at the end of this chapter. Such requests should include dormant accounts and accounts closed during the financial period.

(ii) 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 ensure (i) that the cheques issued by the entity but not presented before the bank and (ii) cheques deposited for collection by the entity but not credited in the bank account(s) have been duly debited/credited at any subsequent date. The audit engagement team should also examine the reverse credits and debits and reasons for the same.

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

(iv) If many 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

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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 many cheques on hand on the date of the balance sheet and such cheques have remained undeposited or uncleared in the subsequent period.

(v) 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 advices.

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

(vii) 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.

(viii) 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.

11.5 Valuations and Disclosures

11.5.1 The audit engagement team should satisfy itself that the Cash and Bank Balances have been valued and disclosed in the financial statements as per the accounting policies and practices or government rules in this respect. In case of foreign exchange accounts, such valuations will be closely examined by the team. It should also be ensured that temporary advances/ stale or dishonoured or invalid cheques / any dummy cash accounts to route transactions in computerised accounts are not included in the Cash and Bank Balances.

Table 8: Illustrative letter of Bank Confirmation

(Letterhead of the Entity)

(Name and Address of the Bank) (Date)

Dear Sirs,

Please send directly to our auditors……. (Name and address of the auditors) details of balances as at the close of business on ……(date) of the accounts mentioned in the enclosed sheet, held with your Branch, along with details of charges held against such balances, with a copy to us. The accounts in the attached sheet include dormant accounts as also accounts that have been closed during the year.

Yours Faithfully,

Director of Audit

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12. Chapter 12: General Auditing Principles for Accrual based Financial Statements

General Guidelines

12.1 Risk Assessment

12.1.1 Risk assessment should be carried out in accordance with the principles laid down in Chapter 3: Audit Risk Assessment

12.2 Determination of Materiality

12.2.1 The determination of materiality will depend on the risk assessment of the entity. For materiality, the benchmark is recommended to be the expenditure of the entity as represented in the Income and Expenditure account. Overall materiality should not exceed 3% of the expenditure which can be suitably brought down based on risk assessment. Performance materiality and trivial materiality should be determined in accordance with the principles in Chapter 4: Materiality.

12.3 Financial Audit and Compliance Audit

12.3.1 Some of the checks can be equally applicable to Financial audit and compliance audit. It will depend on the professional judgement of the audit engagement team to expand and apply the tests based on the audit objective. However, these checks are mainly developed for financial audit. It needs to be mentioned that for the purpose of determination of subject matter information, the financial statements are the subject matter information but while auditing individual line items, the subject matter information indicated relate to the same line item.

12.4 General Principles of Accounting

12.4.1 The general accounting principles of objectivity, materiality, consistency and prudence should apply irrespective of the accounting framework used and the auditor should keep an eye on the application of these principles while auditing the entity.

12.5 Upkeep and Maintenance of Ledgers

12.5.1 Examination of ledgers is recommended audit steps for many line items. It should always be examined whether the ledgers are maintained properly. In case the accounts are maintained on any IT based systems, the basic principles of IT Audit relating to controls and data integrity should be applied.

12.6 Trial Balance

12.6.1 It is expected that these entities would prepare Trial Balance. The auditor should seek a copy of the Trial Balance, which will be the most important document for the purpose of audit. Apart from checking the arithmetical accuracies and comparing the balances with individual ledger balances, the auditor should pay particular attention to post-Trial Balance adjustments and must ensure that these adjustments are legitimate and in accordance with the existing rules, regulations and accounting principles. All journal entries which account for post-Trial Balance adjustments must be examined in detail.

12.7 Trend Analysis

12.7.1 Trend analysis has not been shown as a separate analytical procedure in respect of each line item. Such analysis can be carried out in respect of all relevant line items. In cases like establishment expenses and other expense heads, trend analyses may throw up interesting insights. However, the results of such an analysis may not be included in the opinion section of the Auditor's report.

12.8 Common Audit Points

12.8.1 The following are the common audit points:

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(i) Whether the operational activities of the entity are in keeping with the objectives of the entity as envisaged in the documents establishing the entity? Whether the entity has been able to fulfill its mission in its operational activities?

(ii) Whether the entity follows government financial rules and regulations or has its own sets of rules? In the latter case, whether the entity has written down rules and manuals for conducting its day-to-day business?

(iii) Whether the entity has an internal audit and a robust internal control system including manuals relating to internal audit and internal control?

(iv) Whether the entity prepares a cash budget and capital expenditure decisions and investment decisions are driven by cash budgets;

(v) Whether the entity has maintained several bank accounts without any obvious rationale for it? Is there any bank account where the signatory is only one?

(vi) Whether the advances to officers and staff are in accordance with rules and regulations and such advances are adjusted in time?

(vii) Many of these autonomous bodies being funded by organisations/entities under Budgetary Central Government, will have to follow the instructions of the Central Government in matters of various policies including policies regarding recruitment, travel, investments, retirement benefits. The audit party should have a very clear idea about this and check adherence to such instructions. These points have not been indicated in the elaborate audit steps, nevertheless, this should form an important aspects of audit procedures. These procedures can form part of both financial audit and compliance audit but reporting should be done accordingly. In the case of financial audit, deviations can be mentioned as emphasis of matter . An emphasis of matter goes into the opinion part of the report, but a separate audit report may be presented to Parliament in terms of Article 132 of the Constitution.

(viii) In the case of some line items multiple checks have been recommended on a sample basis. It is expected that such a sample for each of the checks would be different. Samples should always be on a random basis on Monetary Unit Sampling (MUS) basis in case of expenditure so that expenditure of high values are included in the sample.

(ix) In the case of several entities, the line items shown in this document may not exactly match the items in the financial statements. The audit engagement team should match the items from the types rather than exact nomenclature.

(x) Audit of Cash, Cash Books (or equivalents) and Bank Books (or equivalents) should be treated as serious audit. The audit engagement team should always be alert to fraud, embezzlement, misappropriations, unlawful cash advances, non-maintenance of cashbooks properly and other risks to cash management.

(xi) Exclusions indicate that any legitimate transaction or commitment which should have been recognized, has not been recognized.

(xii) Under "Test of Controls", the audit engagement team should examine violations to test controls. Broadly speaking, test of controls are audit of procedures and adherence to them, whereas substantive procedures are to test the transactions and ledger balances.

(xiii) For items whose classification depends on the time (such as current assets and current liabilities which are expected to be cleared in one financial period) an aged

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analyses that shows the age of the debtors should invariably be done to examine whether old items continue to be depicted as such.

(xiv) check of arithmetical accuracies, totals and consistencies of figures are universal checks for all line items.

(xv) check that all earnings (revenue/ receipts) are for legitimate services provided or goods supplied. check for parking funds and such funds should not be shown as revenue of the entity.

12.9 Assumptions

12.9.1 Please see the audit steps at Appendix *8* - Line-Item wise Audit Steps including Test of Controls. These audit steps are designed based on the following assumptions particularly with reference to autonomous bodies and non-commercial Statutory Public Authorities:

(i) At present, autonomous bodies are bodies which are expected to provide non-marketable public service. However, in a limited way, they might have sales income or provide services for an income as in the case of universities etc.

(ii) There is no overall financial reporting framework applicable to such autonomous bodies. However, it is expected that these bodies will be required to prepare a Balance Sheet and Income & Expenditure account and to maintain accounts on an accrual basis following commercial principles of accounting.

(iii) Given the nature of such bodies, it is assumed that the complexity grading of the financial statements of these bodies would be low.

(iv) The accounting system of such bodies envisages journal books and ledgers. In case the accounts are computerized, the audit engagement teams should identify data that corresponds to journal and reports that correspond to ledgers. In case the entity maintains accounts in some other format like loose leaves/registers/excel sheets or does not maintain accounts properly, the matter should be treated very seriously and should be dealt with accordingly.

12.10 Reporting (Audit Opinions)

12.10.1 This is primarily for financial audit. Based on the evidence a supplementary compliance audit may be undertaken. Reporting on the findings may take the following forms:

(i) Modified opinion;

(ii) Emphasis of matter or key matter;

(iii) A separate Long Form Audit Report;

12.10.2 The opinion including emphasis of matter is published with the financial statements and thus have limited readership. If the findings are serious, a separate audit report may be considered.

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13. Chapter 13: Audit Checklist for Important account line items and balances

for Category II, III and IV Entities (and aspects of interest to the financial auditor)

13.1 Budget and Accounting Classification System (BACS)[17]

13.1.1 The Budget and Accounting Classification System (BACS) is a logical accounting structure through which financial transactions, including budgets, are posted, stored, maintained and reported upon. It is a core element in the financial management system as it enables transactions with similar characteristics to be grouped together for budget planning, accounting, control and reporting purposes. BACS will support the uniform introduction of double entry accounting. Whilst initially, the BACS will be used to report government finances on a modified cash basis, it has been formulated to enable the future transition to full accrual accounting.

13.2 Structure of the new BACS

13.2.1 The overall structure of the BACS comprises four core "posted" segments of 35 digits. These are the Organisation (11), Program (9), Fund (8) and Economic (7) segments. Posted segments, are those that involve a user of the accounting system describing their transaction using these segments at the time it is entered into the system.

13.2.2 In addition, two new posted segments with additional information are consists of: the Mode of Payment(1 digit) and the Location (8 digits). There are a further three "derived" segments: Authorisation (1), Function Classification of Functions of Government (COFOG) (4) and Budget Sector (4). Users of BACS do not need to enter codes for these three segments as they are "derived" (produced automatically) by the system.

13.2.3 When using the new BACS, users should be aware that it only uses "digits" (the numbers 0 to 9). It does not use alphabets or any other symbols.

Table 9: Budget and Accounting Classification Coding

Posted Core Segments (Users to enter in iBAS		
Segment	Digits	Purpose
1. Organisation	11	Identifies the organisational unit (Ministry/Division, Department, Operating Unit) responsible for a transaction
2. Operation	9	) Identifies whether a transaction is for development or nondevelopment purposes and, if part of an activity/ project, the activity/project to which it relates
3 Fund	8	Identifies the fund in which a transaction is recorded (Consolidated Fund, Public Account) and, for those transactions within the Consolidated Fund, identifies whether the Government, a foreign grant or a foreign loan funds the transaction
4. Economic	7	Identifies the economic nature of the transaction (tax or non-tax receipts, salaries, goods and services, grants, etc.) Posted Additional Information Segments (Users to enter limited data as required in iBAS) Segment Digits Purpose
5. Mode of Payment	1	Identifies whether a transaction is reimbursable project expenditure or direct project assistance
6. Location	8	Identifies the location to which a transaction should be attributed Derived Segments (Pre-defined in iBAS) Segment Digits Purpose
7. Authorisation	1	Identifies whether an expenditure transaction is voted or charged expenditure
8. Function (COFOG	4	Identifies the purpose of a transaction according to the Classification of Functions of Government (COFOG
9. Budget Sector	4	Identifies the budgetary sector to which a transaction should be attributed

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13.3 Capital Works-in Progress: (Balance Sheet)

13.3.1 Capital Works-in-Progress represents the costs incurred on account of creating fixed assets/ construction works etc. which remain unfinished on the date of the balance sheet. Normally a significant balance under this item will indicate the existence of major on-going activities in the entity. The following possibilities (illustrative) are of interest to the auditor:

13.3.2 In some cases, the balances may be shown as Works-in-Progress due to delay in capitalizing the balances. There can be many reasons for this. Some frequent reasons are:

(i) due to lack of completion certificates in construction works;

(ii) The asset may be lying unused;

(iii) disputes with the contractor;

(iv) fixed assets ordered and advances paid but the assets are yet to be supplied;

(v) the entity has not taken action to capitalize the assets;

(vi) legal complications;

(vii) other reasons.

13.3.3 An analysis of the underlying ledger balances will indicate the number of items, and the auditor should analyze the reasons for balances which are lying non-capitalized for a long time and explore the reasons for the same. Significant movements in the Corpus Fund should attract auditor's attention.

13.4 Contingent Liabilities (Notes and Disclosures)

13.4.1 Contingent liabilities mainly consist of claims against the entity not acknowledged as debt. There can be other items also but rare in the case of non-commercial autonomous bodies. These can be (i) liabilities for partly paid investments (ii) disputed claims by contractors or other parties (iii) liabilities on account of undischarged forward contracts (iv) Guarantees and (v) others for which the entity is contingently liable.

