THE STATE OF ERITREA
OFFICE OF THE AUDITOR GENERAL

REGULARITY AUDIT MANUAL 2014

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PREFACE

This manual is part of an overall process to uplift Supreme Audit Institutions (SAIs) in the AFROSAI-E region to comply with the International Standards of Supreme Audit Institutions (ISSAIs). The manual provides an audit approach in accordance with the ISSAIs (1000-2999); which means full compliance with the International Standards on Auditing (ISA) and the additional guidance set out in the INTOSAI Practice Notes. This manual will be maintained and updated by OAG Eritrea based on AFROSAI-E RAM.

The Auditors' General are committed to achieving level 3 of the Institutional Capacity Building Framework (ICBF) set by AFROSAI-E. The ICBF is aimed at trying to assist SAIs in identifying areas for development in such a manner that progress is made with an institutional perspective.

This manual has 2 modules. Module 1 deals with the aspects of described in the ICBF. The ICBF has five development levels: the founding level, the development level, the established level, the managed level and the optimised level. Each level is built on five domains. The domains are further broken down into various elements. The elements are generic, formulated in the same way for all the five development levels. The domains making up the framework are:

- Independence and legal framework;
- Organisation and management;
- Human resources;
- Audit standards and methodology; and
- Communication and stakeholder management.

Module 2 of this manual contains guidance on performing an individual audit in line with ISSAIs.

Regularity audit entails expressing an opinion as to whether or not the financial statements are prepared, in all material respects, in accordance with an identified/applicable financial reporting framework and/or the State of Eritrea statutory requirements. In addition to this, public sector auditors often have additional reporting responsibilities relating to:

- Instances of non-compliance with authorities including budget and accountability, and/or
- Effectiveness of internal control.

The Office of the Auditor General of the State of Eritrea, hereafter called OAG will use a separate guideline for the assessment of their development in comparison with the levels in the ICBF.

A heavy emphasis on the manual is to provide relevant working papers and guidance on the public sector environment. There is for example a need to understand that going concern in the public sector may manifest in the form of non-delivery of basic services. This is fundamental to undertake an audit in this [public sector] environment. The working papers have also been drafted to try and take into account that most practitioners are not qualified accountants and assistance is needed to ensure aspects such as quality control requirements are met.

A fundamental issue in the African public sector context is that information is not always available. This often leads to scope limitation and in some extreme cases the non-production of financial statements. This type of issue makes the utilisation of any manual very challenging and could require additional guidance to customise in Eritrean environment. Staff is encouraged to continuously improve their working practices and provide the necessary inputs to AFROSAI-E through the top management of OAG.

I hope this manual with a supporting training and capacity building initiatives will assist in developing the OAG significantly over the next few years.

APPROVAL

I adopt this audit manual as the basis for the audit approach of my OAG.

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Auditor General **Date**

MODULE 1 – INSTITUTIONAL LEVEL CONSIDERATIONS

PART 1. THE ISSAI FRAMEWORK

Professional standards and guidelines are essential for the credibility, quality and professionalism of public sector auditing. The International Standards of Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aim to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their mandate. These standards and guidelines are contained in the ISSAI framework which set out on four levels, demonstrated in Figure 1.

Figure 1: International Standards of Supreme Audit Institutions

Level 1

- Founding principles (ISSAI 1 - 9)

Level 2

- Prerequites for the functioning of SAIs (ISSAI 10 - 99)

Level 3

- Fundamental auditing principles (ISSAI 100 - 999)

Level 4

- General Auditing guidelines (ISSAI 1000 - 4999)
  - Financial audit
  - Performance audit
  - Compliance audit
- Guidelines on specific subjects (ISSAI 5000 - 5999)

Level 1 contains the founding principles of INTOSAI in the Lima Declaration of independence.

Level 2 sets out the prerequisites for the proper functioning and professional conduct of Supreme Audit Institutions. These include principles and guidance on independence (ISSAI 10; 11), transparency and accountability (ISSAI 20; 21), ethics (ISSAI 30) and quality control (ISSAI 40).

Level 3 contains the Fundamental Auditing Principles (ISSAI 100-999) of the framework and expresses the essence of public sector auditing. Level 3 contains the common pronouncements by INTOSAI's members of the generally recognized professional principles that underpin effective, independent auditing of public sector entities. These principles are seen as the standards of the profession as they provide the authoritative international frame of reference that defines public sector auditing in its contemporary forms.

Level 4 translates the fundamental auditing principles into more specific, detailed and operational guidelines that can be used on a daily basis in the conduct of auditing tasks. The General auditing guidelines (ISSAIs 1000-4999) contain the recommended requirements of financial, performance and compliance auditing while the Guidelines on specific subjects (ISSAIs 5000-5999) provide supplementary guidance on the auditing of specific subject matters or other important issues which may require the special attention of Supreme Audit Institutions.

As public sector business and governance becomes more complex new reporting requirements are being added through a combination of laws, regulations, standards, codes, and other guidance and requirements.The architecture necessary to support changing information needs is still developing, however the common concepts and fundamental principles of public sector auditing should still be applied.

PART 2. THE INSTITUTIONAL CAPACITY BUILDING FRAMEWORK (ICBF)

2.1 INTRODUCTION

This part highlights certain institutional issues which OAGs need to consider when implementing international auditing standards. It needs to be understood that the successful implementation of the ISSAIs on an individual audit level requires and presumes equally well developed institutional structure within the OAG.

It is very important that the OAG develops it's professional and institutional capacity to discharge the requirements of its mandate in the most efficient and effective way. The OAG has therefore adopted and customized the AFROSAI-E Regularity Audit Manual – 2013 to fit to its own situation so as to enable and support OAG to develop and sustain its role and capacity. The ICBF can be used as a tool for OAG's general self-assessment to identify areas where improvements are necessary and point out how this can be achieved.

Note: Although this manual deals with issues relating to regularity audit, the requirements detailed in this chapter based on the ICBF, ISQC 1 and ISSAI 40 are applicable for the OAG as a whole.

The result of a self-assessment based on the ICBF is only one way for the OAG to capture its position and its needs for development. The OAG can have additional means for this purpose. It is the responsibility of the OAG to choose and use the proper instruments in such a way that it can get the best information for its development.

The ICBF consists of five institutional development areas or domains: Independence and Legal Framework, Organisation and Management, Human Resources, Audit Standards and Methodology and finally Communication and Stakeholder Management. Each domain contains a number of elements. Table 1. below summarises these elements.

The five development levels in the ICBF can briefly be characterized as follow:

- **Level 1 – the Founding level**
  An SAI exists, but <u>everything is very rudimental with no plans exist or are carried out to change the situation.</u>

- **Level 2 – The development level**
  The SAI exist and has some legal provisions for its independence, but this provision is not adequate and the SAI is dependent on the executive for its human and financial resources. There are <u>plans and/or what is planned can also have been developed, but plans and policies are not fully implemented</u>.

- **Level 3 – the established level**
  The plans and policies prepared or under development at level 2 are implemented at level 3, <u>however improvement in some areas or in the implementation is needed.</u> The SAI has a legislative, administrative/managerial and financial independence and reports directly to parliament. There are key plans and policies in place and the management information system has the capacity to track the chosen key management information.

- **Level 4 – the managed level**
  Full compliance with <u>all</u> requirements on level 3 is achieved by the SAI that is all the requirements for the 5 domains and the individual elements in the domains. The SAI and the key stakeholder are <u>fully satisfied</u> at level 4 <u>with the implementation</u> of plans, procedures etc. The SAI has at level 4 therefore achieved a full sustainable development. In addition to the conditions at level 3, the SAI is capable of <u>managing its core business in the most cost efficient and cost effective way</u>. Productivity is measured. The SAI provides value and benefit

to their constituencies concerned and is a well-recognized institution by the media and the general public.

- **Level 5 – the optimized level**

  The SAI complies fully with all requirements on level 4. On the optimized level, level 5, the SAI is able to scan the environment and position itself and by that use the resources in the most proactive and value adding way. To optimize its use of resources the SAI must constantly evaluate, analyze and assess its policies, objectives, strategies, systems, procedures, capacity, the skill of its staff and the impact of its decisions.

Table 1. The Institutional Capacity Building Framework and its elements

Independence and Legal Framework	Organisation and Management	Human Resources	Audit Standards and Methodology	Communication and Stakeholder Management
1. Independence of the SAI a. Constitutional/legal framework b. Financial autonomy c. Managerial and administrative autonomy d. Appropriate human, material and monetary resources 2. Independence of the Head of SAI and officials of the SAI 3. A SAI with a sufficiently broad mandate	1. Leadership and direction 2. Strategic planning 3. Annual operational planning 4. The organisation of the SAI a. Organisational development b. Existence of a performance audit function c. Existence of an information systems audit function d. Existence of an IT support function.	1. A human resource and professional development policy (including: - Recruitment - Remuneration - Performance management system - Career development - Training - Staff welfare - Professional development - Job rotation - Retaining - Exit) 2. Development plans aligned with the strategic and annual operational plans	1. Annual audit plan covering: - Assessments of constraints - Current issues and stakeholder expectations - Risk assessments in place for prioritizing audit risk - Clear statement of audit coverage - Activity plans for regularity and performance audits - Addressing of backlogs 2. Audit manuals: a. Aligned to international standards b. Connected to a training programme c. Reviewed and updated regularly	1. Communication policy and strategy covering internal and external communications based on: - Legal framework - Vision, mission and values - Stakeholder analysis - (including prioritisation) - SWOT or similar analysis - Gap analysis considerations 2. Channels of communication between SAI and Parliament, public accounts committees and Judiciary 3. Ad hoc meetings with Ministry of Finance and oversight bodies

Independence and Legal Framework	Organisation and Management	Human Resources	Audit Standards and Methodology	Communication and Stakeholder Management
4. The Head of SAI and his/her staff have mandate and discretion to discharge its function: a. Access to information b. Discretion in selection of audit issues c. Freedom to decide on content, timing of auditor's reports and to publish and disseminate them d. Direct submission of reports to Parliament. 5. Effective follow-up mechanism at the SAI on its recommendations 6. SAIs reporting on its own activities and use of resources 7. Oversight and accountability: the Parliament or an oversight body appoints the SAI's external auditors	5. An internal control system in line with international standards. 6. Use of resources: a. A management information system (MIS) tracking key management information b. A time recording system to enable reporting of staff costs 7. Code of ethics and its monitoring	3. Management of personnel a. Recruitment b. Development c. Staff welfare d. Performance appraisals e. Retaining f. Filling of vacant posts g. Exit 4. Training aspects with monitoring and evaluation mechanisms for: a. New entrants b. Management development c. On the job training d. Secondments to other SAIs e. Audit/accounting f. qualifications g. Coaching and mentoring process 5. SAI capacity to train its staff	3. Quality control measures and quality assurance: a. SAI policy and procedures b. Roles and responsibilities c. Type of review specified and planned, including nature, scope and frequency d. Implementation of a quality assurance handbook or guidance for full compliance to international standards 4. Quality assurance processes performed by others 5. Audit techniques such as electronic working papers and computer assisted audit techniques (CAATS)	4. Internal communication including a. Alignment of staff to SAI's vision, mission, goals and objectives b. Implementation of effective information sharing practices 5. Promotion of the SAI via a. Engagement with: - Media - The public - Academic institutions - International community and organisations b. Use of effective information sharing practices 6. Audit performance and results: a. Audit coverage of expenditure b. Number of signed performance auditor's reports

Independence and Legal Framework	**Organisation and Management**	**Human Resources**	**Audit Standards and Methodology**	**Communication and Stakeholder Management**
		6. SAI capacity to use information and develop knowledge and skill	6. Implementation of the SAI communication strategy for the audit process with the auditees. 7. SAI communication with a. Relevant experts b. Professional bodies c. Relevant journals d. Internal audit e. Other public sector audit institutions 8. SAI reporting should include: a. Follow up on previous recommendations b. Standard structure of reports, used friendly with materiality considerations	c. Number of/percentage of performance d. Auditors in relation to total audit staff e. Integration of IS audit in regularity and performance audit f. Coverage of IS audit g. Time for submission of the annual auditor's report to Parliament from the beginning of the year h. Time for implementation of the recommendations i. The key stakeholders view on the benefit of the audit

2.2 THE ELEMENTS OF THE ICBF

The SAI should establish and maintain a system of quality control that includes appropriate policies and procedures. Requirements addressing each of the following elements as defined in the ICBF:

- **Domain 1. Independence and the Legal Framework**

This domain is covering the demands on the independence of a SAI as formulated in the Lima Declaration (ISSAI 1) and the Mexico Declaration (ISSAI 10). The domain includes the following elements:

1a. Independence of the SAI – Constitutional/legal framework
A legislation that spells out, in detail, the extent of SAI independence is required (Mexico Declaration / ISSAI 10 Principle 1). Ideally, the establishment of SAIs and the necessary degree of their independence should be laid down in the Constitution. However, the details may be set out in legislation such as in a separate Audit law / act.