13.4.2 Most important for the auditor is to examine whether any genuine liability has been shifted to contingent liability thereby improving the financial position in the balance sheet. The auditor therefore needs to examine critically the "contingent" part of such liabilities. Generally, the most frequent reasons for creation of contingent liabilities are disputed lawsuits and disputed tax demands. Contingent liabilities are more of a disclosure issue.

13.4.3 The auditor should be particularly attentive to such items which have not been disclosed as contingent liability. The audit procedures should include scanning all lawsuits and demands on the entity including tax demands and evaluate them to see whether they should be treated as a liability or a contingent liability.

13.5 Corpus Fund (also known as Capital Fund): (Balance Sheet)

13.5.1 This is essentially an Initial Fund, which acts as a Reserve Fund which over the years is enhanced by surplus from previous years and Grants from Government. An entity might be established by using the Corpus Fund. It can be compared with the Capital of the Organisation. Excess operating expenditure over Income depletes the Corpus Fund, unless the entity has any other reserve funds to meet the excess expenditure.

13.6 Current Assets, Loans and Advances

13.6.1 The item represents the assets of the entity which are expected to be converted into cash in the normal course of business of the entity within one year. This includes:

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13.7 Inventories

13.7.1 Autonomous Bodies providing public non-marketable service, are not expected to have inventories held for sale in the ordinary course of business. If they do, such inventories will include stock in trade, work in progress and raw materials, loose tools and stores and spares. Auditor should examine the basis of valuation of such inventories.

13.8 Sundry Debtors

13.8.1 Debtors represent amount due to the entity due to goods sold or services rendered or any other contractual obligations. Normally Debtors considered good for recovery and those considered doubtful are to be shown separately. Provisions for doubtful debts should be charged to the Income & Expenditure account and to be shown in the Balance sheet as a reduction of the asset. Auditor should:

(i) examine the possibility of recovery of the debts;

(ii) old age analysis to ensure that no debt is long pending;

(iii) examine the reasons for non-payments and whether the entity is pursuing the debts effectively;

(iv) ensure that provisions have been made reflecting the reality of the debt collection;

(v) examine whether debtors represent select individuals/ agencies with whom the entity continues to do business despite outstandings;

13.9 Current Liabilities: (Balance Sheet)

13.9.1 The item represents the liabilities of the entity which will have to be met in the short term, usually a period of one year. Current liabilities would normally cover:

13.10 Sundry Creditors

13.10.1 The amount shown under this line represents the payment owed by the entity for goods or services received or any other contractual obligations. From an auditor's point of view, this balance is extremely important. Auditor should:

(i) examine the reasons for non-payment of liabilities despite having fallen due and link it with any cash shortage indicating status of financial health of the entity;

(ii) examine whether there are any administrative or procedural delays in payment;

(iii) examine such items for clues regarding supply of goods and services to the entity;

(iv) whether sequence is maintained in payment to contractors and no ad-hocism or patronage is shown to any contractor;

(v) link advances paid under current assets whether proper financial propriety is maintained, and advances are paid while genuine dues are not paid;

13.11 Advances received

13.11.1 Normally an autonomous body should not receive advances unless for specific reasons, these are not treated as income and depicted in the Income and Expenditure account. The auditor should examine the nature of such advances.

13.12 Statutory liabilities

13.12.1 Such statutory liabilities may include overdue rent, rates and taxes, statutory bonus, provident and pension fund, other statutory payments on account of the staff. Auditor should examine such items to ensure that statutory items which are due are not delayed as often such delays are visited by punishment or fines or other liabilities on the entity.

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13.13 Earmarked/ Endowment Fund (Balance Sheet)

13.13.1 This item represents amounts received by the entity either in cash or in kind for specific purpose or to meet certain specific types of expenditure. Normally there would be conditions notably relating to the object of the expenditure attached to such receipts. The auditor should:

(i) examine whether the conditions attached to the funds have been fully complied with;

(ii) no inadmissible expenditure has been incurred from any such Fund;

(iii) often such grants have taxation benefits for the donor. The donations either in cash or in kind should be irrevocable.

13.14 Fixed Assets (Balance Sheet)

13.14.1 Fixed Assets are normally depicted in sequence of their longevity. Fixed Assets include:

13.15 Land

13.15.1 Most of the accounting reporting framework would require Land to be represented at its cost and no depreciation is charged on Land. Normally, land is also treated as a core asset of the entity. No revaluation is carried out and depicted in the revaluation reserve on account of land.

13.15.2 In case land is on leasehold and at a consideration, the amount needs to be amortized over the period of lease unless the leasehold is in perpetuity.

13.16 Buildings

13.16.1 Buildings would include both owned and rented buildings on freehold or leased land. Such assets would include housing complexes, apartments, guest houses, recreational facilities or any other superstructure over which the entity has significant control. Such buildings need not be used directly for the day-to-day operations of the entity. Most of the accounting framework will allow depreciation on the buildings.

13.16.2 Rents of the rented buildings would be treated as expenditure in the Income and expenditure account and may not be shown as an asset of the entity.

13.17 Plant, Machinery and Equipment

13.17.1 This item represents such plants, machinery or equipment which are directly connected with the operations of the entity.

13.18 Vehicles

13.18.1 This item represents vehicles owned by the entity. Rents for rented vehicles will be represented in the Income and Expenditure account as an expenditure.

13.19 Office equipment/ Computers

13.19.1 This item represents office equipment which is not consumable and has a reasonably long life. The same applies to computers and peripherals.

13.20 Library Books

13.20.1 This is particularly relevant for academic bodies.

13.21 Points of interests for the auditor

(i) examine fixed assets registers to verify the balances;

(ii) examine depreciation rates and calculations;

(iii) examine classifications;

(iv) verify that rents have not been capitalized; examine documents to establish ownerships and conditions of such ownerships;

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(v) examine that the physical stock verification is carried out regularly and as per extant regulations;

(vi) examine the changes from the last balance sheet;

(vii) examine the system of stock maintenance of fixed assets particularly relating to stocks of limited longevity;

(viii) examine procedures of disposal of obsolete assets;

13.22 Provisions (Balance Sheet/ Income and Expenditure Account)

13.22.1 Provisions in Income and Expenditure Account are normally known as the "Below the line" items. After calculating the surplus/ Deficit from operational activities, several charges are provided for. Normally, such provisions include:

(i) For Taxation: This is provision for outstanding tax liability;

(ii) Staff-related provisions: Staff-related provisions include amortization of staff-related liabilities like pension, gratuity, encashment of leave etc.

(iii) Provisions in the Balance sheet reduce the value of the assets.(Example: Provision for Doubtful Debtors). Sometimes net Debtors also can be shown.

13.22.2 The auditor should check the calculations and ensure that no short provision has been made to inflate the surplus.

13.23 Reserve: (Balance Sheet)

13.23.1 A revaluation Reserve is a non-cash reserve which represents the difference between the original value of an asset and the revaluation of the asset value on a particular date. In the case of non-commercial entities like autonomous bodies established by the Government, such revaluation reserve may be infrequent.

13.23.2 An entity, however, can also maintain General or Special Reserve to meet its requirements at a future date. Normally such reserves will be established in accordance with the financial framework for such entities and with the approval of the competent authorities. There can be conditions associated with expenditure out of these reserves.

13.24 Secured Loans and Borrowings (Balance Sheet)

13.24.1 This item represents loans and borrowings based on securities provided by the entity, normally assets and lands. Extremely unusual for autonomous bodies, such secured loans can be from Government, Financial Institutions, Banks (Term Loans), International Funding Agencies and other agencies. This being a stock item, the auditor should examine such loans and borrowings taken by the entity throughout the year so that window dressing on the Balance Sheet date, if any, can be detected. The analytical procedure should therefore include a trend analysis and examination of all such loans and repayments.

13.24.2 Such loans are indicative of deteriorating financial health of the entity. The auditor should, additionally

(i) examine the circumstances in which such loans became necessary;

(ii) examine the purpose of the loans including viability for repayment;

(iii) examine the overall financial health of the entity and in extreme cases going concern considerations;

(iv) ensure that the purpose for which such loans were taken has been or being fulfilled;

(v) ensure that no such loan has been taken from an individual or unauthorized body or any unscrupulous agency;

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(vi) ensure that all such loans have been taken at a reasonable rate of interest.

13.25 Unsecured Loans and Borrowings (Balance Sheet)

13.25.1 It is not unusual that every entity from time to time faces liquidity crisis requiring short term loans from the banks to tide over the crisis. Normally banks might offer a credit line while doing business with the entity, which would avail itself of the facility should circumstances require. The auditor should:

(i) examine the circumstances in which such loans became necessary;

(ii) examine the frequency of such loans taken and their impact on the financial health of the entity;

(iii) ensure that no such loan has been taken from an individual or unauthorized body or any unscrupulous agency;

(iv) ensure that all such loans have been taken at a reasonable rate of interest.

(v) Check the repayments.

13.26 Audit Programmes

13.26.1 The Audit Programmes can be viewed in Appendix 8 - Line-Item wise Audit Steps including Test of Controls

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14. Chapter 14: Special Considerations for Audit of Finance Accounts

14.1 Guiding Principles

Guiding Principles *- The Constitution of the People's Republic of Bangladesh Article 87*

(1) There shall be laid before Parliament, in respect of each financial year, a statement of the estimated receipts and expenditure of the Government for that year, in this Part referred to as the annual financial statement.

2) The annual financial statement shall show separately –

(a) the sums required to meet expenditure charged by or under this Constitution upon the Consolidated Fund; and

(b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund; and shall distinguish expenditure on revenue account from other expenditure.

Guiding Principles – *Government Auditing Standard - chapter 7 (paragraph 7.11)*

The duties and responsibilities of CAG of Bangladesh are enshrined in the Constitution of Bangladesh in respect of Public Accounts.

14.2 Financial Statements of Public Accounts

14.2.1 The financial statements of Public Accounts of Bangladesh comprise of the Finance Accounts and Appropriation Accounts. Public Accounts of Bangladesh comprise of Consolidated Fund of the Republic and the Public Account of the Republic.

Table 10: Article 84 of the constitution of Bangladesh

84(1) All revenues received by the Government, all loans raised by the Government, and all moneys received by it in repayment of any loan, shall form part of one Fund to be known as the Consolidated Fund. **84(2)**All other public moneys received by or on behalf of the Government shall be credited to the Public Account of the Republic.

14.2.2 The Office of the Controller General of Accounts is responsible for preparation of the Finance Accounts of the Republic. The accounts relating to Defence Services are prepared by the Controller general of Defence Accounts. Similarly, the accounts relating to Railways are prepared by the Financial Advisor and Chief Accounts Officer of Bangladesh Railways. The Postal Accounts are prepared by the Chief Accounts Officer(Postal). The responsibility of consolidating the finance accounts rests with the Controller General of Accounts.

14.3 Objective of financial audit of Finance Accounts

14.3.1 The objective of financial audit of the Finance Accounts is to obtain sufficient and appropriate audit evidence to enable CAG to express an opinion as to whether the set of statements and schedules together called Finance Accounts are free from material misstatements due to fraud or error and thus present a true and fair view of the financial position of Consolidated Fund and Public Account of the Republic.

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14.4 Finance Accounts

14.4.1 Finance Accounts in relation to the Government, means the accounts showing the receipts and disbursements of the Government for a financial year together with financial results disclosed by the revenue and capital accounts, the accounts relating to public debts and assets and other liabilities, as prescribed by the Government.

14.4.2 At present, the Finance Accounts of Bangladesh comprise of 5 statements. These are:

(i) **Statement – 1: Cash Receipts and Payments.**

This statement is prepared in compliance with International Public Sector Accounting Standards (IPSAS) Cash basis standard. Cash inflows, cash outflows and cash balances, controlled by the Controller General of Accounts and other Government departments are reported in this statement.

(ii) **Statement – 2: Comparison of Budget and Actual Amount**.

This statement is prepared in compliance with IPSAS Cash basis standard. Original budget, final budget, actual amounts and variance between budget and actual amounts are presented in this statement.

(iii) **Statement – 3: Comprehensive Receipts and Disbursements under Public Accounts.**

This statement is prepared as per Constitution and other legal requirements of Bangladesh. Receipts and disbursements under Consolidated Fund (CF) and Public Account of the Republic (PAR) are shown separately under Revenue and Capital accounts.

(iv) **Statement – 4: Summary of Financing Activities.**

This statement discloses the recurrent and capital expenditures incurred from the revenue and other receipts. It also displays the net budget deficit generated due to government expenditures along with the sources from which the budget deficit is financed.

(v) **Statement – 5: Summary of Balances.**

This statement shows all financial assets and liabilities of the Government. Section 17 (4) of the Public Moneys and Budget Management Act, 2009 and Article 94 of the Account Code (Volume – 4) require the Finance Accounts to display the balances with full details. Moreover, Part-2 of IPSAS Cash basis standard encourages the inclusion of information about the non-cash assets and liabilities.

14.4.3 Notes to the Accounts present all detail disclosure or additional financial information in the financial statements. The Note 1.0 explains the accounting policies and principles used to prepare the statements. Note 6.0 addresses when an adjustment is made to prior year data. Other notes are related to individual statements and have been cross referenced accordingly.

14.5 Risks of Material Misstatements

14.5.1 The following are identified as the risks of material misstatements due to fraud or error:

(i) Risks of erroneous figures shown in any of the statements;

(ii) Risks of wrong classifications of Receipts;

(iii) Risks of wrong classifications of Expenditure;

(iv) Risks of Revenue expenditure depicted as Capital expenditure or vice versa;

(v) Risks of opening balances not brought to the statements correctly;

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(vi) Risks of improper expenditure booked in suspense heads to hide such transactions and to accommodate expenditure to avoid budget;

(vii) Risks of cash balance shown in statement No 3 not reconciled with the cash balance of the government available with Bangladesh Bank.

(viii) Risks of final statements not in agreement with the primary books of accounts;

(ix) Risks of book transfer entries and other adjustments not valid;

(x) Risks of final statements not supported by figures in schedules accompanying the statements;

(xi) Risks of final statements not being prepared according to financial reporting framework.

14.6 Risk Factors and their assessment

14.6.1 The overall risk assessment in audit of Finance Accounts shall consider the following factors:

(i) The Consolidated Fund and the Public Account of the Republic in Statement 3 are based on cash basis i.e. transactions are not recognised until the cash or cash equivalent has been received or paid out of the treasury. In the Finance Accounts, therefore, no estimate or assertion based on anticipated events in future are accounted for. **This reduces the inherent risk**.

(ii) There is a well-established system of revenue receipts and government payments in existence. The network of CAFOs in Ministries and Divisions, the District Accounts and Finance Officers and the Upazilla Accounts officers, all functions under the overall guidance of Controller General of Accounts. There is also clear-cut demarcation and division of responsibilities between the spending units and the accounting units who clears (pre audits before payment) the claims submitted by the drawing and disbursing officers. The Pay and Accounts offices function independently of the Drawing and Disbursing officers who are responsible for withdrawing money from government account by presenting bills to the Pay and Accounts offices where the bills are scrutinised carefully, and payment authorised. There are, however, some departments like Public Works and Forests Department where the Drawing and Disbursing officers are cheque drawing. In the case of Defence Services, the system of cash assignment to the units also adds to control risks.

(iii) The Integrated Budget and Accounting System(iBAS++) has further improved the receipt and payment system as also the system of preparation of accounts. Apart from automating receipt and payment systems, the system generates a good number of accounting reports which form the basis for the preparation of finance accounts.

(iv) It is also to be noted that personnel incurring expenditure from Public Accounts are government employees and are subject to government control and rules. Any misdemeanor is visited by serious disciplinary proceedings and there are many layers of controls. These controls are budgetary controls at different hierarchical levels, requirements of specific sanctions according to Delegation of Financial Powers which need to be presented along with the claims, post audit, periodic transfer of personnel and more than one staff handling financial matters in any spending unit.

(v) The controls risks are significantly mitigated by the fact that the Pay and Accounts Offices are part of the office of the Controller General of Accounts. The officers

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and staff are specialised in auditing and accounting and thus have considerable expertise in dealing with financial matters.

14.7 Overall risk assessment

14.7.1 In view of the above factors, the overall inherent risk assessment in case of finance accounts is determined as low; the overall control risk assessment is determined as low to moderate.

Table 11: Grading of individual risks with justifications for the audit of Finance Accounts

SL NO	Risk	Probability	Justification
OR1	Risks of erroneous figures shown in any of the statements;	Low	i) Independent transaction authorisation functions; ii) Significant part of the transactions originating in ibas++; iii) Oversight by the office of the Controller General of Accounts; iv) Independence of transaction authorisation from the spending unit (separation of responsibilities between maker and checker). v) Compilation of accounts are done at many levels and adequate checks are exercised.
OR2	Risks of wrong classifications of Receipts;	Low	i) Main source of receipts is NBR revenue. Taxes are paid by the taxpayers directly and mistakes shall affect their assessments at the later date.
OR3	Risks of wrong classifications of expenditure;	Moderate	i) Availability of Budget may influence classification decisions and there may be tendencies to classify expenditure against codes where budget is available;
OR4	Risks of Revenue expenditure depicted as Capital expenditure or vice versa;	Moderate	i) Availability of budget may influence classification decisions; ii) Revenue expenditure in capital projects tend to be classified as Capital expenditure;
OR5	Risks of opening balances not brought to the statements correctly;	Low in case of Consolidated Fund; High in case of Public Account;	i) Considered Low in case of Consolidated Fund where accounts are closed to cash; ii) In case of Public Account, the risk is High as these accounts are closed to book balance; iii) Many items of the Public Account are maintained in many offices like small courts, at districts and Upazilla levels; the closing balances and opening

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SL NO	Risk	Probability	Justification
			balances may not be aggregated correctly; iv) Ledgers may not be maintained correctly; v) Since accounts are maintained on a TSA basis with Bangladesh Bank, individual reconciliations with the Bank are not feasible; vi) Deposits and Remittances in some offices may be kept in local banks outside TSA; vii) Discrepancy between closing balance of the previous year and opening balance of the current year may be indicative of fraud and embezzlement.
OR6	Risks of improper expenditure booked in suspense heads to hide such transactions and to accommodate expenditure to avoid budget;	High	i) Since expenditure under suspense heads affects appropriation in as much as that such expenditure is incurred and cash outflow occurs but not exhibited against appropriations.
OR7	Risks of cash balance not reconciled with the cash balance of the government available with Bangladesh Bank or any other authority.	High	i) Government payment and receipts statements are marked by multiple payment points and one single account. Government cheques are rarely dishonoured and such cheques are paid without pre-checking of availability of cash balances. Reconciliation between Cash balance of Government as depicted in the financial statements of the Government with the balance available with Bangladesh Bank is of utmost importance. ii) The unreconciled items may also be indicative of fraud and embezzlement.
OR8	Risks of final statements not in agreement with the primary books of accounts	Low	i) The Finance Accounts are prepared partly through ibas++ and there are many stages through which the accounts are complied.
OR9	Risks of book transfer entries and other adjustments not valid;	Low	i) All such adjusting entries are passed in the Office of the CGA.
OR10	Risks of final statements not supported by figures in	Low	i) The schedules are the building bricks for the final statements and

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SL NO	Risk	Probability	Justification
	schedules accompanying the statements;		figures are derived from the schedules, which are compiled from the books of accounts.
OR11	Risks of final statements not being prepared according to financial reporting framework.	Low	i) The CGA, CGDA, CAFO Railways are all experienced in accounting matters. ii) The government financial system of Bangladesh is a proved system.
OR12	Risks of high outstanding balances	High	i) Lack of timely clearances may hide irregular bookings.

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15. Chapter 15: Audit Steps for Auditing the Finance Accounts[18]

15.1 Overall objective of audit of Finance Accounts

15.1.1 The Finance Accounts have been prepared in accordance with the financial reporting framework and related rules and regulations; and

15.1.2 The statements of the Finance Accounts and the schedules are free from material misstatements, where "free from misstatement" would mean that :

(i) the amounts shown as receipts and expenditure (disbursements) are accurate;

(ii) the amounts shown are against the accurate codes, i.e. no misclassification has taken place;

(iii) the opening balances have been carried over correctly and match with the closing balances of the previous year;

(iv) the amounts shown as receipts and expenditure either from Consolidated Fund and Public Account match with the cash inflow and outflow in and from government cash balance;

(v) No transaction that has taken place, has been left out of the statements and schedules;

(vi) The statements and schedules do not suffer from arithmetical inaccuracies;

(vii) The Notes and other comments are relevant and accurate; and

(viii) There are internal consistencies between and among the statements and schedules.

15.1.3 The conclusion whether the Finance Accounts are free from material misstatements will be made after corrections and adjustment made because of audit observations.

15.2 Determination of Materiality

15.2.1 The benchmark for determining overall materiality for the Finance Accounts is proposed to be the total of receipts and expenditure of both Consolidated Fund and Public Account. The overall materiality level is proposed at 2% - please see Table 11 below.

15.2.2 The performance materiality, tolerable misstatement level and trivial misstatement level are indicated in the Audit steps against each line item/ class of transactions.

15.2.3 Based on the Finance Accounts of 2021-22, the following is the calculation for Materiality:

Table 12: Calculation for Materiality for the audit of the Finance Accounts

Component	Amount (in '000)	%	Component ratio
Public Accounts Receipts	9,416,754,467	37.78	38
Public Accounts Expenditure	9,101,943,595	36.52	36
Consolidated Funds Receipts	3,376,497,409	13.55	14
Consolidated Fund Expenditure	3,030,848,440	12.16	12
Total	2,492,604,391		
Materiality at 2% (in Crore)	498,520,878		

[18] These audit checks are only for financial audit. they do not cover compliance and performance audit.

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15.3 Preparatory action for audit of Finance Accounts

15.3.1 These steps presuppose that the OCAG would, as a first step, collect or list out all the accounting elements that go into the schedules and statements of the Finance Accounts. This includes monthly accounts prepared by all account formations.

15.3.2 The following steps are recommended:

(i) While preparing the audit plan, the risk categories of individual line items/ class of transactions should be kept in mind and checks should be planned accordingly.

(ii) Since audit of Finance Accounts are considered as a year-long activity, audit planning and carrying out audit checks should be done in terms of these steps and all audit outputs should be consolidated to ensure that the misstatements pointed out by audit have been corrected before incorporating in the final accounts;

(iii) if not, the figures of misstatements should be consolidated and added to the misstatement figures during the year end audit;

(iv) Audit steps involving matching opening balances of the current year with the closing balances of the previous year will involve checking of such balances at underlying levels as these balances are collections of individual balances. Such balances may be the aggregate of many balances kept at different offices. For example, the balances of capital expenditure under Building and Works shown in the Finance Accounts are aggregate of balances of large number of projects. This check should be carried out while checking individual offices based on their monthly accounts and by interrogating centralised data, if such balances are available.

(v) Sampling is important. In case of computerized transactions both on ibas++ and NBR site, efforts should be made to interrogate the data centrally to carry out the audit checks.

(a) In case sampling is done not based on transactions but on some other populations, e.g. at Upazilla, the audit checks should be carried out based on these steps to maintain uniformity. It is suggested that in the Upazilla Principal Accounting Officer (PAO) Office, it should be ensured that the transactions that have gone into the monthly accounts are test checked. Thus, Upazilla PAO X Month of Accounts should be considered as a unit and transactions in that unit should be test-checked as part of the audit of Finance Accounts. The same is true of Public Works and other Departments with self-drawing facilities.

(b) The same should be considered for Public Works and other Divisions where a self-drawing system is prevalent and monthly accounts are prepared by the department for submission. The division X month of accounts may be considered as a unit and transactions in that unit should be test checked as part of the audit of Finance Accounts.

(c) Each monthly account mirrors the final statements partially. The line items of the monthly accounts should be test checked according to these steps. (Guidance: Check the line items of the monthly accounts and map them to these steps. Check the sample of transactions according to the audit steps. Similarly, check the Loans and advances reflected in the monthly accounts as also the Public Account balances. Document all the results.)

(vi) Most of these line items are important from the point of view of LFAR and financial analysis. A separate cell can be established to carry out the financial analysis and it should not be made part of the work of audit checks.

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(vii) The steps present more audit checks on the Public Account, particularly a few of them. This should be kept in mind.

(viii) As regards Defence, Railways and Postal Departments are concerned the steps will apply but only to those parts which have relevance for the accounts of these departments.