1b-d. Independence of the SAI - Financial autonomy, Managerial/ administrative autonomy and Appropriate human, material and monetary resources
SAIs should have available necessary and reasonable human, material and monetary resources – the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it appropriately. The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfil their mandate. *(Mexico Declaration, ISSAI 10, Principle 8)*

2. Independence of the Head of SAI (HoS) and the staff of the SAI
The independence of SAIs is inseparably linked to the independence of its head and the staff. The Lima Declaration recommends that the independence of the HoS should be guaranteed by the Constitution. The legislation should specify the conditions for appointments, reappointments, employment, removal and retirement of the HoS and of the members of collegial institutions. Audit staff must not in their profession be influenced by the audited organisations or be dependent on such organisations. *(Mexico Declaration ISSAI 10, Principle 2, 3; Quality Control of SAIs, ISSAI 40, Element 4)*

3. The SAI has a sufficiently broad mandate
SAIs should be empowered to audit the:

- Use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature
- Collection of revenues owed to the government or public entities
- Legality and regularity of government or public entities accounts
- Quality of financial management and reporting, and
- Economy, efficiency and effectiveness of government or public entities operations

(Mexico Declaration, ISSAI 10, Principle 3)

The mandate of the SAI should be clearly defined preferably in the Constitution or in separate audit legislation. It should spell out the powers and responsibilities of the SAI, such as the mandate to carry out certain audits e.g. performance audit and the mandate to audit certain entities. Except when specifically required to do so by legislation, SAIs do not audit political decisions, laws or policies but restrict themselves to the audit of their implementation.

4a.The Head of SAI and his/her staff have mandate to and discretion to discharge its function – Access to information
SAIs should have adequate powers to obtain timely, unfettered, direct and free access to all the necessary documents and information, for the proper discharge of their statutory responsibilities. *(Mexico Declaration, ISSAI 10, Principle 4)*

4b.The Head of SAI and his/her staff have mandate to and discretion to discharge its function – Discretion in selection of audit topics
SAIs are free from direction or interference from the Legislature or the Executive in the selection of audit issues. *(Mexico Declaration, ISSAI 10, Principle 3)*

4c.The Head of SAI and his/her staff have mandate to and discretion to discharge its function –Freedom to decide on content, timing of auditor's reports and to publish and disseminate them

SAIs are free to decide the content of their auditor's reports and the timing of these reports except where specific reporting requirements are prescribed by law. The legislation should specify minimum audit reporting requirements for a SAI and where appropriate, specific matters that should be subject to a formal audit opinion or certificate. SAIs may accommodate specific requests for investigations or audits by the Legislature, as a whole, or one of its commissions, or the government. They are also free to publish and disseminate their reports, once they have been formally tabled or delivered to the appropriate authority – as required by law. *(Mexico Declaration, ISSAI 10, Principle 6)*

4d. The Head of SAI and his/her staff have mandate to and discretion to discharge its function –Direct submission of reports to Parliament

SAIs shall be empowered to and required by the Constitution to report its findings annually and independently to Parliament or any other responsible body. *(Lima Declaration, ISSAI 1, Section 16)*

5. Effective follow-up mechanism on recommendations

SAIs shall have their own internal follow-up system to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature, one of its commissions, or the auditee's governing board, as appropriate. The follow up report is submitted by the SAI to the Legislature, one of its commissions, or the auditee's governing board, as appropriate, for consideration and action. *(Mexico Declaration, ISSAI 10, Principle 7)*

6. The SAI's reporting on own activities and use of resources

SAIs shall assess their operations and performance in all areas, financial audit, performance audit etc. and report on the efficiency and effectiveness with which they use their funds. SAIs may use performance indicators to assess the value of audit work for Parliament, citizens and other stakeholders. They should follow up their visibility, outcomes and impact through external feedback. An activity report should annually be submitted to the Legislature, to other state bodies - as required by the constitution, statutes or legislation – and to the public. *(Principles of transparency and accountability, ISSAI 20, Principle 6) (Mexico Declaration, ISSAI 10, Principle 3)*

7. Oversight and accountability: the Parliament or an oversight body appoints the SAI's external auditors

The SAIs' financial statements are made public and are subject to external independent audit or parliamentary review. (Principles of transparency and accountability, ISSAI 20, Principle 6)

<u>Domain 2. Organisation and Management</u>

The domain Organisation and Management covers management tools as plans and how they should be used efficiently, but also the way a manager should behave as a leader. Organisation and Management includes the following elements:

1. Leadership and direction

A SAI should establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing all of its work. The policies and procedures should be set by the HoS, who retains overall responsibility for the system of quality control. When this responsibility is delegated, it should be to an official with relevant skills and experience within the SAI. *(Quality Control for SAIs, ISSAI 40, Element 1)*

2. Strategic planning[1]

SAIs should in their planning be free from direction or interference from the Legislature or the Executive, but their strategy among others should be made public. SAIs should manage their

[1] Strategic Planning is a systematic process through which an organisation agrees on, and builds commitment among key stakeholders to priorities that are essential to its mission and are responsive to the environment/ stakeholders. Strategic planning is about decisions that are overarching, fundamental, directional and oriented to a medium or longer-term future, while annual operational planning is about developing on an annual basis detailed plans for the implementation of the strategic decisions taken during the strategic planning process. (For more detail refer to AFROSAI-E/IDI Strategic Planning; A Handbook or Supreme Audit Institutions, 2009, page 31ff)

operations economically, efficiently, effectively and in accordance with laws and regulations that necessitates planning. *(Principles of transparency and accountability, ISSAI 20, principle 2; 6) (Mexico Declaration, ISSAI 10, principle 3)*

3. Annual Operational Planning
Annual operational planning is about developing annual detailed plans for the implementation of the strategic plan. What is valid in the standards for strategic planning is also valid for annual operational planning. There is as for the strategic plan not specific standards for the content of the annual operational plan. Reference can be made to the AFROSAI-E guideline for annual operational planning for more detailed guidance.

4a.The organisation of the SAI – Organisational development
The SAI is constantly trying to organize its staff in functions and units with relevant reporting to achieve the strategic goals and objectives in the most economic, efficient and effective way. SAIs should in their organisation and management of their office be free from direction and interference from the Legislature and the Executive. *(Mexico Declaration, ISSAI 10, principle 3)*

4b. The organisation of the SAI –Existence of a performance audit unit
SAIs should be empowered to audit the economy, efficiency and effectiveness of government and public entities operations. There are no standards for how to organize the performance auditors. However, experience has shown that there is a critical mass of minimum 10 persons for a unit to develop its profession, handle staff turnover and integrate new members. *(Mexico Declaration, ISSAI 10, principle 3)*

4c. The organisation of the SAI –Existence of an IS-audit function
There are somewhat different opinions among practitioners on how to organize the IS-audit (Information System audit). Some prefer a separate unit, while most prefer an integrated solution, with IS auditors as a function and members of regularity and performance audit units. The focus in this Guide is therefore on development of IS-methods to enable a functional capacity development and not on how IS-audit is organised.

4d.The organisation of the SAI –Existence of an IT-support function
The ICBF is using the COBIT framework (Control Objectives for Information and related Technology) which provides guidance on the organizational aspects of the IT support unit. The framework gives guidance on the ratio of the IT staff to total employees.

5. An internal control system
An internal control system including an internal audit function consists of the following interrelated components: control environment, risk assessment, control activities, information and communication and finally monitoring. The system is designed to provide a reasonable assurance that the SAI's general objectives are being achieved. SAIs employ sound management practices, including appropriate internal controls over its financial management and operations. This may include internal audits and other measures described in INTOSAI GOV 9100. *(Guidelines for Internal Control Standards for the Public Sector, INTOSAI GOV 9100) (ISSAI 20, principle 6)*

6a. Use of resources – A management information system (MIS) tracking key management information
Information systems produce reports that contain operational, financial, non-financial and compliance related information and that make it possible to run and control the operation. They deal not only with internally generated data, but also with information about external events, activities and conditions necessary to enable decision- making and reporting. Management's ability to make appropriate decisions is affected by the quality of information which implies that the information should be appropriate, timely, current, accurate and accessible. *(INTOSAI GOV 9100 Guidelines for Internal Control Standards for the Public Sector, page 36)*

6b. Use of resources – A time recording system to enable reporting of staff costs
A time recording system is part of the management information system. Common knowledge is that a SAI needs a time recording system to efficiently and effectively use its human resources.

7. Code of ethics and its monitoring

SAIs should have ethical rules or codes, policies and practices that are aligned with ISSAI 30, Code of Ethics. They should prevent internal conflicts of interest and corruption and ensure transparency and legality of their operations as well as actively promote ethical behaviour throughout the organisation. The ethical requirements and obligations of auditors, magistrates in the Court model, civil servants or others are made public. Such policies and procedures should enable the SAI to monitor its independence and make provision for:

- Persons responsible for the audit should provide information on independence of personnel and any threats identified for audit assignments.
- Central information is maintained, updated and monitored on the independence of personnel. This will enable the SAI to readily determine whether personnel satisfy independence requirements and take appropriate action regarding identified threats to independence that are not at an acceptable level.
- Any threats should be identified, communicated to the person in charge of the audit and eliminated or appropriately reduced by applying safeguards.
- All personnel to provide written confirmation at least annually on the compliance with requirements on independence.
- Criteria for determining familiarity threat and safeguards to reduce such threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
- Provision for rotation of the person responsible for the audit and the individuals responsible for external quality reviews after a specified period in compliance with relevant ethical requirements.