(ix) There may be a possibility that while doing audit, the audit engagement teams may come across compliance issues relating to a transaction. A mechanism should be created to communicate the issue to the concerned Directorate unless the issue is so important, or the amount is so considerable that the matter needs to be included suitably in the opinion section of the CAG's report on the Finance Accounts. The materiality of the matter may be kept in mind.

(x) It should be kept in mind that the risk assessment indicated in these pages is only in respect of financial audit of Finance Accounts. It does not indicate risk assessment for Compliance Audit.

(xi) The audit of transactions taking place during the month of June(June withdrawals) are of special significance from the point of view of Finance and Appropriation Accounts. It is suggested that irrespective of sampling size, all transactions or a major part of the transactions are closely checked by a special team. The risks are:

- Disbursement risk- money is withdrawn from Government account but is not disbursed to the recipient as cases for disbursements have not matured; (A variant of parking of Funds)
- Money is withdrawn from the Government account and are deposited in some other body as advance or any other instrument;
- Money is withdrawn from Government account and kept by an officer till expenditure is possible.

All these measures are used to utilise the budget in full. Thus, such actions have significance for both Finance and Appropriation Accounts.

(xii) The audit of book adjustments for June (Final) accounts is extremely important from the point of view of Finance Accounts and Appropriation Accounts. In fact, it is more important from the point of view of Appropriation Accounts than of Finance Accounts. Broadly the risks are:

(a) Adjustments may be carried out to accommodate budget surplus or deficit in codes without any reference to the expenditure;

(b) Adjustments may be carried out to (correct details of an expenditure while the expenditure has taken place earlier;

(c) Audit Documentation will include records of checks carried out under each of these line items by all audit engagement teams and results thereof.

(d) For long-term loans and advances, there will be accounting records and departmental records. Departmental records mean records of loans maintained by Bangladesh Bank or specific department/ Ministries/ offices. It is important that a reconciliation check is carried out by audit between the accounting balances and departmental balances.

(e) Booking of expenditure in gross means that the expenditure on bills is to be booked for the gross amount. For example, A typical P&A bill or a running account bill will have deductions on the bill. These deductions are adjusted

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in respective accounts and net cash payment is made. However, the expenditure under the relevant code is the total expenditure on the bill and NOT the net cash payment.

(f) In the case of many line items, checks have been suggested for checking individual balances. Such checking is to ensure that individual accounts are being maintained properly. They might not add up to the aggregate balances as the task will be beyond the resources of audit. The objective is to have reasonable assurance.

One of the most important checks would be to ensure that the figures in the schedules completely match with the statements of the Finance Accounts.

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16. Chapter 16: Audit Steps for Auditing Appropriation Accounts[19]

16.1 Guiding Principles

Guiding Principles ***- The Constitution of the People's Republic of Bangladesh Section 87***
(1) There shall be laid before Parliament, in respect of each financial year, a statement of the estimated receipts and expenditure of the Government for that year, in this Part referred to as the annual financial statement.
2) The annual financial statement shall show separately –
(a) the sums required to meet expenditure charged by or under this Constitution upon the Consolidated Fund; and
(b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund;
and shall distinguish expenditure on revenue account from other expenditure.

Guiding Principles – *Government Auditing Standard - chapter 7 (paragraph 7.11)*
The duties and responsibilities of CAG of Bangladesh are enshrined in the Constitution of Bangladesh in respect of Public Accounts

16.2 STAGE 1 - Checking of the Original Grant

Guidance

16.2.1 This stage can be completed quite early in the financial year, as soon as the detailed estimates are ready. The Principal Accounting Officer can be requested to prepare this statement early in the year. OCAG shall have to ensure that the checked figures are not subsequently changed in any manner. A year-end quick check may be necessary. Mistakes found out in audit may be allowed to be corrected by the PAOs and a corrected statement should be submitted.

16.2.2 Audit Steps:

(i) Check the correctness of Code number and Description of Code (100% check).

(ii) Check the amount of Budget Grant indicated against each Code Head (100% check).

(iii) Check that the total does not exceed the total allocation of the Grant as approved by the Parliament.

16.3 STAGE 2 - Checking of Re-Appropriation/s

Guidance:
This is essentially a year-end audit routine when all the re-appropriation orders are received. However, a few of the checks can be carried out at the time of receiving these orders.

[19] These audit checks are only for financial audit. they do not cover compliance and performance audit.

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16.3.1 Audit Steps:

(i) Check that no appropriation orders have the effect of increasing the amount of a grant. (Guidance: Under no circumstances, the total amount of a Grant can exceed the authorization of Parliament except without a supplementary. So, it may also be the aggregate of the re-appropriations that need to be checked.)

(ii) Check that when an appropriation order is issued, that the amount appropriated is available under the unit from which it has been allotted.

(iii) Check that orders of appropriation or re- appropriation are issued by Competent Authority.(Guidance: Delegation of Financial Powers Rules 2020; Please also check with reference to the items that need to be referred to the Ministry of Finance.)

(iv) Check that all orders of appropriation or re- appropriation are issued before the close of the financial year. (Guidance: The risk is that after closure of June accounts, particularly in case of self-drawing officers, to adjust savings or excess, re-appropriation orders are issued and then book adjustments are made in the June(Final) accounts.)

(v) Check that any appropriation/re-appropriation order does not have the effect of creating a new service.

(vi) Check that the re-appropriation orders are issued as per Item No 10 of Delegation of Financial Powers Rules dated 28 August 2020. (Not applicable for Appropriations for 2019-20, the relevant rules of the earlier version of DFPR should be made applicable.)(Guidance: It is not only the competent authority but also the extent of powers of the competent authority and the limitations that need to be checked.)

(vii) Check that no re-appropriations have been made from revenue to Capital or vice versa.

(viii) Check that no re-appropriations have been made from Charged to Voted or vice versa.

(ix) Check to the extent possible, that authorised supply is not exceeded, or the excess expenditure is kept uncovered by appropriations. A commitment, however, is not covered by this clause.

(x) In cases where orders are required for specific appropriation, ensure that the expenditure is watched against the specific appropriation. (Guidance: Expenditure should not be incurred first and then re-appropriation orders issued, unless it is an emergency expenditure.)

(xi) Examine propriety, sufficiency, necessity and frequency of re-appropriations.

(xii) Check whether there is any failure to regularize excesses by re-appropriations.

(xiii) Check whether orders of re-appropriations were passed as soon as the necessity for additional expenditure was foreseen or if they were left over to be sanctioned towards the close of the year.

(xiv) Check whether there were frequent re-appropriations which have led to defective budgeting; while faulty, unnecessary or insufficient re-appropriations may point to an inadequate watch over expenditure by the controlling authority.

(xv) Check whether the inadequate watch is due to any defect in procedure in the Accounts or the Administrative Offices or to any other causes.

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16.4 STAGE 3 - Review of supplementary grants.

Guidance:

If any LFAR is prepared, this procedure will produce most of the materials. A sound analysis of the budgetary process and control can be attempted from the results of audit.

16.4.1 Audit Steps

(i) Examine supplementary for defective estimates. Essentially it would mean that despite supplementary grants, there were significant savings or excesses covering a large part of supplementary grant.

(ii) Check Supplementary grants with reference to the final re-appropriation statements/orders with a view to discovering that funds made available by re-appropriation do not involve utilization of the supplementary grant for sub-codes of the appropriation accounts for which no supplementary grant was particularly sanctioned by the Parliament.

(iii) Whenever the Supplementary grant proved excessive or unnecessary and funds have been withdrawn by the Ministries by means of re-appropriations, examine whether there are any cases of defective estimating.

(iv) Check cases where the overall savings in a Grant exceeded the Supplementary Grant.

(v) Check cases where the amount surrendered exceeded the overall savings in a Grant.

(vi) Review Specific Codes of Accounts in each Grant under which the entire Supplementary Grant remained unutilised.

(vii) Review Specific Codes of Accounts under which the entire provision remained unutilized.

(viii) Review Specific Codes of Accounts under which more than 10% of the Supplementary Grant.

16.5 STAGE 4 - Review of compliance of restrictions imposed by the Parliament

16.5.1 Audit Steps:

(i) Check that the money voted by the Parliament has been spent within the scope of the demand granted by the Parliament.

(ii) Ensure that no re-appropriation is made from one grant to another.

16.6 STAGE 5 - Checking of Expenditure figures

Guidance:

If any LFAR is prepared, this procedure will also produce good materials. A sound analysis of the budgetary process and control can be attempted from the results of audit.

16.6.1 Audit Steps:

(i) Check the figures in the Appropriation Accounts carefully.

(ii) Ensure that the explanations for variations between final grant and actual expenditure are correct and complete.

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(iii) Verify the accuracy of figures with initial accounting records and reconcile with the figures of the Finance Accounts. (Guidance: This is probably the most important step in appropriation audit particularly because both the accounts are audited by CAG.)

(iv) Examine the explanations of variations and arrange to secure such amplification or modification as may be found necessary.

(v) Check whether all excesses in the various sub-codes of accounts have been covered by re- appropriations sanctioned by Competent Authority.

(vi) Check whether the accounts were prepared in a hurried manner which ignored fundamental principles by the incorporation of unrealistic or fictitious explanations unrelated to facts and figures.

(vii) Check whether alert to disbursing and controlling Accounts officers are issued when the progress of expenditure indicates likely excesses. (Guidance: A test check can be resorted to.)

(viii) Verify that in cases, when the order requires specific appropriation, the expenditure is incurred against the specific appropriation.

16.7 STAGE 6 - Presentation /Disclosure Checks

16.7.1 Audit Steps:

(i) Verify that the form of the Appropriation Accounts presented by the Principal Accounting officers is in the correct form.

(ii) Check that any important changes in forms and classification are mentioned either in the explanatory notes below the sub-codes of the grants or in the important comments appended to the Appropriation Accounts concerned.

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Appendix 1 - Checklist for Financial Audit

Audited Entity	
Year of account	
Source(s) of information	

Completed by		**Date**	
1st Review by		**Date**	
2nd Review by		**Date**	

No	*Checklist*	*Responsibility in OCAG*
1	Receive the Financial Statements/ Draft Financial Statements.	Directorate
2	Carry out preliminary examination of the Financial Statements and obtain a preliminary understanding of the Financial Statements. Such understanding should at least cover: (a) Basis of Accounts: Cash or Accrual; (b) Nature of the Entity: Commercial/ Non-Commercial; Category II/ Category III/ Category IV; (c) Authority for Audit: Article 128(1)/ Section 5(1)/ Statute of the Entity/ Any Other: (c) Timeline of the Audit; Deadline to complete the audit; (d) Structure of the Entity: Responsible Party?/ Who are charged with Governance? Who are the first intended users (Board of Governors?/ Shareholders?/ Parliament?) (e) What would be the nature of the Audit Report in addition to Audit Opinion?	Directorate
3	Form the Audit Engagement Team.	Directorate
4	Procure underlying documents like Trial Balance, Post Trial Balance Adjustments, Details about Ledgers and Journals	Audit Engagement Team
5	Assess Complexity by Complexity Assessor.	Audit Engagement Team

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No	*Checklist*	*Responsibility in OCAG*
6	Review the formation of the Audit Engagement Team in view of the Complexity.	Directorate and Audit Engagement Team
7	2nd intense and serious examination of the Financial Statements.	Audit Engagement Team
8	Set Up the Audit/ Audit Workshop: Firm up the following issues: (a) Obtain Understanding of the Entity, particularly with reference to number of locations, branches to be audited; (b) Carry out an inherent risk assessment; (c) Work out the Audit Strategy; (d) Gather information about Control risk Assessment and carry out preliminary control risk assessment; (e) Work out the Audit Planning Components;	Directorate with the Audit Engagement Team
9	Prepare the Audit Plan and Submit.	Audit Engagement Team
10	Approval of the Audit Plan.	Directorate
11	Set Up the Audit with the Entity and work out the audit programme.	Audit Engagement Team
12	Perform the Audit.	Audit Engagement Team
13	Evaluate the evidence and Audit Documentation.	Directorate with Audit Engagement Team
14	Prepare Draft Report.	Directorate with Audit Engagement Team
15	Communicate to the Entity	Audit Engagement Team
16	Evaluate response of the Entity and finalise the Audit Report.	Audit Engagement Team
17	Issue Report and Close the Audit	Directorate.