(Principles of transparency and accountability, ISSAI 20, Principle 4; Quality control for SAIs, ISSAI 40, Element 4)

A SAI should communicate timely and widely on their activities and results, which include information about the implementation of the code of ethics. The information requires monitoring. Monitoring of the implementation of a code of ethics is also part of the internal control system. *(Principles of transparency and accountability, ISSAI 20, Principle 8)*

Domain 3. Human Resources

The domain Human Resources covers items of importance for the management and development of mangers and staff at the SAI. Human Resources includes following elements:

1. A human resource and professional development policy (including Recruitment, Remuneration, Retention, Performance management, Career development, Training, Staff welfare, Professional development and Job rotation)

An SAI should establish policies and procedures designed to enable it to secure with reasonable assurance adequate human resources with the competence, capabilities and commitment to ethical principles necessary to:

a) perform its tasks in accordance with relevant standards and applicable and legal and regulatory requirements; and
b) enable the SAI to issue reports that are appropriate in the circumstances

The SAI should be able to obtain necessary information to ensure that such aspects as met and potential conflict of interests are identified and appropriately documented and resolved before the audit commences. *(Quality control for SAIs, ISSAI 40, Element 4)*

SAIs should ensure that Human Resources policies and procedures give appropriate emphasis to quality. Such policies and procedures related to: Recruitment (and the qualifications of recruited staff), Performance evaluation, Professional development, Capabilities (including sufficient time to perform assignments to the required quality standard), Competence (including technical competence), Career development, Promotion, Compensation and The estimation of personnel needs. *(Quality control for SAIs, ISSAI 40, Element 4)*

AFROSAI-E is developing a handbook for best practice for human resource management to support SAIs operating under different circumstances, as within or out of the civil service.

2. Development plan(-s) aligned with the strategic plan and the annual operational plan
SAIs manage their operations economically, efficiently effectively and in accordance with laws and regulations. The implication of principle 6 is that there should be close relation between the SAI strategic and operational plans and the annual development or capacity building plan, which includes training and other human resource development activities. *(Mexico Declaration, ISSAI 10, principle 6)*

3a-g. Management of personnel – management of recruitment, development, staff welfare programmes, performance appraisal system, staff retaining system, mechanism to fill vacant posts and system for exit of personnel
The management of personnel is both an efficiency/effectiveness issue and a quality issue. SAIs should ensure that Human Resources policies and procedures give appropriate emphasis to quality. Such policies and procedures are to be related to: Recruitment (and the qualifications of recruited staff), Performance evaluation, Professional development, Capabilities (including sufficient time to perform assignments to the required quality standard), Competence (including technical competence), Career development, Promotion, Compensation and The estimation of personnel needs. *(Mexico Declaration, ISSAI 10, Principle 6; and Quality Control for SAIs, ISSAI 40, Element 4: Human Resources)*

4a-f.Training aspects with evaluation mechanisms: New entrants, Management developments, On the job training, Secondments to other SAIs, Audit/accounting qualifications and Coaching and mentoring process
Special attention should be given to improve the theoretical and practical professional development of all members and audit staff of SAIs, through internal, university and international programmes. SAIs should promote learning and training for all staff to encourage their professional development and to help ensure that personnel are trained in current developments in the profession. *(Lima Declaration, ISSAI 1, section 14; Quality Control for SAIs, ISSAI 40, Element 4 and 6)*

5. SAI capacity to train its staff
The fulfilment of this element is as the earlier ones dependent on the implementation of ISSAI 10/Principle 6 and ISSAI 40/Element 4. The element highlights the SAI's capacity to use information to further enlarge the knowledge and the skill of the staff and management. A SAI should be responsive to new/revised standards, regional manuals etc. and function as a learning organisation. *(Mexico Declaration, ISSAI 10, Principle 6; Quality Control for SAIs, ISSAI 40, Element 4)*

6. SAI capacity to use information and develop knowledge and skill (a learning organisation)
SAIs should strive to achieve a culture that recognizes and rewards high quality work throughout the SAI. To achieve that culture the Head of the SAI should set the right "tone at the top", which emphasizes the importance of quality in all work of the SAI. Skills and competencies needed to perform the work to achieve the SAIs mission and meet their responsibilities shall be maintained and developed by the SAI, which should promote learning and training for all staff to encourage their professional development. *(Principles of Transparency and accountability, ISSAI 20, Principle 6; Quality Control for SAIs, ISSAI 40, Element 1 and 4)*

Domain 4. Audit Methodology and Standards
The domain Audit Methodology and Standards covers the audit process from the planning stage to the reporting. It means that certain elements are close to other domains as Hunan Resource and Communication. Audit Methodology and Standards includes the following elements:

1. Annual Audit Plan covering: Assessments of constraints, Current issues and stakeholder expectations, Risk assessments in place for prioritizing, Clear statement of audit coverage, Activity plans regularity and performance audits and Addressing of backlogs
SAIs normally operate with limited resources. SAIs should consider their work programme and whether they have the resources to deliver the range of work to the desired level of quality. To achieve this, SAIs should have a system to prioritize their work and optimize their resources to the desired level of quality and which takes into account the need to maintain quality. If resources are not sufficient and pose a risk to quality, the SAI should have procedures to ensure that the lack of resources is brought to the attention of the HoS and, where appropriate, the legislature or budgetary authority. *(Quality Control for SAIs, ISSAI 40, Element 3: Acceptance and continuance)*

The annual audit plan serves as a “system“ to provide the SAI with the necessary information to carry out the audits in an efficient and effective way. Refer to Part 3 of Module 1 for more detailed guidance on Overall Annual audit planning.

2a. Audit manuals – Aligned to international standards
SAIs should use appropriate work and standards, and a code of ethics, based on official documents of INTOSAI, IFAC or other recognized standard-setting bodies. SAIs should ensure appropriate policies, procedures and tools such as audit methodologies are in place for carrying out the range of work that is the responsibility of the SAI. And the SAIs should ensure that applicable standards are followed in all work carried out. In conclusion the audit manuals should be aligned to international standards *(Mexico Declaration, ISSAI 10, Principle 3; Quality Control for SAIs, ISSAI 40, Element 5: Performance of audits and other work)*.

SAI policies and procedures should provide for the completion of final audits on a timely basis after the engagement reports have been finalized. Provision should be made for the retention and confidentiality of engagement documentation. *(ISSAI 40.6(e))*

2b. Audit manuals – Connected to a training program
SAIs should ensure appropriate policies, procedures and tools, such as audit methodologies are in place for carrying out the range of work that is the responsibility of the SAI. Promotion of learning and training for all staff to encourage their professional development and regular updating should also be supported by the SAIs. *(Quality Control for SAIs, ISSAI 40, Element 4 and 5)*

2c. Audit manuals – Reviewed and updated regularly
SAIs should ensure appropriate policies, procedures and tools, such as audit methodologies are in place for carrying out the range of work that is the responsibility of the SAI. To ensure that the audit manuals are appropriate the SAI has to review and update them regularly. *(Quality Control for SAIs, ISSAI 40, Element 5)*

3a-d. Quality control measures and quality assurance: a) SAI policy and procedures, b) Roles and responsibilities defined, c) Type of review specified and planned, including nature, scope and frequency and d) Implementation of a quality assurance handbook or guidance for full compliance to international standards
An SAI should establish policies and procedures designed to provide it with reasonable assurance that its audits and other work are carried out in accordance with relevant standards and applicable legal and regulatory requirements, and that the SAI issues reports that are appropriate in the circumstances. Such policies and procedures should include:

a) matters relevant to promoting consistency in the quality of the work performed
b) supervision responsibilities, and
c) review responsibilities *(Quality Control for SAIs, ISSAI 40, Element 5; ISSAI 1220.2)*

SAI policies and procedures should provide for the completion of final audits on a timely basis after the engagement reports have been finalized. Provision should be made for the retention and confidentiality of engagement documentation. *(Quality Control for SAIs, ISSAI 40, Element 5)*

4. Quality assurances or peer reviews performed by others
An SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and are operating effectively. The monitoring process should:

a) include an ongoing consideration and evaluation of the SAI’s system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI
b) require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility, and
c) require that those carrying out the review are independent (i.e. they have not taken part in the work at any quality control review of the work).

(Quality Control for SAIs, ISSAI 40, Element 6: Monitoring)

The SAI should establish policies and procedures designed to deal appropriately with complaints and allegations regarding the quality of audit work performed. These include instances when the SAI fails to comply with professional standards, regulatory and legal requirements and with the SAI's system of quality control. (Quality Control for SAIs, ISSAI 40, Element 6: Monitoring)

5. Audit techniques such as electronic working papers and computer assisted audit techniques

Audit methods shall always be adapted to the progress of the sciences and techniques relating to financial management. *(The Lima Declaration, ISSAI 1: Section 13. Audit methods and procedures)*

SAIs should ensure that they have appropriate policies, procedures and tools, such as audit methodologies are in place for carrying out the range of work that is the responsibility of the SAI. *(Quality Control for SAIs, ISSAI 40, Element 5)*

6. Implementation of the SAI communication strategy for the audit process with the auditees

SAIs should ensure appropriate procedures are followed for verifying findings to ensure those parties directly affected by the SAI's work have an opportunity to provide comments prior to the work being finalized. This opportunity to comment should exist regardless of whether or not a report is made publicly available by the SAI.

7a-e. SAI communication with a) relevant experts, b) Professional bodies, c) Relevant journals, d) Internal audit and e) Other public sector audit institutions

SAIs should communicate timely and widely on their activities and audit results through the media, websites and other means. They should establish policies and procedures that encourage high quality or discourage or prevent low quality. This includes creating an environment that is stimulating, encourages proper use of professional judgment and promotes quality improvements. *(Principles of transparency and accountability, ISSAI 20, Principle 8)*

The international exchange of ideas and experiences within the INTOSAI institutions is an effective means of helping SAIs accomplish their task *(The Lima declaration ISSAI 1, Section 15. International exchange of experiences)*

8a.SAI reporting should ensure - Follow up of previous recommendations

SAIs should have their own internal follow up system to ensure that the audited entities properly address the SAIs' observations and recommendations as well as those made by the Legislature, one of its commissions or the auditee's governing boards, as appropriate. *(Mexico Declaration, ISSAI 10, Principle 7)*

8b. SAI reporting should ensure – Standard structure of reports, user friendly with materiality considerations

The reports shall present facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand. *(The Lima Declaration, ISSAI 1, Section 17. Method of reporting)*

<u>Domain 5. Communication and Stakeholder Management</u>

The domain Communication and Stakeholder Management covers internal and external communication at the SAI. The ICBF does not have a special domain for the performance and the result of audit. This domain with its inclusion of stakeholders is instead used for disclosure of the information. Communication and Stakeholder Management covers the following elements:

1. Communication policy and strategy covering internal and external communications based on: Legal framework, Vision, mission and values, Stakeholder analyses (including prioritization), SWOT or similar analysis and GAP analyses considerations

SAIs should make public their mandate, responsibilities, mission and strategy. They should also adopt audit standards, processes and methods and communicate these. And the SAIs should communicate timely and widely on their activities and audit results through the media, websites and by other means. *(Principles of transparency and accountability, ISSAI 20, Principles 2, 3 and 8)*

A communication policy and strategy is needed for the implementation of the standards. AFROSAI-E has developed a handbook for how to best prepare a communication policy and strategy based on the mentioned input. *(AFROSAI-E: Communication, A Handbook on Communication for Supreme Audit Institutions; 2010)*

2. Channels of communication between SAI and Parliament, PAC and Judiciary

SAIs should communicate timely and widely with interested parties. The Parliament, PAC and the Judiciary in countries with a court system should be the most important parties to communicate with. It is therefore important that the SAI establish communication channels with these. *(Mexico Declaration, ISSAI 20, Principle 8)*

3. Ad hoc meetings with Ministry of Finance and oversight bodies

An SAI should have full discretion in the discharge of their responsibilities, they should cooperate with governments or public entities that strive to improve the use and management of public funds. Channels of communication should be established between the SAI and important stakeholders. However, it is important that beside the annually planned meetings such a relation exists between the SAI and the Ministry of Finance and oversight bodies that it is very easy and productive to arrange ad hoc meetings. *(Mexico Declaration, ISSAI 10, Principle 3)*

4a-b. Internal communication including: a) Alignment of staff's vision, mission, goals and objectives and b) Implementation of effective sharing practices

SAIs make their mandate, their missions, organisation and strategy publicly available. In order to achieve this external communication a SAI must ensure via internal communication, internalisation and other means that the staff fully understand the matters to fulfil their work. *(Principles of transparency and accountability, ISSAI 20, Principle 2) (Quality Control for SAIs, ISSAI 40, Element 4)*

How to develop external and internal communication is presented in AFROSAI-E's handbook on communication.

5. Promotion of the SAI via engagement with Media, Public, Academic institutions and International community and organisations.

SAIs communicate timely and widely on their activities and audit results through the media, websites and by other means. They should communicate openly with the media or other interested parties on their operations and make the audit results visible in the public arena. SAIs should also encourage public and academic interest in their most important conclusions. *(Principles of transparency and accountability, ISSAI 20, Principle 8)*

6 a-h Audit performance and results

SAIs should report publicly on the results of their conclusions regarding overall government activities. The reporting should include the SAI's own actions and activities. *(Principles of transparency and accountability, ISSAI 20)*

The ICBF provides for the basic requirements stated in the ISSAI standards and guidelines. For regularity audit these requirements relate mainly to the system of quality control.

2.3 WORKING PAPERS

ICBF 1. REVIEW OF THE INSTITUTIONAL QUALITY CONTROL SYSTEMS FOR REGULARITY AUDIT

1. Mandate					
	Question	ISSAI reference	Yes	No	Comments
1.1	Does the OAG have and make use of unrestricted access to information to carry out and separately report audits to Parliament and the audited entity as well as making the reports public?	ISSAI 1 ISSAI 10			
1.2	Does OAG have audit jurisdiction to audit all public revenue and expenses?	ISSAI 10			
2. Organisation, management and communication (Domain 2 and 5)					
2.1	Do management set quality requirements and promote adherence to adopted standards, high quality reports and continuous improvement?	ISSAI 40			
2.2	Are there clear strategies and annual plans for the conduct and development of regularity audit that are clearly communicated to staff, implemented and followed up?	Annual Overall Audit Plan, OAG 2014			
2.3	Are sound management practices in regularity auditing used, including performance management, direction and supervision (including coaching) of staff, time management and good project management in the implementation of audits?	ISSAI 20			
2.4	Does the OAG monitors, assesses and reports on its own efficiency and effectiveness in conducting regularity auditing, including to what extent audit recommendations are implemented?	ISSAI 10			
3. Developing and securing skills for regularity audit (Domain 3)					
3.1	Are career paths for and recruitment, promotion and retention of regularity auditors based on assessments of the OAG 's need for professional regularity auditors to produce high quality reports?	ISSAI 40			

3.2	Does OAG evaluate the current level of knowledge and skills on a regular basis to determine training needs as well as current and future personal and organisational needs?	ISSAI 40			
3.3	Are these needs contained in a training plan that is successfully implemented using a variety of methods for capacity building, such as continuous professional education, on-the-job training, in-house training, and coaching?	ISSAI 10 ISSAI 40			
3.4	Are there systems in place to ensure that the auditors and contractors comply with ethical standards for integrity, independence, objectivity, impartiality, professional secrecy and competence?	ISSAI 10 ISSAI 20 ISSAI 30 ISSAI 40			
4. Audit standards and methodology (Domain 3)					
4.1.	Do all regularity auditors have access to and use an updated manual (also covering documentation) aligned with international standards?	ISSAI 10			
4.2	Does the annual audit plan include an overall assessment of constraint, risk assessment with prioritizing of risks and a clear statement of audit coverage with the backlog addressed?	Annual Overall Audit Plan, AFROSAI-E 2009			
4.3	Does OAG ensure that responsibilities for quality review by line managers are clearly defined and adhered to?	ISSAI 40			
4.4	Does OAG have a policy on how and when to do pre-issuance reviews of audits?	ISSAI 40			
4.5	Is there a system with independent review of the quality control systems for regularity audits, with ex post review of a sample of completed audits (quality assurance)?	ISSAI 20			
4.6	Do the annual auditor's report present facts in an objective, clear manner and being limited to essentials, and include follow up of previous recommendations?	ISSAI 1 ISSAI 10			
4.7	*If applicable*: Does OAG ensure that outsource audits are performed in accordance with the ISSAIs, and that the audit files become the property of OAG?	ISSAI 40			

PART 3. THE ANNUAL OVERALL AUDIT PLAN OF THE OAG

3.1 INTRODUCTION

The Audit Methodology and Standards domain of the ICBF requires OAGs to have an overall audit plan in place. The guidance in this chapter applies to the process of the OAG in compiling this plan for the regularity audit function as a whole.

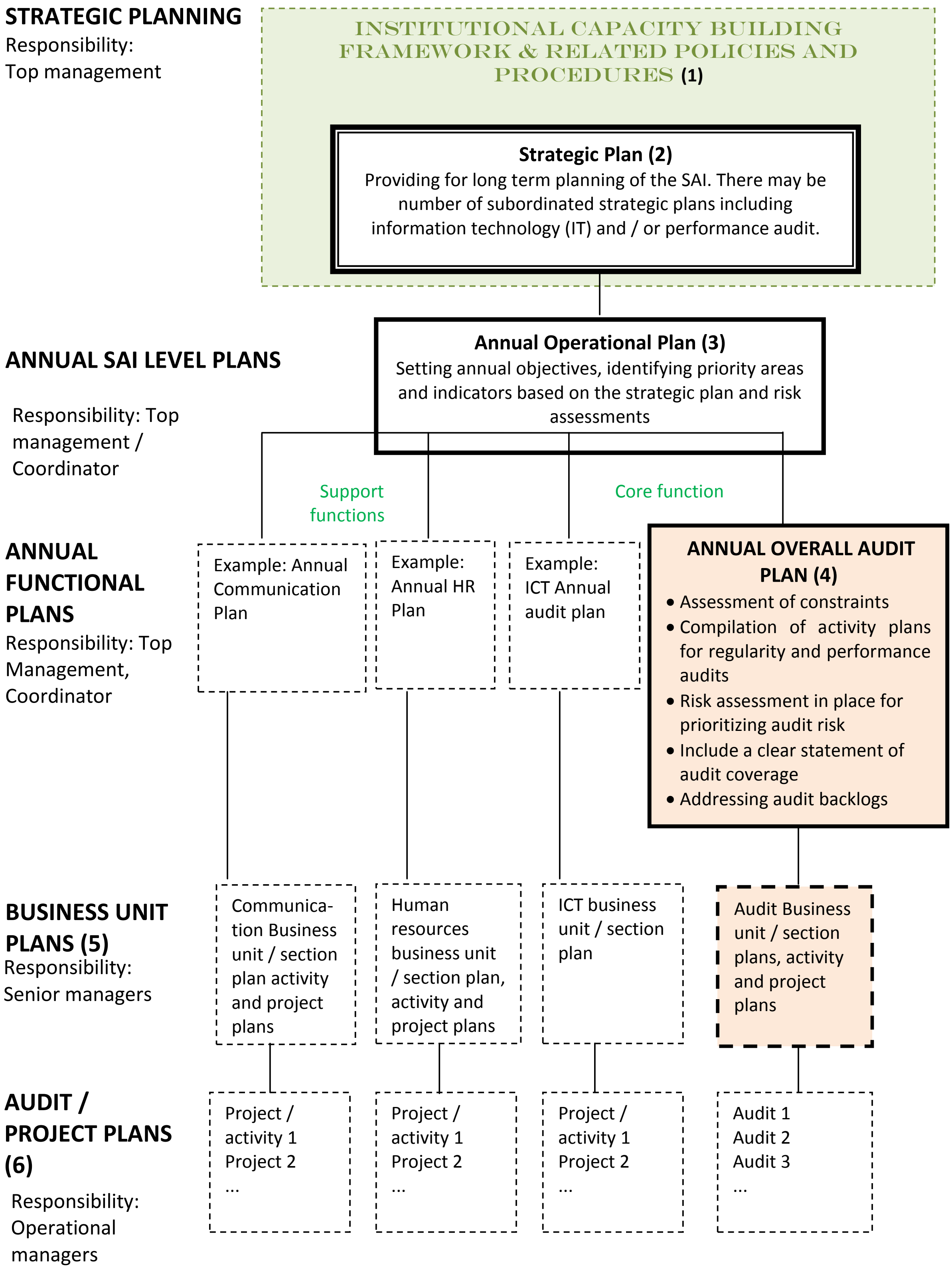
3.2 LEVELS OF PLANS IN OAG

Planning is done at various levels of OAG and is a critical function in ensuring the fulfilment of goals and objectives. Plans include a strategic plan, annual operational plan, annual overall audit plan, other functional plans, business unit plans or work programs and plans for the individual audits. It is expected that every manager in the OAG should carry out a planning function based on his or her level of responsibilities. The annual overall audit plan and links between the different plans in a OAG is demonstrated in Figure 1. below. This is a holistic demonstration of the planning documents which can be part of the system of planning in OAG.

There should be a strong link between plans on different levels of the OAG. Figure 1 indicates some, but not all of these relationships. There may be for example, additional horizontal relations between functional plans.

Provisions in the strategic plan should be cascaded down to the annual operational plan and then to the annual overall audit plan and to other functional plans. In turn, the business unit plans should reflect details under the provisions of the annual overall audit plan and the annual operational plan. In smaller SAIs the annual audit planning process may be simpler than the one described above. For example, the annual operational plan may combine functional plans into one document as it may not be practical to have all the different levels and types of annual plans. The compilation of plans on different levels may be undertaken over the same period of time.

Figure 1. Levels of plans in an OAG



1. Planning in OAG begins with the adoption of the Institutional Capacity Building Framework (ICBF) of AFROSAI-E. Policies and procedures of OAG should translate the provisions of the ICBF and relevant legislated frameworks into working practices; guide the planning process of OAG.

2. Planning takes place on different levels, starting with a high level strategic planning covering a period of 3-5 years. It entails the process of defining the OAG's strategy, direction, objectives, and making decisions on how to allocate available resources to pursue this strategy, including its budgets and people. The strategic plan should cover on-going or routine activities in the OAG and also provide for areas where development is necessary. Strategic developmental areas normally relate to one or more aspects of the ICBF. Some SAIs may prepare different strategic plans covering for example information technology or performance audit in separate documents.

3. The annual operational plan describes how, or what portion of, a strategic plan will be put into operation during a given financial year. It is aimed to ensure proper implementation and effective coordination of the strategic plan. It details the actions required to implement provisions of each strategy within a year, the associated risks and the mitigation strategies, assigning responsibilities, setting timeframes, identifying resources required, and indicating what difference the specific actions will make.