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Appendix 2 - Financial Statements Complexity Assessor[20]

Audited Entity	
Year of account	
Source(s) of information	

Completed by		**Date**	
1st Review by		**Date**	
2nd Review by		**Date**	

Preliminary Information

A **Name of the Entity** _____

B **Nature of the Entity**

Autonomous Body established by GOs	
Autonomous Body established by Statutes	
Statutory Public Authorities of Commercial Nature	
Public Enterprise under Companies Act	
Others	

C **Financial Year** _____

D **Short Description of the Entity**

[20] Not applicable to Finance and Appropriation Accounts

1	**Are the Financial Statements on Cash or Accrual basis?**		
	Accrual	**(30)**	
	Hybrid or Semi Accrual	**(20)**	
	Cash	**(10)**	☐
2	**Are the activities of commercial nature?**		
	Yes	**(20)**	
	No	**(15)**	☐
3	**Is it a not-for-profit company?**		
	Yes	**(0)**	
	No	**(10)**	☐
4	**Are the Sales/ Receipts of the entity**		
	More than more than BDT 200 Crore	**(30)**	
	More than 100 Crore, less than 200 Crore	**(25)**	
	More than 50 Crore, less than 100 Crore	**(15)**	
	More than 10 Crore, less than 50 Crore	**(10)**	
	Less than 10 Crore	**(5)**	☐
5	**General state of computerization in the entity. The entity has computerised**		
	Most of the Business processes	**(30)**	
	Most of the Accounting and Financial Processes	**(25)**	
	No other business process	**(10)**	
	No significant Computerisation	**(0)**	☐
6	**The financial statements are**		
	Consolidated	**(30)**	
	Stand alone	**(0)**	☐
7	**Accounts Receivables are**		
	More than more than BDT 100 Crore	**(30)**	
	More than 50 Crore, less than 100 Crore	**(25)**	
	More than20 Crore, less than 50 Crore	**(20)**	
	More than 5 Crore, less than 20 Crore	**(15)**	
	Less than 5 Crore	**(10)**	
	Not applicable	**(0)**	☐

8	**Cash in Hand and Banks are**	
	More than more than BDT 100 Crore	**(30)**
	More than 50 Crore, less than 100 Crore	**(25)**
	More than20 Crore, less than 50 Crore	**(20)**
	More than 5 Crore, less than 20 Crore	**(15)**
	Less than 5 Crore	**(10)**
9	**Is the entity a listed company?**	
	Yes	**(30)**
	No	**(0)**
10	**Net Borrowings of the entity is**	
	More than more than BDT 100 Crore	**(30)**
	More than 50 Crore, less than 100 Crore	**(25)**
	More than20 Crore, less than 50 Crore	**(20)**
	More than 5 Crore, less than 20 Crore	**(15)**
	Less than 5 Crore	**(10)**
	Not applicable/NIL	**(0)**
11	**The debt-to-equity ratio is**	
	More than 5:1	**(30)**
	More than 3:1, less than 5:1	**(25)**
	More than2:1, less than 3:1	**(20)**
	More than 1:1, less than 2:1	**(15)**
	Less than1:1	**(10)**
	Not applicable/NIL	**(0)**
12	**The entity is functioning at**	
	Only one location	**(10)**
	More than one, less than 5 locations	**(20)**
	More than 5 locations	**(30)**
	Is proposed to be expanded in more than one location	**(25)**
13	**The entity is dependent on financial assistance from Government**	
	Yes	**(30)**
	No	**(0)**

14	**Even though, the entity is loss making, it deals with matters of public interest**		
	Yes	**(20)**	
	No/ Not Applicable	**(0)**	☐
15	**Taking WC=Shareholders' equity-fixed assets, if WC is**		
	Positive	**(10)**	
	Negative	**(30)**	
	Not Applicable	**(0)**	☐
16	**Taking WCR =Current Assets-Current liabilities, if WCR is**		
	Positive	**(10)**	
	Negative	**(30)**	☐
	Not Applicable	**(0)**	
17	**Is the entity managed by a Board/ Governing Board?**		
	Yes	**(10)**	
	No	**20)**	☐
18	**Does the entity have a credit rating?**		
	Yes	**(30)**	
	No	**(0)**	☐
19	**Has the entity changed accounting policies significantly during the financial period?**		
	Yes	**(30)**	
	No	**(5)**	
	Accounting Policies and Notes are not appended to FSs	**(30)**	☐
20	**The entity is**		
	More than 20 years old	**(5)**	
	Less than 20 years but more than 10 years	**(10)**	
	Less than 10 years but more than 5 years	**(15)**	☐
	Less than 5 years but more than 2 years	**(20)**	
	Less than 2 years old	**(30)**	

Audited Entity	
Year of account	
Source(s) of information	

Completed by		**Date**	
1st Review by		**Date**	
2nd Review by		**Date**	

Purpose

The purpose of this guide is to help the auditor:

i. Obtain and document an understanding of the entity's business and operation, including the framework of authorities governing the entity and its activities; and

ii. Form a preliminary view of the strengths and weaknesses of the overall control environment, to inform our assessment of risk and the design of the audit strategy.

Structure

The guide is in three parts:

Part A: External Environment

This part of the guide examines the external environment surrounding the entity, and will help the auditor to understand the objectives of the organisation, the Audited Entity's financial statements, the General Legal Framework and the extent of public and Parliamentary interest.

Part B: Framework of Authorities

This part of the guide considers the framework of authorities for the entity, and will help the auditor to understand the Regularity Framework.

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Part C: Overall Control Environment

This part of the guide considers key areas of the control environment of the organisation, and will help the auditor to understand the organisational structure, the Control Environment and controls against irregularity, illegality and fraud.

When and how to use

The guide should be completed by the auditor during preliminary planning, and used to inform the planning process. It provides a structured list of factors for the auditor to consider for a full understanding of the business.

The auditor should draw on his/her existing knowledge of the audited entity to be selective in addressing the key issues and questions.

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Part A – The External Environment

Description of key elements of the environment	Key issues for the audit strategy
1 –Business Environment **Describe the entity's primary activities and those factors that may impact on the achievement of its objectives.**	
2 - Political Environment **Note any interest of the Government, Parliament, media and pressure groups in the entities activities and any specific factors which may influence the conduct of business or the reporting of its results.**	
3 – Future events **Note any planned or potential future events, including changes in legislation, new programmes/services, known developments and changes in technology which may affect the entity.**	
4 - Relationships with sponsoring department **Detail the extent to which the entity is subject to detailed oversight from the Ministry of Finance or other Ministries.**	
5 - Financial and performance reporting requirements. **Describe the extent to which financial and performance reporting requirements impact on the entity's operations and the way in which it is run.** **6 – Other Factors** **List here any other external environmental factors that may influence the business, operations or financial reporting of the entity. Such factors might include:** • **Litigation/claims against the entity** • **Environmental or product liabilities (warranties, decommissioning liabilities, etc.)** • **Other aspects of the general legal framework (health & safety, employment law, etc.).**	

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Part B – Framework of Authorities

Description of key elements of the framework of authorities	Key issues for the audit strategy
1 Authorising Legislation **Note the authorising legislation which governs the entity's operations and the activities.**	
2 Regulations issued under authorising legislation **Note any delegated legislation governing the entity's activities and its significance for the entity's operations.**	
3 Parliament Authority **Detail the purposes for which Parliament provision is made and the specific sums authorised for those purposes.**	
4 Ministry of Finance (MoF) **Note any regulations issued by the MoF governing the entity's activities and its significance for the entity's operations.**	

Part C: Overall Control Environment

Objective	How do management's control procedures address the objective? What are the implications for the audit strategy?	Report to Mgt?
1) Organisation, Roles and Responsibilities **1.1 Accounting Officer and management board** The Accounting Officer and management board should: • set an appropriate 'tone at the top'; • possess requisite skills and experience to implement the decisions of Parliament, ministers, etc.; and • motivate employees to act properly in the interests of the taxpayer. The Accounting Officer and key managers (particularly those with direct financial responsibility) should possess requisite skills and expertise for controlling the business.		
1.2 Departmental Oversight, etc. (where applicable) The composition, activities and attitudes of the members of the senior management and the information provided to it should: • set an appropriate tone for the organisation as a whole; • make for effective decision making, control and strategic management; and • motivate management to act properly in the conduct of public business.		

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1.3 Organisation structure and assignment of authority and responsibility The organisation structure should provide for clear lines of responsibility and information flow to facilitate management monitoring of the entity's activities. The assignment of responsibility, delegation of authority and establishment of related policies should provide a basis for accountability and control, and clearly define individual roles**.** Managers should fully understand their control responsibilities and possess the requisite experience and levels of knowledge. There should be appropriate segregation of duties and powers to avoid, as far as possible, opportunities for fraud, intentional misstatement or management override of controls.		
1.4 Human resources policies and procedures Personnel policies should support the recruitment, retention and development of high calibre and competent staff who are able to implement the business plan effectively and guard against control breakdown, fraud or other impropriety. Management must specify the level of competence needed for particular jobs, and translate the desired levels of competence into requisite knowledge and skills**.** Management and staff should possess the appropriate competencies, skills and qualifications to perform their roles effectively.		
2) Integrity **2.1 Integrity and Ethical Values** Management must convey the message that integrity and ethical values are crucial, and employees must understand this message. Management must continually demonstrate, through words and actions, a commitment to high ethical standards The organisation should set out clear expected codes of conduct and ethical values. The conduct of staff should be monitored effectively and breaches dealt with in an appropriate manner.		
2.2 Commitment to accurate and fair financial reporting. Management should demonstrate a commitment to a fair representation of transactions and the activities of the organisation within the financial statements. The control environment should support the detection and prevention of intentional misstatement through segregation of duties or other controls.		
3) Risk Assessment **3.1 Management's risk assessment process** Management should set clear business objectives and identify and consider the implications of risks affecting the achievement of those objectives in its plans. The risk assessment process should consider the internal and external factors that could impact on the achievement of objectives.		

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4) Monitoring and Control **4.1 Management plans and budgetary control** Management should develop plans and budgets to direct and monitor the activities of the business, which are: • realistic; • based on valid assumptions; • developed by knowledgeable individuals; and • at an appropriate level of detail. Management information should be sufficient, timely and reliable enough to allow review and evaluation and corrective action to the business operations and financial position if necessary.		
4.2 Reliability of overall financial reporting Summary financial information should be produced on a regular basis and reviewed by management. Management's review of summary financial information should identify control breakdowns or possible material misstatements in the information. Management should ensure that appropriate follow-up action is taken.		
4.3 Effectiveness of Internal Audit The entity should have an effective internal audit function staffed with competent professionals and sufficiently independent of management. Internal audit should be an effective part of the control environment, helping address the risks of the business in a structured manner and providing assurance on the continuing operation of internal control policies and procedures.		

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Part A – The External Environment

Description of key elements of the environment	Key issues for the audit strategy
1 –Business Environment Describe the entity's primary activities and those factors that may impact on the achievement of its objectives.	
2 - Political Environment Note any interest of the Government, Parliament, media and pressure groups in the entities activities and any specific factors which may influence the conduct of business or the reporting of its results.	
3 – Future events Note any planned or potential future events, including changes in legislation, new programmes/services, known developments and changes in technology which may affect the entity.	
4 - Relationships with sponsoring department Detail the extent to which the entity is subject to detailed oversight from the Ministry of Finance or other Ministries.	
5 - Financial and performance reporting requirements. Describe the extent to which financial and performance reporting requirements impact on the entity's operations and the way in which it is run. 6 – Other Factors List here any other external environmental factors that may influence the business, operations or financial reporting of the entity. Such factors might include: • Litigation/claims against the entity • Environmental or product liabilities (warranties, decommissioning liabilities, etc.) • Other aspects of the general legal framework (health & safety, employment law, etc.).	

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Part B – Framework of Authorities

Description of key elements of the framework of authorities	**Key issues for the audit strategy**
1 Authorising Legislation Note the authorising legislation which governs the entity's operations and the activities.	
2 Regulations issued under authorising legislation Note any delegated legislation governing the entity's activities and its significance for the entity's operations.	
3 Parliament Authority Detail the purposes for which Parliament provision is made and the specific sums authorised for those purposes.	
4 Ministry of Finance (MoF) Note any regulations issued by the MoF governing the entity's activities and its significance for the entity's operations.	