4. SAIs normally also prepare a number of functional plans on an annual basis for a domain or part of a domain identified in the ICBF. These plans cover both support functions and the core 'audit' function of the SAI.

   The core function contributes directly to the achievement of the objectives of an entity. For a SAI this core function is identified as the audit function which leads to the production of the auditor's report. Support functions provide services for the core functions, for example human resources (development plan), communication or administrative services. Functional plans may include the annual human resources plan, a communication plan and the annual audit plan. Functional plans should link directly to the annual operational plan of the OAG. The preparation timelines of these plans may overlap with those of the annual operational plan.

   The provisions in the annual overall audit plan may lead to or create further plans generally on a more detailed level. For example, OAG may identify the objective to increase the audit coverage. To achieve this, there may be a need to have better trained auditors, which may necessitate change in the OAG's development plan. Objectives in the annual overall audit plan should cascade down from the annual operational plan of the OAG.

   The responsibility for the preparation of the strategic plan, annual operational plan and functional plans including the annual overall audit plan lies with the OAGs' management, or top management. However, all relevant employees on different levels in the OAG should be able to and be given an opportunity to contribute. As aspects covered in the annual overall audit plan cover more than one elements of the whole OAG it is recommended that top management appoints a coordinator, or a team to oversee the preparation of these plans.

5. On an Audit Division level plans are prepared to further interpret provisions of the functional plans. Such plans are usually prepared by the heads of Audit Division of the OAG which are subsequently approved by top management. An audit division level plan will provide further details on the audits and activities identified in the annual overall audit plan and should also consider inputs from other functional plans.

6. Projects, activities and audits identified in the annual overall audit plan and division plans should have their own detailed plans. The team leader/auditor-in-charge of the project, activity or audit will prepare the plan on this level. For individual audits, a high level official of the OAG with assigned responsibility for the audit will be responsible for approving key planning documentation. Reference can be made to the Regularity Audit Manual for more detail on the planning for individual audits.

3.3 OBJECTIVES OF THE ANNUAL OVERALL AUDIT PLAN

The annual overall audit plan deals with aspects relating to OAG's core process leading to the production of the auditor's reports. This process should start by an identification of the audits and audit areas which the OAG leadership believe they should focus on during the year. The ICBF specifically mentions the overall audit plan and the fact that it should divisions be in place, including the following:

- Assessment of constraints;
- Activity plans for regularity and performance audits;
- Risk assessment in place for prioritizing audit risk;
- Clear statement of audit coverage;
- Addressing of backlogs.

How can OAGs use the information in the annual overall audit plan?

After analysing the relevant information, the following conclusions should be drawn in the annual overall audit plan:

- The list of audits to be performed during the year (audit coverage).
- The assignment of audits to the different divisions, considering available resources and the need to rotate audits.
- Identification of audits to be performed in-house or contracted out.
- 'Small audits' which are allowed to apply the audit methodology for small entities.
- Larger and high risk audits which need engagement quality control reviews.
- Distribution of OAG budgets to the audit divisions.
- Timing of audits and the audit calendar for the year.
- Actions to clear audit backlogs.
- Initiatives and considerations for other plans.

In addition, the annual overall audit plan should make reference to the following audit areas:

- Audit of themes or focus areas including environmental, procurement, forensic or investigative. Audits of these focus areas would be dealt with as part of regularity audit or a transversal (theme) audit;
- Special audits, including those based on Parliamentary requests.

3.4 FORMAT OF THE ANNUAL OVERALL AUDIT PLAN

The annual overall audit plan includes information on the regularity audit and related activities which are going to be performed during the year. Related activities include special audits which may be requested by stakeholders, or transversal audit themes identified for the year. A format for annual overall audit plan is included in paragraph 3.7, covering the following key areas which are explained in this guidance. The outline of the annual overall audit plan is as follows.

Foreword by Auditor General thereafter AG

Introduction stating the objectives of the annual overall audit plan. A brief summary of past achievements maybe provided.

Regularity audits
This section includes information on which audits will be performed during the year, the allocation of such audits audit divisions.

Transversal audit themes selected for the year. More information should be provided on the reasons for selecting the audit themes, the assignment of the coordinating role and also the status of related procedures.

Special audits planned to be performed, providing more information on the reasons for selection, the budgets, timeframes and the status of the audit programs. Where special audits are mandatory this should be stated.

IT audits planned for the year (unless it is included in a separate plan).

Quality assurance reviews planned to be performed.

Allocation of audits to audit divisions.

Annexure(s) where found necessary to include further information such as the risk matrix.

3.5 THE ANNUAL OVERALL AUDIT PLANNING PROCESS

The annual planning process consists of seven steps, describing how the annual overall audit plan of the OAG is prepared. These steps are:

1. Planning the plan;
2. Information gathering;
3. Analysis of information;
4. Communicating and concluding on the plan;
5. Documentation and dissemination;
6. Implementation of provisions of the plan;
7. Monitoring and evaluation.

- **Planning the plan**

Compiling an annual overall audit plan is just like any other project which needs to be planned, budgeted for and requires resources allocated to it. There is much to think about, including how the provisions of the annual overall audit plan will be implemented, monitored and evaluated. Communication is essential as different audit divisions need to know what is expected of them with timelines and responsibilities clearly set out. Information requests and instructions necessary for the planning process should be included in directives.

The coordinating function

The compilation of the annual overall audit plan involves a lot of interaction and coordination. The development of annual plans is a primary responsibility of the OAG's management, however, the responsibility to coordinate the compilation of the plans are often assigned to an individual, committee or a team in the OAG. Even though this maybe the case, at the end of the planning process it should be the responsibility of the AG to conclude on the analysis and key issues. Who should coordinate the planning process depends on the circumstances of each particular SAI. In small SAIs, it is more likely that one person is appointed as a coordinator rather than a committee. In either case, the individual(s) involved must preferably be on a senior manager level and should have adequate knowledge of the OAG and its environment.

- **Information gathering**

Information gathering relies on different processes. Compiling an annual overall audit plan begins with obtaining the source documents and information used for analysis. The person assigned for information gathering should understand the environment in which the OAG operates in order to identify and obtain the source documents.

Potential source documents which should be considered during planning are listed in Table 2 below. Most of these source documents should have been already considered during strategic and operational planning. However, officials tasked with compiling an annual overall audit plan for the OAG should be familiar with content of these documents to understand the contents and provisions of other plans.

Table 2. Sources for the annual overall audit plan

WHAT INFORMATION IS NEEDED?	SOURCES / DOCUMENTS	WHERE CAN IT BE FOUND?
National priorities and goals	State of the nation address Official statements by the President / Prime Minister or high level officials	Government website / library Newspapers

WHAT INFORMATION IS NEEDED?	SOURCES / DOCUMENTS	WHERE CAN IT BE FOUND?
List and nature of government entities to be audited	List of government entities Acts or regulations	Budget statements Lists from the Ministry of Finance
Financial statements for government entities	Legislation, regulations, circulars	Ministry of Finance / Accountant General's Office OAG library
Budgeted expenditure government entities	Budget statements	Ministry of Finance OAG library
Public Expenditure and Financial Accountability (PEFA) indicators applicable for the OAG's performance Country specific PEFA evaluation where applicable Expectations on OAG's reports from Parliament and key stakeholders	Stakeholders (Parliament, media, donors)	Website for PEFA: http://www.pefa.org Search website for individual country PEFA reports Stakeholder surveys, interviews, conference reports, minutes of meetings Donor agreements
Mandatory audit responsibilities of the OAG Reporting timeframes for OAG and for auditees	Legal framework for the OAG and leading financial regulations	Public Audit Act and other Acts and Regulations, for example Public Finance Act and Regulations
Strategic directives Priorities identified for the OAG with relevant provisions for activities, targets and deliverables	Strategic plan	OAG library, Intranet
Budget statement, planned budgeted expenditure of the OAG	OAG budgets	Ministry of Finance
Relevant internal policies may include a risk policy, human resource policies, IT policy	Internal policies of the OAG	OAG library, Intranet
Actual performance against targets (for example number of audits finalized on time against what was planned) Problems experienced Suggestions and ideas Constraints	Reports and feedback from divisions Consultations	Division performance reports
Capacity of audit staff	Performance assessments	Summary of performance assessments for the OAG
Level of compliance with manuals, standards and guidelines of the OAG Capacity of audit staff	Quality assurance reviews or reports	Quality Assurance unit OAG library, Intranet
Risk on a national level	Auditor's reports for the prior year Internal auditor's reports Consultations with responsible auditors Annual report of the OAG	Audit Division) Audit files Library
Human resource statistics on the number of audit staff, qualifications and experience	Resource information	HRD & Admin & Finance Division Audit Divisions Performance appraisals

OAG should have a developed area or environmental scanning function in place to inform the different planning processes. The results of such scanning are inputs to the strategic plan, the annual operational plan and also the annual overall audit plan. Environmental scanning should be performed at a central level and in order to collect information about and from the stakeholders. It involves keeping in track with current local and international events appearing in media, government priorities and agendas and newspaper articles relating to auditees at the central, regional or local level as well as other budgetary units). It is important that the information gathering is done in a structured and organized way to minimise the risk of staff either spending too much or too little time on this activity. Information should be stored in a way to facilitate access to such information by all staff.

- **Analysis of information**

Information obtained through the information gathering process is documented and analysed by using different templates. For an example of how information may be included in templates reference can be made to paragraph 3.7. Analysis includes an understanding of different elements and prioritising focus areas. The considerations and the way it is documented will differ when for example planning for special audits or transversal audit themes. In this chapter consideration is given to the different aspects which need to be considered during the annual planning process for regularity audits. These include:

- Audit coverage and the process of risk assessment
- Evaluation of the financial reporting framework
- Transversal audit themes
- Special audits
- IT audits
- Quality control reviews.

Setting annual objectives

An objective is a precise and measurable result that supports the achievement of the SAI's mandate or goals. Objectives of the OAG can be formulated on different levels. The strategic objectives are set on a high level and included in the strategic plan of the OAG. The annual operational plan will include annual objectives which are cascaded from the strategic objectives of the OAG. Annual objectives should be formulated to enable assessment via performance measures / indicators. During the compilation of an annual overall audit plan more detail can be provided on how the annual objectives identified in the annual operational plan will be achieved. Table 3 below includes examples of potential objectives and performance measures:

Table 3. Objectives and performance measures

Goal statement	Strategic objectives	Annual objectives	Performance measure / indicators
To provide timely and high quality audit services	To increase the audit coverage to 70% during the strategic planning period 2011-2014	To increase the audit coverage to 70% during the fiscal year 2011	The audit coverage in percentage during the fiscal year
	To establish and implement audit methodology in line with international standards during the period of 2011-2014	To follow the audit approach based on the international standards for 50% of the regularity audits performed during 2011	% of audits performed following an international standard
	To issue all regularity auditor's reports within statutory deadlines by the end of 2011-2014.	To issue 90% of regularity auditor's reports within statutory deadlines during 2011	% of auditor's reports issued within deadlines

In addition, annual overall audit plan should also document the risks relating to relevant regularity audit functions, for example including transversal audit themes. Such risks would typically be identified during the risk assessment processes of the SAI. Reference can be made to the Risk Management guideline of OAG.

One objective of the OAG may affect the achievability of another. For example, the following two objectives are identified for the OAG:
1. Increase the audit coverage by 20%;
2. Implement new audit methodology in line with OAG Regularity Audit Manual.

Implementing a new audit methodology (objective 2) and at the same time increasing the audit coverage (objective 1) will raise the risk of potential impairment in the quality audit work. Once this risk is known a suitable course of action may be found.

This part of the annual overall audit planning process is aimed to answer the following questions:
- Which government entities will be audited? This question is relevant for OAG which cannot audit all government entities annually due to resource limitations. Alternatively, OAG may have discretionary powers to select entities for audit included in the mandate. when OAG do not audit all government entities annually may consider a rotational approach for smaller audits carrying less risks.
- How should resources be allocated for the best results? Generally, entities with more significant risks should be allocated more resources, including increased budgets and audit hours.
- Which audits will be contracted out?
- What are the timelines for the audits? How will backlogs be cleared?

Audit coverage for regularity audit relates to the number of government entities to be audited by the OAG during the financial year. Normally, the audit coverage of OAG is included in the legislated mandate of the OAG. However, mainly due to budgetary constraints or the lack of resources some SAIs cannot audit all the public sector entities annually. One of the benefits of a risk assessment process that it will assist such SAIs in prioritising their audit work.

When OAG audit the consolidated financial statements of government should also refer to the requirements highlighted in the OAG Consolidated Financial Statements Audit Guideline. There should be a connection between the audit coverage identified during the annual overall planning and the requirements for the audit of the consolidated financial statements.

The process of risk assessment
Table 4 includes an example of a risk matrix which is completed by using an excel spread sheet. The matrix calculates a score for each audited entity considering four indicators carrying different weights. In this table all government entities should be listed which the OAG should audit.

Table 4. RISK MATRIX

	AUDITEES	Indicator 1. Fiscal budget			Indicator 2. Prior year's auditor's reports reflect serious issues			Indicator 3. Stakeholders' interest in the auditee			Indicator 4. Risk of fraud and adverse publicity			Total score
		Rating	Weight	Score	Rating	Weight	Score	Rating	Weight	Score	Rating	Weight	Score	
	MINISTRIES													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
4			40	0		20	0		20	0		20	0	0
5			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
	LOCAL AUTHORITIES													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
4			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
	COMMISSIONS & OFFICES													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
	OTHER BUDGETARY UNITS													
			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0

There are four indicators to consider for each government entity:

Indicator 1: The size of the auditee's total expenditure (carries 40% weight). There is a higher risk for auditees with higher the expenditure. In circumstances where it is more appropriate, revenue figures may be used.
Indicator 2: The seriousness of reported items in the prior year's auditor's reports (carries 20% weight). The more serious reported issues are the higher rating is given. Qualifications / adverse or disclaimer opinions should carry the maximum weight. When the auditee was not audited in prior year(s), the rating should also be identified as high (5).
Indicator 3: Stakeholders' interest in the auditee (carries 20% weight). When there is more perceived interest, the higher the rating should be.
Indicator 4: Risk of fraud and adverse publicity (carries 20% weight). When the entity received negative publicity or officers have been implicated in fraud charges in the past, the entity would receive a higher rating. Other aspects such as non-compliance with laws and regulations can also be considered.

When completing the spread sheet the first column should include a listing of government entities which are considered for audit. It is important to include all the potential audited entities here. The risk ratings can be used to identify which ones to audit – if not all of them are audited in the year. Each entity should be given a rating for each indicator. The ratings should be given between 1 (for low risk) and 5 (for high risk). This is always to an extent based on subjective judgements, but OAG may identify some additional criteria for each indicator.

Consistent planning may be assisted by setting limits, for example a lower limit over which budget expenditure should have a high score of 5, and lower levels for scoring 4, 3, 2 and 1. This may be easier when quantitative aspects such as budgeted expenditure is scored.

Example: Setting limits for budgeted expenditure

The highest budgeted expenditure for a government entity is $1 billion.

Criteria or limits may be set for Indicator 1 (size of the audited entity) as follows:
Score 5 is applied when total expenditure is exceeding 800 million (80% of 1 billion)
Score 4 is applied when total expenditure is between 600 – 800 million (60-80% of 1 billion)
Score 3 is applied when total expenditure is between 400-600 million (40-60% of 1 billion)
Score 2 is applied when total expenditure is between 200-400 million (20-40% of 1 billion)
Score 1 is when total expenditure is below 200 million.

Remember: setting these limits is still based on judgment, therefore it remains subjective!

When scoring qualitative factors, there will always be an element of subjectivity. Setting limits and other criteria may limit the subjectivity, however it cannot be ruled out completely.

After entering ratings for each of the indicators, the risk score is calculated automatically for each audited entity. Higher score means a higher risk for the audited entity.

Customising the risk matrix
OAG may use its own indicators or amend the above information to suit its own circumstances. For example, when OAG performs preliminary evaluations for the audited entities, results of these evaluations may be considered in calculating the rating of the entity. As such another indicator may be identified when preliminary evaluations indicate that an entity did not submit acceptable financial statements on the statutory deadline.

How to use the risk score?
The scores established here can also inform many decisions documented in the annual overall audit plan. When audited entities are sorted based on the risk ratings it is easy to identify higher and lower risk entities. Even SAIs which are auditing 100% of government entities can benefit from the risk analysis in many ways.

Firstly, risk scores assist the decision on which entities will be audited during the next financial year (audit coverage). Entities with higher overall risk score may be prioritised for audit. For example, OAG may identify all audited entities scoring over 50 points for audit in the current year. The cut-off level should be set by considering the OAGs mandates and limitations they may have in terms of resources.

Alternatively, entities scoring under a certain level may be identified as small audits. Even though small audits may have a low score, this does not necessarily mean that they should be completely excluded from the audits. When OAG faces with resource problems may choose to not audit these entities every year, but it is not recommended that entities should be left unaudited for indefinite years. A rotational approach may be more appropriate so OAG can ensure that all government entities get audited within a reasonable number of years. Audited entities which are identified as 'small' may follow the audit methodology for small audits included in the Regularity Audit Manual.

Secondly, the decision whether audits will be performed by the OAG or can be contracted out may be supported by the risk matrix. Audits are normally contracted out to private audit firms due to resource or capacity constraints of the OAG.

Even though these audits are performed by private audit firms, the reports will still remain the responsibility of the AG. Provision should be made for the review of audit work performed and for this reason these audits will still be allocated to different business units divisions.

Thirdly, the **allocation of audits to audit divisions** is a very important consideration. It is important that this decision should take into consideration the available resources, the size (total budgeted expenditure) and risks relevant to the audits. The financial year end and respective audit deadlines may also differ for the different types of audits.

When deciding on the appropriate allocation of audits to divisions, due consideration should be given to the following:

- Number of available audit staff on each level, which should be included in the plan;
- The capacity of audit staff in terms of qualifications and experience also in relation to the types of audited entities;
- The locality of the audited entity when there are regional offices.
- The total risk score of the government entities assigned to each division and the level of risk associated with the audits. OAG should strive to achieve a balanced distribution audits and skilled staff. Where there is a shortage of skilled staff in a division, further actions may be identified including re-allocating audit staff, or allocating responsibility for fewer audits.
- The need for rotating audits between the audit teams. This is especially important for audits with higher risk score. It is recommended by the International Federation of Accountants (IFAC) Code of Ethics par. 290.154-157 that the audit teams for such audits are rotated at least every 7 years.

Lastly, when a OAG is carrying audit backlogs, this should be considered when deciding on the audit coverage. Entities which have not been audited for number of years should be identified for audit before other entities with similar risk score which have been audited. OAG aiming to reduce audit backlogs should identify its annual objectives relating to the backlogs.

Evaluating the financial reporting framework

In line with ISSAIs the financial reporting framework for each auditee should be evaluated to conclude whether it is acceptable before the audit commences. This entails a high level evaluation of the financial reporting framework for the different types of government entities (for example ministries, local government and other government entities). Refer to Module 1. Part 4. of this manual for further guidance. The results of the evaluation should be documented and communicated to the auditors before the commencements of the audits.

Transversal theme audits

According to the OAG Transversal Audit Guideline a transversal audit theme is an audit area which is selected to receive special audit attention. This can be due to qualitative or quantitative reasons, relating to the nature of the area and relating risks or value of the transactions/budget. OAG usually have substantial amount of discretion given to decide on their focus areas. However, in some jurisdictions, it can be a requirement to report separately on certain expenditure types, for example procurement. When transversal theme audit are performed in OAG, the annual overall audit plan should list these themes including the reasons for selecting them.

The identification of transversal themes should not be done in a haphazard manner. It should be part and parcel of the planning processes in the OAG. Firstly, the OAG's annual operational plan spells out the transversal themes the OAG intends to audit or carry out during the year. At the beginning of each audit cycle, these priorities are translated into the annual overall audit plan of the OAG. This plan should include and further elaborate on the transversal themes included in the annual operational plan. Together with the themes it also contains a risk analysis concluding on which audited entities are scheduled for audit in the current year. In addition, new themes may be identified as a result of the risk assessment. Identification of transversal audit areas will consider external information sources (the results of environmental scanning process) as well as inputs from divisions such as issues frequently reported in previous auditor's reports. External information sources to determine the transversal audit themes may include requests from stakeholders, including parliament, public accounts committee or donors. Specific issues which may have received priority in terms of budgets can influence the areas where audits should focus. Issues which received extensive media coverage are often identified for transversal audits.

An analysis of the auditor's reports previously issued by the OAG will enable the identification of those cross-cutting areas which have received adverse comments over a period. Possible causes for the adverse reports could be deficiencies in systems and/or procedures issued by controlling bodies such as Treasury or Cabinet Office. Transversal audits would assist in identifying the deficiencies and finding lasting solutions to them.

Examples for transversal themes include:

- Procurement or contract management
- Asset management or the implementation of asset registers
- Personnel expenditure or ghost employees in government.

Usually prioritization is necessary since under normal circumstances OAG will probably identify more themes than they can handle over one year. Considerations determining whether to prioritize a transversal audit theme include:

- Is it critical, high risk area?
- Are there significant budgetary implications?
- Does the OAG have adequate resources in terms of availability of time, budget and capabilities?

Depending on how narrow or generic certain identified audit themes are, it may be necessary to further break down the scope of the audit theme into sub-themes. For example, a transversal theme on procurement maybe broken down into the following sub-themes:

- Applying the principles of selection when appointing contractors;
- The functioning of tender board committees during the appointment process;
- Evaluation of the tender procedures at government entities;
- The implementation of mechanisms to monitor contract work;
- The role of internal auditors in auditing procurement.

These sub-themes maybe then become transversal themes on their own and audited over more than one year.

Choosing a theme for transversal audits should be done methodically and be part of the planning process in the OAG. This will ensure that the audits performed would be of benefit to stakeholders.

Special audits
Most SAIs will embark on some special audits during the year. Such special audits may be required by legislation, in which case it is mandatory for the OAG to issue a report. Other requests may be received by the AG from government officials or parliament. For these requests the AG normally would have discretion to decide whether to proceed with the audit. Special audits may be included under a separate heading or under the transversal audit heading in the annual overall audit plan.

IT audits
OAG with dedicated IT audit division should have information on the planned activities of the division, but this may be included in a separate plan. This would include detail on the number of general and application control reviews to be performed or in progress. This is important to enable the coordination of the timelines for general control reviews on specific financial systems with the regularity audits of the entities using the system.