Part C: Overall Control Environment

Objective	**How do management's control procedures address the objective? What are the implications for the audit strategy?**	**Report to Management?**
2) Organisation, Roles and Responsibilities **1.1 Accounting Officer and management board** The Accounting Officer and management board should: • set an appropriate 'tone at the top'; • possess requisite skills and experience to implement the decisions of Parliament, ministers, etc.; and • motivate employees to act properly in the interests of the taxpayer. The Accounting Officer and key managers (particularly those with direct financial responsibility) should possess requisite skills and expertise for controlling the business.		

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1.2 Departmental Oversight, etc. (where applicable) The composition, activities and attitudes of the members of the senior management and the information provided to it should: • set an appropriate tone for the organisation as a whole; • make for effective decision making, control and strategic management; and • motivate management to act properly in the conduct of public business.		
1.3 Organisation structure and assignment of authority and responsibility The organisation structure should provide for clear lines of responsibility and information flow to facilitate management monitoring of the entity's activities. The assignment of responsibility, delegation of authority and establishment of related policies should provide a basis for accountability and control, and clearly define individual roles. Managers should fully understand their control responsibilities and possess the requisite experience and levels of knowledge. There should be appropriate segregation of duties and powers to avoid, as far as possible, opportunities for fraud, intentional misstatement or management override of controls.		
1.4 Human resources policies and procedures Personnel policies should support the recruitment, retention and development of high calibre and competent staff who are able to implement the business plan effectively and guard against control breakdown, fraud or other impropriety. Management must specify the level of competence needed for jobs, and translate the desired levels of competence into requisite knowledge and skills. Management and staff should possess the appropriate competencies, skills and qualifications to perform their roles effectively.		
2) Integrity **2.1 Integrity and Ethical Values** Management must convey the message that integrity and ethical values are crucial, and employees must understand this message. Management must continually demonstrate, through words and actions, a commitment to high ethical standards The organisation should set out clear expected codes of conduct and ethical values. The conduct of staff should be monitored effectively and breaches dealt with in an appropriate manner.		

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2.2 Commitment to accurate and fair financial reporting. Management should demonstrate a commitment to a fair representation of transactions and the activities of the organisation within the financial statements. The control environment should support the detection and prevention of intentional misstatement through segregation of duties or other controls.		
3) Risk Assessment **3.1 Management's risk assessment process** Management should set clear business objectives and identify and consider the implications of risks affecting the achievement of those objectives in its plans. The risk assessment process should consider the internal and external factors that could impact on the achievement of objectives and should be documented in a risk register.		
4) Monitoring and Control **4.1 Management plans and budgetary control** Management should develop plans and budgets to direct and monitor the activities of the business, which are: • realistic; • based on valid assumptions; • developed by knowledgeable individuals; and • at an appropriate level of detail. Management information should be sufficient, timely and reliable enough to allow review and evaluation and corrective action to the business operations and financial position if necessary.		
4.2 Reliability of overall financial reporting Summary financial information should be produced on a regular basis and reviewed by management. Management's review of summary financial information should identify control breakdowns or possible material misstatements in the information. Management should ensure that appropriate follow-up action is taken.		
4.3 Effectiveness of Internal Audit The entity should have an effective internal audit function staffed with competent professionals and sufficiently independent of management. Internal audit should be an effective part of the control environment, helping address the risks of the business in a structured manner and providing assurance on the continuing operation of internal control policies and procedures.		

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Appendix 4 - IT Internal control checklist

Audited Entity	
Year of account	
Source(s) of information	

Completed by		**Date**	
1st Review by		**Date**	
2nd Review by		**Date**	

The following table can be used to document the application systems of the auditee.

Name of Application	Description and purpose of the application	Modules / subsystems of application used	Does the system interface with the financial system? Give a brief description of the nature and frequency of the interface.

For application systems identified, complete the following questions:

Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What can go wrong if control is not implemented?	Reference to evidence obtained	Comments
Information Technology governance					
1. Does the organization have an IT strategic committee or equivalent with overall responsibility for IT?		Request and obtain ICT strategic committee meeting minutes	The non-establishment of an IT committee at the board level could result in IT governance , as part of enterprise governance, not being adequate		
2. Does the organization have an IT strategic plan (high level plan) that		Approved IT strategic plan	The non-establishment of an IT strategic plan could result in		

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Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What can go wrong if control is not implemented?	Reference to evidence obtained	Comments
supports business requirements and ensures that IT spending remains within the approved IT strategic plan?			IT goals not contributing to the auditee's strategic objectives and related costs and risks		
3. Are there defined roles and responsibilities for each IT function / role-player		Organisational chart , IT business plan. If none, ask the IT director to describe each role player.	Undefined IT roles and responsibilities could result in the IT function that is non-responsive to the department's needs		
4. Is a training program to build IT capacity in place?		Request and obtain a program for training and the transfer of skills.	Lack of defined IT training could result in IT function failing to meet operations as well as creating reliance on key staff members		
5. Does the entity make use of service providers? if so, are there service level agreements in place for all vendors to whom IT services has been outsourced.		Obtain a list of outsourced activities and obtain copies of signed service agreements with all service providers, cross check the list with the agreements	The non-establishment of service level agreements could result in poor understanding of IT cost, benefits, strategy, policies, service levels and not ensuring satisfaction of end users with service.		
Security management					
6. Is there a formally approved IT security policy to ensure data confidentiality, integrity and availability?		Approved IT security policy	If an organisation does not have a security policy, there is no clear direction to maintain information security across the organisation and to properly safeguard the organisations' assets.		
7. Does the organization have installed anti-virus programs on all computers which is updated regularly?		Discussion, observation and screen dump of the antivirus program	IT services could be interrupted, data corruption could occur.		
8. Is there a process in place to ensure up-to-date security on all systems software		Patch management procedures and process (patches	The system software could not function properly.		

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Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What can go wrong if control is not implemented?	Reference to evidence obtained	Comments
(patch management process)		and updates regarding e.g. operating system, anti-virus, firewall, etc., frequency)			
Program change management					
9. Are there formally documented and approved processes to manage upgrades made to all financial / performance information systems?		Approved procedures / guidelines on how changes and upgrades to packages systems are to be handled?	Unauthorised changes are made to the systems, changes are made without being properly tested first, there is a lack of supporting change request documentation for changes made, changes made do not address user requirements.		
10. When an upgrade is made to the systems, is formal change request documentation completed indicating the change to be made and the reasons for all changes to the financial systems?		Examples of change request documentation completed.	Unauthorised changes are made to the systems, changes are made without being properly tested first, there is a lack of supporting change request documentation for changes made, changes made do not address user requirements.		
11. Do programmers have access to the test and live environments? If packaged systems, does the vendor have access to the production environment?		Discussion with the system administrator, programmers, / vendor, printout from system including vendor / programmer access	Unauthorised changes can be made to the system, changes are not properly tested, lack of supporting documentation for changes made, changes made do not address user requirements.		
Physical access controls					
12. Are there policies in place which cover physical access to IT environments?		Discussions with management and observation	Unauthorised access to IT environments could result in damages to hardware, theft, etc.		

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Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What can go wrong if control is not implemented?	Reference to evidence obtained	Comments
13. Is physical access to sensitive areas (such as computer room, operations, storage rooms, network rooms etc.) controlled?		Discussions with management and observation	Unauthorised access to IT environments could result in damages to hardware, theft, etc.		
14. Is physical access properly controlled after hours?		Signed off logs to these areas.	Unauthorised access to IT environments could result in damages to hardware, theft, etc.		
Environmental controls					
15. Are there policies and procedures in place to cover environmental controls?		Discussions with management and observation	If environmental controls are not properly addressed, the organisation might not recover from an interruption at all or quickly enough.		
16. Are the following environmental controls in place: • Fire suppression systems • Fire extinguishers • Generators, • Air conditioning systems (especially in computer room) • Humidity, temperature control systems		Observation	If an organisation does not have proper controls in place, the organisation might not recover from an interruption at all or quickly enough.		
17. Is there a formal, documented and tested emergency procedure in place?		Register of emergency procedures carried out.	In case of an emergency, the personnel involved might not be aware of what is expected from them and lead to business interference.		
IT service continuity					
18. Does the entity have a disaster recovery plan?		Approved disaster recovery plan	The auditee might not be able to recover from such disaster.		

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Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What can go wrong if control is not implemented?	Reference to evidence obtained	Comments
19. Are copies of the IT continuity plan and disaster recovery plan kept off-site		Agreement with entity where plans are kept	Should a disaster occur, the auditee might not be able to access the disaster recovery plan.		
20. Has a backup and retention strategy been implemented?		Approved backup and retention strategy	If no backups exist and a disaster occurs, the organisation may not be able to continue services.		
21. Are backups performed, verified and checked for successful completion?		Review of, for example, backup register / log that is signed off	If no backups exist and a disaster occurs, the organisation may not be able to continue services.		
22. Are backups stored in a secure offsite storage facility?		Inspect offsite location /agreement with external party	If backups are not stored at an offsite location the organisation might not recover from a disaster		
Logical Access control					
23. Is there a formally documented and approved user management standards and procedures in the organization?		Formal approved user account management policy	Without a sound and approved framework users do not have any rules and procedures to follow to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.		
24. Are processes in place to review user access rights on the system and if the rights are in line with their responsibilities		Evidence of reviews	Unauthorised user access to systems.		
25. Does every user have a unique username?		Lists of active users on the system.	User IDs which are not linked to specific persons could result in a lack of accountability		

Conclusion

The following risks have been identified:

[All risks identified to be reflected in the Audit Strategy)

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Appendix 5 - Audit Risk Assessment

Audited Entity	
Year of account	
Source(s) of information	

Completed by		**Date**	
1st Review by		**Date**	
2nd Review by		**Date**	

1	Name of the Entity	
2.	Financial Statements for the Year (YYYY-YY)	
3.	Category of the Entity (Category I/II/III/IV)	
4.	Brief Understanding of the Entity highlighting nature of operations, financial aspects and financial reporting framework	
5.	Indicate clearly basis of accounts (In case of hybrid basis, indicate clearly the transactions on cash basis and transactions on accrual basis)	

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6.	Indicate documents consulted and procedures performed to obtain the understanding	
7	Indicate Inherent Risk Score with Inherent Risk Assessment Document Number:	
8.	Indicate Control Risk Score with Control Risk Assessment Document Number:	
9	Detection Risk level	
10	Overall Audit Risk Level	
11	Indicate Documents consulted and procedures performed to assess control Risks	

12 Indicate assertions/ line items and their risk level

Line Item	Risk Assessment	Basis
Accounts Payable		
Accounts Receivable Sales		
Amortisation of Long-Term Liabilities/ Assets		
Cash		
Corpus Funds		
Current Assets		
Current Liabilities		
Depreciation		
Earmarked Fund		
Equity		
Expenditure		
Financial Closing		
Income		

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Reserves				
Notes and Disclosures				
Taxes including Deferred Tax Assets and Tax Liabilities				
Prepared By		Date		
Approved By		Date		

13. Participants in the Risk Assessment meetings
14. This Document
15 Comments of the Approver

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1. Preliminary Information

1.1	Name of the Entity				
1.2	Financial Period of the Financial Statements (MM/YY to MM/YY)				
1.3	Period of Audit	From (DD/MM/YY)		To (DD/MM/YY)	

1.4 Name of the members of the Audit Engagement Team in terms of Seniority (Team Leader at Sl No 1)

Sl No	Name	Revised
1		
2		
3		
4		
5		

1.5	Document No of Audit Strategy	

1.6	Total Number of Working Days	Original
		Revised
		Actual

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2. Knowledge of the Entity

2.1 Important Characteristics of the Entity

2.2 Revision/ Addition

2.3 Are there any points arising from Appendix 3 - Understanding the Business and Internal Controls and Appendix 4 - IT Internal control checklist

2.4 Financial Performance/Parameters

	Initial	Revision/ Addition
1		
2		
3		
4		
5		
6		
7		
8		

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2.5	Inherent Risk Assessment	
2.6	Control Risk Assessment	
2.7	Detection Risk	
2.8	Materiality Benchmark	
2.9	Materiality in Bangladesh Taka	
2.10	Complex Accounting Areas (Attach Additional Sheet, if necessary)	

3. Main Audit Areas (Attach Additional Sheet, if necessary)

Main Audit Areas	Performance Materiality	Estimated Manhours	Estimated Manhours	Revision, if any

4. Procedure Details (EMH: Estimated Hours; AMH: Actual Hours)

Proposed Analytical Procedures	EMH	AMH	Detailed Testing Procedures	EMH	AMH

5. Documents consulted before preparation of the Audit Strategy

Sl No	Description
1	
2	

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3	
4	

(Signature of the Team Leader) Date
Audit Engagement Team

(Signature of the Officer in charge of Direction, Supervision and Review) Date

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Audited Entity	
Year of account	
Source(s) of information	

Completed by		**Date**	
1st Review by		**Date**	
2nd Review by		**Date**	

Complexity Score	
Short Note on Financial Reporting Framework of the Financial Statements including changes that have taken place during the current financial period.	
Category of Entity (I/II/III/IV)	
Is it a Supplementary Audit (Yes/No)	
Act/Statute/ Rule under which CAG is authorised to perform the audit	
Experience of Previous audits of the entity	

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Feedback from Compliance Audit/ Performance Audit	
Audit Report to be finalised by (Date)	
Expected Begin Date/ End Date (DD/MM/YY to DD/MM/YY)	
Note on Expected Audit Coverage including locations(Pl attach extra sheet, if necessary)	
Assessment of Management Controls (please refer to Appendix 3 and 4)	
Preliminary Inherent Risk Assessment	
Preliminary Control Risk Assessment	
Judging by the Complexity Score and preliminary Inherent and Control Risk assessment, efforts required of the engagement team (High/ Medium/Low)	
Whether expert from outside is necessary	
Whether field visits are necessary	

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Component of the financial statements to be covered by field visits with elaboration (Please attach separate sheet if necessary)	
Whether accounting 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)	
Other important points including significant industry development/ changes in laws or any other relevant development	

Signature of the Team Leader) Date
Audit Engagement Team

(Signature of the Officer in charge of Direction, Supervision and Review) Date

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Appendix 8 - Line-Item wise Audit Steps including Test of Controls

For Category II, III and IV Entities.