Quality assurance reviews
OAG should plan to perform quality assurance reviews on an annual basis. Information on the planned number of audits for which quality assurance reviews will be performed should be included in annual operational plan and the annual overall audit plan. For example, it may be decided that a certain number of audits will be subjected to quality reviews. Alternatively, it may be the case that all audits exceeding a certain risk score will be reviewed. Decisions made on these issues should be documented in the annual overall audit plan. Reference can also be made to the Quality Control Manual of OAG for further detail and more explanations.

The reputational risk that "Clean Audits" may present to the OAG also needs to be managed adequately. For these audits elevated measures needs to be taken to ensure that compliance with quality standards during the engagement performance is adhered to. This is done through ensuring that:

- Sufficient and appropriate audit evidence is available to support key decisions;
- The audit documentation is complete and accurately reflects the audit work undertaken;
- All outstanding issues that may impact on the auditor’s report should satisfactorily resolved.

Clean audits should not be dismissed automatically for quality assurance reviews.

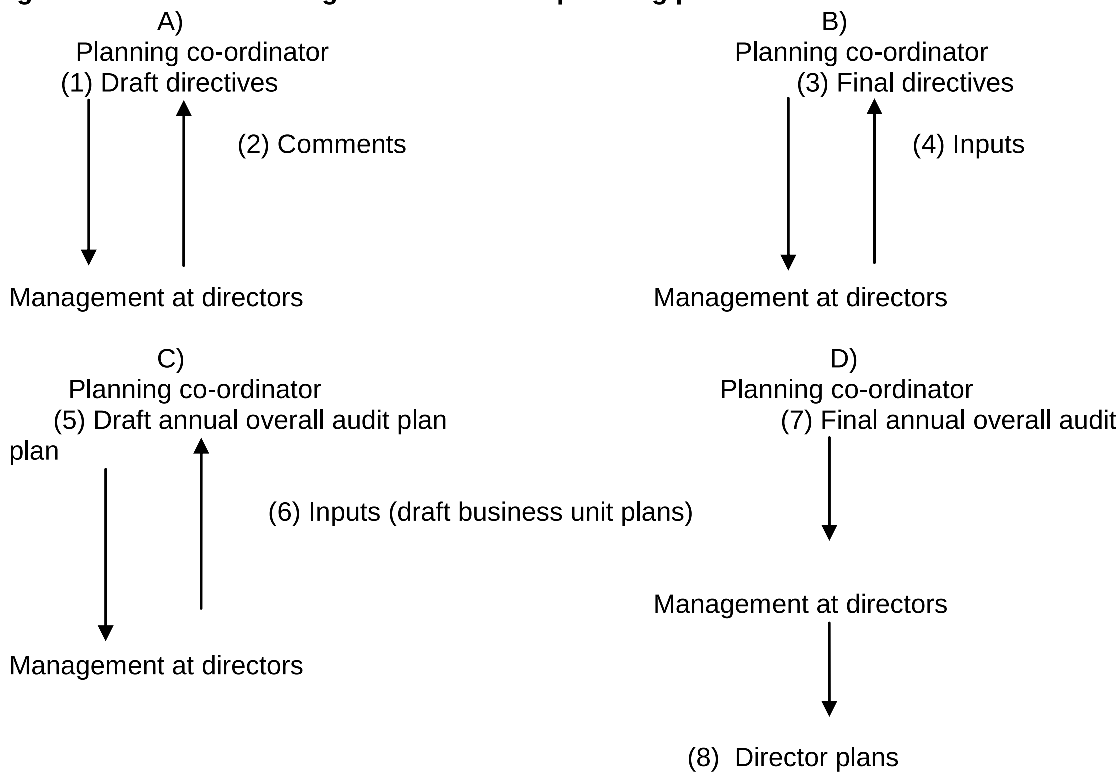
Planning the timing of the audits - the audit calendar
OAG constant interaction and flow of information within the OAG. The planning process can be in progress for several months, depending on the size of the OAG) and how it organizes its planning process. It is important to involve the audit staff as much as possible in this process in order to get inputs or comments and also to inform them about the decisions and expectations of top management. Managers and staff within OAG should be informed and allowed to participate by providing inputs or comments regarding the annual overall audit planning process.

Communication, both within OAG and externally, is important during the annual overall audit planning process. Views and inputs of key stakeholders as well as members of the OAG are vital for the success of the implementation of the annual overall audit plans.

Internal communication during the planning process
The annual overall audit plan process includes constant interaction between the planning coordinator and the audit divisions. Actions triggered by the decisions of the planning process may include the need to issue audit directives / instructions to audit divisions. Directives will influence subsequent planning processes and also serve as inputs into other functional plans, including training and other plans. In the annual audit planning process a directive could include the proposed annual objectives of the OAG, or proposed transversal audit themes. Refer to

paragraph 3.8 for the example of a directive. An example of interaction during the annual audit planning process is described in Figure 2 below.

Figure 2. Interaction during the annual audit planning process



The process commences by the planning coordinator issuing draft directives (1). The proposed annual objectives and explanatory information should be based on provisions included in the annual operational plan of the OAG, the monitoring/evaluation of the preceding annual overall audit plans and other considerations based on the information gathering process. The managers of divisions comment on and provide inputs for the draft directive. Division managers should involve audit staff on different levels in a proper way to get inputs during this sequence but also during the rest of the planning process.

This will be followed by the preparation of the final directives (3) which are issued for the divisions. An example of a directive is presented in paragraph 3.7. These directives are used when compiling business unit level plans for the year.

A dialogue is carried out with audit directors when more information is needed or explanations are required, especially during the risk assessment process. Information on the audited entities should predominantly come from the audit divisions responsible for the audits. Information requests relating to the rating of aspects considered in the risk matrix should form part of the communication.

As we have seen, planning in OAG involves the compilation of many plans, the annual overall audit plan being only one of them. The compilation of different plans has to be coordinated and be possible to carry out within the planned budget frame. A draft annual overall audit plan (5) is sent to the audit directors. The directors are provided an opportunity (6) to once again comment on the draft. At this point draft audit directors plans may also be provided to the planning co-ordinator directors general.

The planning co-ordinator directors general should consider the comments given and decide on a (7) final annual overall audit plan, which is distributed to the directors at the business units. It is now up to managers to adapt their detailed business unit level plans (8) based on the applicable principles of the annual overall audit plan.

For new areas included in the annual overall audit plan there may be a need to provide for more information gathering activities to take place within the responsible audit directors. This information gathering should typically take place between processes 1-4 above. For example, when a specific element such as IT audit receives more focus there may be a need for further training. A draft directive is sent to the OAG's HRD division informing the unit to plan for such training. HRD division then should do further information gathering and obtain more detail on the training requirements, timing and resources required for the training.

- **Documentation and dissemination**

The annual overall audit plan is documented in the format identified by the OAG. Reference can be made to paragraph 3.7 for the example format of an annual overall audit plan.

Dissemination of the annual overall audit plan of the OAG to external parties should be done in terms of the policies of the OAG. Generally, only final and approved plans should be disseminated externally. It is recommended that all such external communication is done from a central point and subjected to approval from top management.

- **Implementation of the plan**

The biggest test of any plan is in how it is implemented. What needs to be done is usually well defined in these plans but there is often a need for further guidance on how to make the provisions operational. Division level plans or work-plans should include more detail on how each activity is going to be carried out. Reference can be made to chapter 6 for more information on division level planning.

- **Monitoring and evaluation**

What is monitoring and evaluation?

Generally speaking monitoring means to be aware or have knowledge about the status of pre-identified aspects of work or activities. This generally means that progress can be tracked and preventative measures or timely corrective actions can be taken. Monitoring helps to understand what has happened based on information, while evaluation should provide you with answers why it happened. Thus it is only via evaluation that the causes to changes can be understood.

Who should be involved?

OAG management on different levels should be involved in monitoring and evaluation. The requirements in terms of what needs to be monitored, by whom and how often, should be centrally identified. In some cases, there may be a coordinating team or person tasked with monitoring. Ideally, OAG should strive to have a system where responsibilities for monitoring are clearly defined for the different levels of management.

All staff members, even those with no monitoring responsibilities should be aware of the type of information which is reported on a regular basis.

Information on progress against objectives identified should be documented in the OAG's report on its own performance.

Monitoring and evaluation process

Monitoring and evaluation processes assume the availability of relevant and reliable information relating to specific aspects defined in the plans of the OAG.

Information requirements covering all performance measures / indicators should be clearly identified in the plans.

This information should be provided from the management information system of the OAG. This system should have well defined processes in place to provide relevant and reliable information for monitoring and evaluation. Periodic reporting should be set up to draw information for management of the OAG on different levels. This will assist management in the periodic monitoring of the implementation of the plans and take timely corrective action where necessary.

Examples of the kind of information which should be available from the management information system may include:

- Number of audits undertaken for different types of entities (ministries, local authorities, commissions, offices and other budgetary units), IT audits, special audits etc.);
- Progress of audits and status of reports on a periodic (monthly) basis.
- The number of auditor's reports issued within the legislated timeframes (on time) at the end of the year;
- The number of audits subjected to quality control reviews and / or engagement quality control reviews;
- The number of audits which have passed the quality control processes for the year.

Time recording is an important part of such a management information system. The ambition is to enable OAG to know the actual time spent on different projects and activities. A time recording system is recommended for SAIs to be able to plan and perform audits more efficiently.

3.6 DIVISION LEVEL PLANS

Audit divisions prepare their division plans for the financial year based predominantly on the annual overall audit plan and directives issued by the planning coordinator directors general. Provisions included in the annual operational plan of the OAG should also be observed.

Information to be considered in the division level plan includes:

- Annual objectives to be achieved
- Current and development activities including audit tasks with timelines
- Staff deployment, development and training, days and areas
- Responsibilities and reporting.
- Use of resources, other staff, as venue and transport
- Budgets for the division as a whole and for the specific activities.

3.7 EXAMPLE FORMAT OF THE ANNUAL OVERALL AUDIT PLAN

ANNUAL OVERALL AUDIT PLAN FOR THE OAG

For the financial year 30 June 20xx

1. FOREWORD BY AG

This section is written by the AG addressing the staff of the OAG. It can cover aspects of expectations and words of encouragement for staff.

2. INTRODUCTION

The introduction may give further description of:

- The purpose and applicability of the annual overall audit plan with a short reflection of previous achievements and/or challenges faced;
- The mandate of the OAG;
- The objectives of the annual operational plan
- The objectives of the annual overall audit plan;
- The different types of audits performed;
- The organisational structure of the OAG.
- The process followed in the preparation of the plan.

3. REGULARITY AUDITS

In the introductory paragraphs mention should be made of:

- Types of entities audited and applicable financial reporting frameworks
- Mandates regarding regularity audits
- The divisions involved with performing regularity audits
- Policy on contracting out certain types of audits
- Budgeted funds available.

Table 1. Regularity audit

Strategic plan / annual operational plan of OAG		Performance measures / indicators	Annual objectives	Risks identified
Goal statement	Objectives Statement			

Planned audit coverage for the year

The following government entities are subjected to regularity audits in terms of the annual objective set in the strategic plan and the risk assessment conducted.

Audited entity	Audit Mandatory Yes/no	Total score in Risk Matrix	Additional reasons or explanations for selecting the entity for audit	Division allocation
Central -				

Audited entity	Audit Mandatory Yes/no	Total score in Risk Matrix	Additional reasons or explanations for selecting the entity for audit	Division allocation
- -				
Local - - -				
Commissions and Offices - - -				
Other Budgetary units - - -				

The following auditees have been identified as 'small' and consequently allowed to follow the audit methodology for small entities:
1.
2.
3.