Line Item	Subject Matter Information	Test of Controls	Substantive Testing
Income from Sales and Services (IE[21])	(i) List of goods (products) and services offered; (ii) Sales Ledger- Product and Service-wise; (iii) Policies regarding recognition and measurement of income i.e. Accounting Policies and Framework; (iv) Sales Return Ledger	(i) Check procedures for authorizing inventories for sales; (ii) Check pricing procedures; (iii) Check for segregation of duties regarding authorization for sales; stocks for sales; (iii) reconciliation between sales records and sales income; (iv) check segregation of duties regarding collection of money and their accounts; (v) check procedures for reconciliation of cash book/bank book for credits; (vi) check procedures for physical stock verification and periodicity of it; (vii) check procedures for internal surprise inspection; (ix) check policies for discounts, if any; (x) in case of on-line sales, check the procedures	***On Sample Basis*** (i) Check copies of sales cash memos and reconcile with sales ledgers; (ii) Check cash memos and reconcile with cash book/ Bank books; (iii) Check Sales ledgers with Cash Book/ Bank Book; (iv) Check sales returns and their accounting; (v) Check Cash/bank reconciliation memos; (vi) Check physical verification reports and follow up on discrepancies and their impact on financial statements; (vii) check outstanding and reasons for them including whether long pending items are still recognized as Income.

[21]IE stands for Income and Expenditure Account

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
		particularly in respect of payment gateways and control over such payment gateways;	
Grants and Subsidies (IE)	(i) Grants and Subsidy Ledgers; (ii) Orders of such Grants and Subsidies; (iii) Bank advices/ payment advices;	(i) check procedures for receipt of Grants and Subsidies and their accounts; (ii) check procedures for reconciling Grants/ Subsidies order with payment advices; (iii) check procedures for ledger posting of such Grants/ Subsidies; (iv) check recognition and measurement policies for non-cash grants/subsidies; (v) check control measures that no such grant/ subsidy has been left out;	(i) Check all Grants/ Subsidies Orders; (ii) check all payment advices and link them with the orders; (iii) check correctness of ledger postings; (iv) check long pending items in ledgers where money is due; (v) cross-verify, on a sample basis with the Grants/Subsidy giving authority; (vi) check the terms and conditions of the grants/subsidies and see whether the entity has violated any conditions, which might lead to forfeiture of such grants/subsidies; (vii) Check that the non-cash grant/subsidy has been recognized and measured correctly; (viii) check that grants for revenue purpose only is routed through IE account; grants for capital purpose may be routed through BS;

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			(ix) Check that appropriate disclosures have been made in the financial statements.
Other Income(IE)	(i) List of ledger balances aggregating in the line item; (ii) In case of Fees/Subscriptions/ Royalty/ Publications; individual ledgers; (iii) Policies relating to recognition and measurement of income;	(i) collect list of all balances which aggregate to this balance; (ii) check policies for treatment of other income; (iii) check policies for recognizing and measurement of other income; (ii) Check pricing procedures; (iii) Check for segregation of duties regarding authorization fand collection; (iv) reconciliation between sales records and sales income; (v) check segregation of duties regarding collection of money and their accounting; (v) check procedures for reconciliation of cash book/bank book for credits; (vi) check procedures for physical stock verification and periodicity of it;	***On Sample Basis*** (i) Check individual journal entries to ascertain that such entries reflect legitimate other income; (ii) in case cash is yet to be received, check whether there is reasonable possibility for receipt of cash; (iii) check outstandings and reasons for them including whether long pending items are still recognized as Income; (iv) check for recognition and measurement misstatements;

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
		(vii) check procedures for internal surprise inspection; (ix) check policies for discounts, if any;	
Interest Income (IE)	(i) Investment Ledgers; (ii) Bank Statements and other investment documents; (iii) Rate Lists;	(i) check the decision-making process for investments including risk assessment process and ensure that there is collegiate decision making; (ii) check policies relating to allocation for different types of investments; (iii) check that for interest bearing deposits and investments, competitive rates have been explored; (iv) check the tenor of investments with cash budget projections;	(i) collect and check list of all interest-bearing deposits and investments; (ii) check whether any deposits have been made with any dubious/ non-approved agency or in any toxic instruments; (iii) check whether any high-risk investments have been made; (iv) check that payments for all interest accrued has been received in time; (v) check that there is no default in receipt of interest; (vi) check that the correct amount has been received; (vii) reconcile interest income ledger with cash/bank book and follow up discrepancies; (viii) crosscheck with borrowings from banks and examine whether the entity is

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			keeping investments and at the same time borrowing from banks. Weigh such actions from the point of view of prudent cash management;
Income from Investments	(i) Investment Ledgers: (ii) Dividend ledgers;	i) check the decision-making process for investments including risk assessment process and ensure that there is collegiate decision making; (ii) check policies relating to allocation for different types of investments; (iii) check for written policies for investments; (iv) check the tenor of investments with cash budget projections.	(i) collect and check list of all investments; (ii) in case of investments in shares and mutual funds, check that prudential norms have been followed to depict investments in the financial statements; (ii) check for significant variations between the initial value and current market value of the investments; (iii) check whether any high-risk or imprudent investments have been made; (iv) check that dividends when and where due have been received and accounted for; (v) check that there has been no default in payment on maturity of any investment and if so, the recognition, measurement and

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			accounting treatment of it; (vi) check whether any agency commission has been paid and if so to whom; make reasonable enquiries to ensure that such agency commission has not been paid to any related party of those charged with governance of the entity; (viii) crosscheck with borrowings from banks and examine whether the entity is keeping investments and at the same time borrowing from banks. Weigh such actions from the point of view of prudent cash management; (ix) Check for parking of funds and ensure that the entity is not recognizing them as revenue for future services and earning interest on them.
Establishment Expenses (IE)	(i) Establishment Registers showing number of staff employed, pay scales etc. (ii) Payrolls; (iii) payroll ledgers;	(i) check policies of recruitment and check whether there are any broad violations {the idea is not to check each recruitment, but whether the entity has made recruitments despite ban on recruitment or	(i) check the results of trend analyses and identify the bumps and dips, if any and examine the reasons; (ii) check 100% of payrolls of the top 20 personnel and that of the maker,

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
		recruitment has been made on contract basis despite a ban on such recruitments} (ii) check segregation of duties regarding maker, checker and approver of payroll bills; (iii) check that adequate system exists to resolve discrepancies in pay and allowances;	checker and approver of payrolls for at least 4 months randomly selected, to ensure that the pay and allowances drawn by them are correct; (iii) check on ***a small sample basis*** pay roll of other employees; (iv) check ***on a sample basis*** position of advances and their recoupment; (v) check payroll with actual payments; (vi) in case of payment directly to the bank, ***check on a sample basis***, the bank scrolls to reconcile the actual payments; (vii) check that the establishment expenses are booked on gross basis with adjustments for deductions in other ledgers; reconcile with other ledgers relating to deductions; (viii) check exclusions;
Other Administrative Expenses(IE)	(i) List/ Ledgers contributing to this balance	(i) check delegation of financial powers to ensure that proper control exists;	(i) check the results of trend analysis in respect of individual ledgers

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
		(ii) collect list of ledger balances which aggregate to this balance;	(i) check ***on a sample basis*** journal and ledger entries to ensure that no imprudent expenditure or any expenditure which is prima facie excessive has taken place; (ii) check ***on a sample basis*** that no expenses which should be booked under establishment expenses are booked as other administrative expenses; (iii) check ***on a sample basis*** items of expenditure to ensure that these are supported by proper sanction by the competent authority and proper procedures have been followed particularly in cases of procurement; (iv) check and reconcile with cash book/ bank book; and (vi) check exclusions.
Grants/ Subsidies (Expenditure)(IE)	(i) List/ Ledgers of such Grants and Subsidies; (ii) Authorities for such Grants/ Subsidies. (iii) Individual Grant Files	(i) check procedures for sanctions including the delegations and policies for such sanctions;	(i) check individual grant files to ensure that conditions and procedures have been adhered to;

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
		(ii) check whether the circumstances for such grants/ subsidies entail physical verifications and other procedures;	(ii) check for any ad hoc grant sanctioned; (iii) check that formal requests/ demands exist for such grants/ subsidies; (iv) check with payment details; (v) check for transactions which can have elements for related party transactions;
Interest paid (IE)	(i) List of Loan accounts/ loan ledgers (ii) Interest Ledgers; (iii) Rate List; (iv) bank Statements;	(i) check procedures including delegation of financial powers to resort to borrowings; (ii) check policies regarding borrowings;	(i) check the interest ledgers to examine whether interests have been paid correctly and in accordance with the rates applicable; (ii) check with the cash budget to examine circumstances leading to borrowings; (iii) check the bank statements and other documents to ascertain that interest falls due has not remained unpaid.
Depreciation	(i) List of Fixed Assets/ Fixed Assets Registers; (ii) Rates of Depreciations and Schedule; (iii) Depreciation Ledgers;	(i) Check rates of depreciation;	(i) check ***on a sample basis*** the correctness of the depreciation charged; (ii) check the accounting of depreciation and the

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			ledger balances of depreciation reserve fund;
Fixed Assets (BS[22])	(i) Fixed Assets Registers/ Fixed Asset ledger; (ii) Accounting Policy;	(i) check segregation policies relating to procurement of fixed assets; (ii) check financial rules followed; (iii) check the quality of maintenance of fixed assets; (iv) check capitalization policy	(i) scan the fixed asset register to ascertain (a) that all items have been included in the registers; (ii) reconcile ***(on a sample basis)*** with the procurement files with the entries in the fixed asset registers; (iii) examine whether all the fixed assets are numbered; (iv) reconcile the fixed asset ledger with depreciation ledger and examine whether all depreciations have been entered in the depreciation ledger and the value of the fixed assets has been correctly depicted; (v) check the total of the fixed asset registers with the fixed asset ledger and then with the fixed asset balance in the Balance Sheet; (vi) check that the ownership of the assets fully vests with the entity;

[22]BS stands for Balance Sheet

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			(vii) check that no inadmissible items have been capitalized, particularly in civil constructions; (viii) check the maintenance expenditure which does not add to the future benefits have been capitalized; (ix) check that no borrowings have been resorted to by pledging any fixed asset; (x) check that all moveable assets and plants and machineries are in active use; (xi) check accounting policy regarding treatment of impairment of assets;
Investments (BS)	(i) Investment Ledger/ Investment Registers; (ii) Instruments/ Documents relating to Investments;	i) check the decision-making process for investments including risk assessment process and ensure that there is collegiate decision making; (ii) check policies relating to allocation for different types of investments (iii) check for written policies for investments;	(i) carry out trend analysis of all investments and returns on them for an analytical review; (ii) check the value of the investments in the investment registers tally with the investment balances in the Balance Sheet; (iii) check whether prudential policies are followed in

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
		(iv) check the tenor of investments with cash budget projections.	depicting investments and these are shown at cost, while those with declining (excepting temporary decline) market values are shown at the market value; (iv) check whether any provision has been made for the impairment of investments; (v) check that all investments have been made in accordance with the stated investment policies of the entity and approval of the competent authorities exist; (vi) check commissions paid for investments and any related party transaction on account of this;
Capital Works-in-Progress(BS)	(i) Projects Registers; (ii) List of Capital Works aggregating to the balance;	(i) check projects registers; (ii) check that there are regular reviews to monitor the progress of the projects	(i) check list of projects which are reflected in the capital works in progress; (ii) do an age wise analysis to ascertain whether there are any long pending projects; (iii) check for projects which are in use but still being

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			shown as works-in-progress and ascertain reasons; (iv) check ledger balance of each project and tally it with the balances shown in the Balance Sheet; (v) check that there is regular follow up as a result and monitoring of such projects; (vi) check fund flow in these projects and ascertain whether such projects are getting delayed for lack of funds; (vii) check if there are any contractual problems; (viii) check for arbitration issues;
Current Assets (BS)	(i) List of assets and ledger balances comprising the balance; (ii) Cash Book and Bank Details; (iii) Bank Reconciliation Statements;	Note: There would be three main balances under this: (a) Inventories (b) Sundry Debtors and most importantly, (c) Cash and Bank Balances. Some entities with significant cash may show the Cash and Bank Balances separately. (i) Ledger Books of each of the balances comprising the Balance in the Balance	(i) check ***on a sample basis*** inventories ledgers and valuations to examine that the ledgers are maintained carefully and correctly, and all items represent current assets; (ii) check ***on a sample basis*** that all inventories are such that they can be converted into monetary assets

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
		Sheet should be collected and checked for procedures and policies regarding recognition and measurement of these balances (ii) Cash and Bank Balances require particular attention from the control point of view. Some of the usual test of controls would be to ascertain that daily cashbooks are closed daily; regular bank reconciliations are carried out and discrepancies are resolved; close supervision and monitoring exists over cash management	quickly during the normal activities of the entity; (iii) do an age-wise analysis of the inventories to examine whether any of these inventories are being held longer that one financial period; (iv) check ***on a sample basis*** individual sundry debtor balances and examine the prospects of recovery. (v) check that all debtors are legitimate and no advances for service to be rendered or staff advances, or entitlement advances paid have been included in this category.
Secured Loans and Borrowings (BS)	(i) Secured Loan Ledgers;	(i) check the policies and procedures relating to secured loans and borrowings to ensure that adequate controls are exercised	(i) check value of secured assets and examine whether the value is commensurate with the amount of loans and borrowings; (ii) check terms and conditions of loans and examine whether they are not usurious; (iii) check commissions paid if

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			any and examine justifications; (iv) check cash budget and examine the feasibility of such loans and borrowings and repayment capability; (v) check ledgers of each loan and examine that they are closely monitored; (vi) check instances of default; (vii) check evergreening of loans; (viii) check and ascertain that the terms and conditions are competitive and proper value discovery process was undertaken; (ix) evaluate risks to the entity on default; (x) check approvals in respect of each loan; (xi) check whether intimations to Government, if required have been provided; (xii) check the rationale of such loans as the entity is expected to be supported by

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			budgetary central government;
Unsecured Loans and Borrowings (BS)	(ii) Unsecured Loan Ledgers;	(i) check policies and procedures and ensure that adequate controls are ensured	(i) check terms and conditions of loans and examine whether they are not usurious; (ii) check commissions paid if any and examine justifications; (iii) check cash budget and examine the feasibility of such loans and borrowings and repayment capability; (iv) check ledgers of each loan and examine that they are closely monitored; (v) check instances of default; (vi) check evergreening of loans; (vii) check and ascertain that the terms and conditions are competitive and proper value discovery process was undertaken; (viii) evaluate risks to the entity on default; (ix) check approvals in respect of each loan;

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			(x) check whether intimations to Government, if required have been provided; (xi) check the rationale of such loans as the entity is expected to be supported by budgetary central government;
Current Liabilities and Provisions (BS)	(i) List of ledger balances contributing to this balance;	(i) check if management have reviewed and approved the list of current liabilities and provisions	(i) check the movement in current liabilities and provisions; (ii) obtain the breakdown of current liabilities and provisions; (iii) Select a sample and test it to ensure completeness and accuracy.
Corpus Fund (BS)	(i) Ledgers of Corpus Funds;	(i) check the ledger book of Corpus Funds to ensure that adequate controls are existing and implemented	(i) check the movements in the corpus fund; (ii) check that no items that should not be treated as corpus fund is included- particularly any funds that are temporarily parked in the entity; (iii) check if any establishment expenses/ administrative expenses are being met out of the corpus fund; (iv) do a trend analysis of the balances and see if

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Line Item	Subject Matter Information	Test of Controls	Substantive Testing
			the fund is declining or increasing; check reasons for that.
Earmarked/ Endowment Funds	(i) Ledgers of such Funds	(i) check policies and procedures to receive endowment/ earmarked fund.	(i) check the movement in current liabilities and provisions; (ii) obtain the breakdown of current liabilities and provisions; (iii) Select a sample and test it to ensure completeness and accuracy.

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Appendix 9 - Sample of Unmodified opinion on Finance Accounts

(when the opinion is not signed by the CAG)

Opinion

We have audited the Finance Accounts of the Government of Bangladesh for the period from 01 July 20XX to 30 June 20XX. The Finance Accounts comprise Statements ___ to ___ and <mention any other documents/ schedules etc. including notes and disclosures. >. The Finance Accounts are the responsibility of the Controller General of Accounts. Our responsibility is to provide an audit opinion on the Accounts.

In our opinion, the accompanying Finance Accounts give a true and fair view of the receipts and disbursements pertaining to Consolidated Fund and Public Account of the Republic during the financial year 20XX to 20XX and the financial position of Government of Bangladesh as at the end of the financial year ending on 30 June 20XX.

Basis for our opinion

We conducted our audit under the direction of the Comptroller and Auditor General of Bangladesh in terms of Article 128(1) of the Constitution of Bangladesh. We conducted our audit in accordance with the Government Auditing Standards of Bangladesh 2020, which are based on the International Standards of Supreme Audit Institutions and the relevant ethical requirements as codified in the Code of Ethics 2020 of the Office of the CAG of Bangladesh.

Our responsibility is to plan and perform the audit to obtain reasonable assurance that the accounts are free from material misstatements, whether due to fraud or error. Audit involves examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes assessing the accounting principles used and significant estimates made as also evaluating the overall presentation of accounts in according with the applicable financial reporting framework.

We have, as part of our audit examination identified the risks of material misstatements in the Finance Accounts and performed audit procedures to respond to the assessed risks and to obtain audit evidence sufficient and appropriate to provide a basis for the audit opinion.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

< Mention Key Matters, if any>

Signature and Date

Consultation Draft

Appendix 10 - Sample of Unmodified opinion for Appropriation Accounts

(when the opinion is not signed by the CAG)

We have audited the Appropriation Accounts relating to Grant No _____ of Government of Bangladesh for the period from 01 July 20XX to 30 June 20XX. The Appropriation Accounts comprise Statements depicting the Accounting Codes, Original Grants against these Codes of expenditure, supplementary Grants and Reappropriations relating to the Grant and sums expended against the appropriations and reasons for excesses and savings s applicable. The Appropriations Accounts are the responsibility of the Principal Pay and Accounting Officer. Our responsibility is to provide an audit opinion on the Accounts.

In our opinion, the accompanying Appropriation Accounts give a true and fair view of the disbursements pertaining to the Grant during the financial year 20XX to 20XX.

Basis for our opinion

The audit was conducted under the direction of the Comptroller and Auditor General of Bangladesh in terms of Article 128(1) of the Constitution of Bangladesh. We conducted our audit in accordance with the Government Auditing Standards of Bangladesh 2020, which are based on the International Standards of Supreme Audit Institutions and the relevant ethical requirements as codified in the Code of Ethics 2020 of the Office of the CAG of Bangladesh.

Our responsibility is to plan and perform the audit to obtain reasonable assurance that the accounts are free from material misstatements, whether due to fraud or error. Audit involves examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes assessing the accounting principles used as also evaluating the overall presentation of accounts in according with the applicable financial reporting framework.

We have, as part of our audit examination identified the risks of material misstatements in the Appropriation Accounts and performed audit procedures to respond to the assessed risks and to obtain audit evidence sufficient and appropriate to provide a basis for the audit opinion.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

< Mention Key Matters, if any>

Signature and Date

Consultation Draft

Appendix 11 - Sample of Unmodified opinion for Foreign Aided Projects

We have audited the Accounts of the <Project Details> for the period from 01 July 20XX to 30 June 20XX. The Accounts comprise Statement of Receipt and Expenditure from ___ to ___ and <mention any other documents/ schedules etc. including notes and disclosures. >. The responsibility to prepare the Accounts are with < mention the responsible party>. Our responsibility is to provide an audit opinion on the Accounts.

In our opinion, the accompanying Accounts give a true and fair view of the receipts and disbursements pertaining to < Project name> during the financial period from 01 July 20XX to 30 June 20XX and the financial position of < Project Name> as at the end of the financial year ending on 30 June 20XX.

Basis for our opinion

The audit was conducted under the direction of the Comptroller and Auditor General of Bangladesh in terms of Article 128(1) of the Constitution of Bangladesh. We conducted our audit in accordance with the Government Auditing Standards of Bangladesh 2020, which are based on the International Standards of Supreme Audit Institutions and the relevant ethical requirements as codified in the Code of Ethics 2020 of the Office of the CAG of Bangladesh.

Our responsibility is to plan and perform the audit to obtain reasonable assurance that the accounts are free from material misstatements, whether due to fraud or error. Audit involves examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes assessing the accounting principles used and significant estimates made as also evaluating the overall presentation of accounts in according with the applicable financial reporting framework.

We have, as part of our audit examination identified the risks of material misstatements in the Finance Accounts and performed audit procedures to respond to the assessed risks and to obtain audit evidence sufficient and appropriate to provide a basis for the audit opinion.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

< Mention Key Matters, if any>

<Optional>

We are pleased to append hereto a Long Form Audit Report containing our findings and recommendations relating to these accounts.

Signature and Date

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Appendix 12 - Sample of Unmodified opinion on Accounts

*F*or Category II and Category III Entities for which CAG is the sole auditor
(Name of the Body is ABC)

We have audited the Balance Sheet of ABC as at 30 June 20XX, the Income and Expenditure Account <and/or Receipts and Payments Accounts> and Notes and Disclosures appended to these accounts for the financial period <mention financial period>. The responsibility to prepare the Accounts are with the management of ABC. Our responsibility is to provide an audit opinion on the Accounts.

In our opinion, the accompanying Accounts together with the Notes and Disclosures give a true and fair view of the receipts and disbursements pertaining to < Project name> during the financial period from 01 July 20XX to 30 June 20XX and the financial position of < Project Name> as at the end of the financial year ending on 30 June 20XX.

Basis for our opinion

The audit was conducted under the direction of the Comptroller and Auditor General of Bangladesh in terms of <Article 128(1) of the Constitution of Bangladesh> or < Section 5(1) of the CAG(Additional Functions) Act 1974>. We conducted our audit in accordance with the Government Auditing Standards of Bangladesh 2020, which are based on the International Standards of Supreme Audit Institutions and the relevant ethical requirements as codified in the Code of Ethics 2020 of the Office of the CAG of Bangladesh.

Our responsibility is to plan and perform the audit to obtain reasonable assurance that the accounts are free from material misstatements, whether due to fraud or error. Audit involves examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes assessing the accounting principles used and significant estimates made as also evaluating the overall presentation of accounts in according with the applicable financial reporting framework.

We have, as part of our audit examination identified the risks of material misstatements in the Finance Accounts and performed audit procedures to respond to the assessed risks and to obtain audit evidence sufficient and appropriate to provide a basis for the audit opinion.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
< Mention Key Matters, if any>

<Optional>
We are pleased to append hereto a Long Form Audit Report containing our findings and recommendations relating to these accounts.

Signature and Date

Consultation Draft