The following auditees have been identified as carrying high risk and should be considered for engagement quality control review:
1.
2.
3.

EVALUATION OF THE FINANCIAL REPORTING FRAMEWORK

The following table summarises the financial reporting frameworks for the different types of government entities and the results of the evaluation performed by OAG:

Types of entities	Applicable financial reporting framework	Acceptable Yes / No	Comments / reasons for finding the framework not acceptable
Ministries			
Local authorities			
Commissions and Offices			
Other Budgetary units			

TRANSVERSAL AUDIT THEMES / SPECIAL AUDITS

The following information is relating to the audits themes selected to be performed during the financial year.

Strategic plan / annual operational plan of OAG		Performance measures / indicators	Annual objectives	Risks identified
Goal statement	Objectives Statement			

Transversal audit themes identified

List of audit themes / assignments	Reasons for selection*	Budget ($)	Responsibility assigned	Status of audit programs	Risk

**Detailed reasons for the selection may be included in a paragraph format.*

Special audits

List of special audits	Reasons for selection**	Budget ($)	Responsibility / team assigned	Timeframes for reporting	Status of audit programs	Risk

***Detailed reasons for the selection should include information on the sources of requests or legislative references. This may be done in a paragraph format.*

4. IT AUDITS

Strategic plan / annual operational plan of OAG		Performance measures / indicators	Annual objectives	Risks identified
Goal statement	Objectives Statement			

The following IT audits are planned for the year.

Title of the audit	Related systems	Government entities / users of the systems	Timeframes for the audit	Responsible person	Budget

5. QUALITY CONTROL REVIEWS

In this section provide detail on the planned quality control reviews.

6. AUDIT ALLOCATIONS PER DIVISIONS

[Should be completed for each business unit]

DIVISION:
Financial year end:

Number of audit staff:						
Level 1						
Level 2						
Level 3						
List of audits allocated	**Total budgeted expenditure of auditee ($)**	**Total risk score**	**Financial year end to be audited**	**Responsibility / resources**	**Changes from prior year (Rotation)**	**Time-frames of the audit**
Central - - -		*[From risk matrix]*	*[For backlogs list all outstanding years separately]*	*[Audit manager / centre]*	*[new audits, changes or re-allocations of audit should be noted]*	
Local - - -						
Commissions and Offices - -						
Other Budgetary units - -						
Audits contracted out (if any) - - -						

7. ANNEXURE(s)

Annexures may include the Risk Matrix and the Audit Calendar.

3.8 EXAMPLE OF A DIRECTIVE

The following directive can serve as an example relating to the annual overall audit plan.

DIRECTIVE No.1 OF 20XX

To	**Directors of Regularity Audit Divisions**
From	**Auditor-General (Name)**
Cc:	**Directors General**
Reference	**1/20xx**
Subject	**INPUTS FOR THE DRAFT ANNUAL OPERATIONAL PLAN**

Message:
The Office of the Auditor General has embarked on the annual overall audit planning process for the year 20xx/20xx. Following are the proposed annual objectives and focus areas which have been identified. Directors of Divisions are requested to provide inputs and comments on these by date/month 20xx. Your cooperation and inputs are highly appreciated.

Annual objectives identified:

Goal statement	**Objectives Statement**	**Performance measure / indicators**	**Annual objectives**
To provide timely and high quality audit services	1. To increase audit coverage by adopting a risk based audit approach	% increase in total audit coverage	To audit 60% of total government expenditure audited
	2. To establish and implement audit methodology in line with international standards	% of audits performed following a risk based approach	To follow risk based audit approach for 80% of the regularity audits performed
	3. To issue all regularity auditor's reports within statutory deadlines	% increase or decrease in the no. of auditor's reports issued within deadlines	To issue 90% of regularity audit reports within statutory deadlines
	4. To set up performance audit and IT audit functions	No of auditor's reports issued for new areas of audit	To conduct at least 2 audits and issue reports for each new area of research

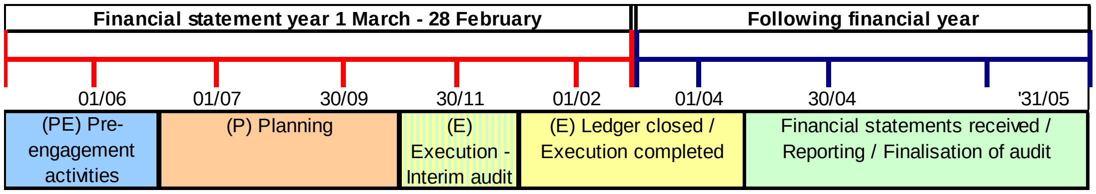
Transversal themes

Audit of contract payments and procurement or other issues selected by top management will involve auditors of all Ministries. The audit will be centrally coordinated and timing will correspond to the regularity audit timelines.

An audit of ghost employees will be performed by using IDEA. The audit will involve all Ministries and Local authorities.

3.9 EXAMPLE OF AN AUDIT CALENDAR FOR REGULARITY AUDIT

The following is an example of how the OAG may plan the timelines for regularity audits.



PLANNING FOR INDIVIDUAL AUDITS

			Completed by	Reviewed by	Target date
PE	1	Code of Ethics	Each team member	Audit Director	
	2	Competency Matrix	Audit Supervisor	Audit Manager	
	3	Team agreement	Audit Supervisor	Audit Manager	
	4	Engagement letter	Audit Manager	Audit Director	15 June
P	1	Engagement team understanding memorandum	Audit Manager	Audit Director	
	2	Lead schedule	Auditor	Audit Manager	
	3	Review of internal audit	Auditor	Audit Manager	
	4	Control environment checklist (Manual)	Auditor	Audit Manager	
	5	IT Control environment checklist	Auditor	Audit Manager	
	6	Going concern / Sustainability of service considerations	Auditor	Audit Manager	
	7	Audit Committee checklist	Auditor	Audit Manager	
	8	Fraud checklist	Auditor	Audit Manager	
	9	Preliminary Analytical review	Auditor	Audit Manager	
	10	Risk of material misstatement on financial statement level	Audit Manager	Audit Director	
	11	Planning materiality	Auditor	Audit Manager	
	12	System description	Auditor	Audit Manager	
	13	Reliance on key controls	Auditor	Audit Manager	
	14	Audit sampling and substantive audit procedures to be performed	Auditor	Audit Manager	
	15	Overall audit strategy	Audit Manager	Audit Director	
	16	Quality control questionnaire	Audit Supervisor	Audit Manager	15 October
E	1	Lead schedule	(Assistant) Auditor	Audit Supervisor	
	2	Substantive analytical procedure	(Assistant) Auditor	Audit Supervisor	
	3	Tests of control	(Assistant) Auditor	Audit Supervisor	
	4	Substantive audit procedures performance	(Assistant) Auditor	Audit Supervisor	
	5	Audit query	(Assistant) Auditor	Audit Manager	
	6	Disclosure checklist	(Assistant) Auditor	Audit Manager	
	7	Audit summary memorandum	(Assistant) Auditor	Audit Supervisor	
	8	Quality control questionnaire per account area	Audit Supervisor	Audit Manager	15 April
R	1	Management representation letter	Audit Supervisor	Audit Manager	
	2	Events subsequent to balance sheet date	Audit Supervisor	Audit Manager	
	3	Overall audit summary memorandum	Audit Supervisor	Audit Manager	
	4	Audit differences	Audit Supervisor	Audit Manager	
	6	(Final) Management Letter	Audit Manager	Audit Director	
	7	Quality control questionnaire	Audit Supervisor	Audit Manager	
	8	Audit report	Audit Manager	Audit Director	
	9	Closing meeting	Audit Supervisor	Audit Manager	31 May

Legend:
PE – Pre-engagement activities
P – Planning, includes strategic and detailed planning
E – Execution
R – Reporting

Remarks;-
- Replace the Audit Manager by Deputy Audit Director.
- Replace the Audit Supervisor by Senior Auditor or Auditor-in-Charge (AIC) or Senior Team-Leader.

PART 4. EVALUATING THE FINANCIAL REPORTING FRAMEWORK

1.1 THE FINANCIAL REPORTING FRAMEWORK OF THE AUDITEE

Auditors of public sector entities should identify and evaluate the relevant financial reporting framework the auditee used to prepare financial statements. The evaluation should conclude whether the financial reporting framework is acceptable to prepare the financial statements and include considerations on:

- The purpose of the financial statements, for example, whether they are prepared to meet the common financial information needs of a wide range of users (general purpose financial statements) or the financial information needs of specific users (special purpose financial statements);
- The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
- Whether law or regulation prescribes the applicable financial reporting framework.

The **financial reporting framework** is adopted by management of the auditee, and, where appropriate, those charged with governance in the preparation of the financial statements. The financial reporting framework selected should be acceptable in view of the nature of the entity and the objective of the financial statements and in most cases it is required by law or regulation. An acceptable financial reporting framework is a pre-condition for the audit and it should be evaluated. The form of audit opinion expressed by the auditor will also depend upon the reporting framework.

4.1 PRECONDITIONS FOR THE AUDIT

A financial audit conducted in accordance with ISSAIs is premised on the following conditions:

- The financial reporting framework used for preparation of the financial statements is deemed to be acceptable by the auditor. The auditor should evaluate the financial reporting framework and conclude whether it is acceptable or not. The evaluation process is described below in detail.
- Management of the entity acknowledges and understands its responsibility:
    - For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;
    - For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
    - To provide the auditor with unrestricted access to:
        - All information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
        - Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and
        - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

All the above aspects are confirmed and signed by the management in the Engagement letter *(refer to working paper P 6. Audit Engagement Letter)*. When the pre-conditions are not present the auditor should discuss this fact with management. Since in government there may not be an option to not undertake the audit, the impact of this limitation should be considered on the audit engagement. *(ISSAI 1210.P5; 6; 8) (ISSAI 1200.13.j)*

4.3 TYPES OF FINANCIAL REPORTING FRAMEWORKS

General purpose financial reporting framework

The general purpose financial reporting framework is designed to meet the financial information needs of a wide range of users. Examples of such financial reporting standards include IPSAS cash and accrual, IFRSs and the accounting principles promulgated by an authorized or recognized standards setting organization in a particular jurisdiction. This is provided that the organization follows an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.

Special purpose financial reporting framework

A special purpose framework is a framework designed to meet the financial information needs of specific users.

In some public sector audit environments, financial audits are referred to as budget execution audits, which often include the examination of transactions against the budget for compliance and regularity issues. Such audits may be undertaken on a risk basis or with the ambition to cover all transactions. In such audit environments there is often a lack of an acceptable financial reporting framework. The result of financial transactions may be presented in the format of expenditure amounts compared to budgetary figures. In environments where such audits are undertaken and there are no financial statements presented in accordance with a general purpose financial reporting framework, auditors need to determine whether the financial statements is prepared on the basis of an acceptable special purpose financial reporting framework. If that is not the case, the underlying premises of an audit in accordance with the ISSAIs on financial audit are not in place. Auditors in such environments may consider developing standards using the fundamental principles on financial auditing as guidance to suit their specific needs. In such cases reference should not be made to the Fundamental Principles of Financial Auditing in the audit report.

In addition to preparing general purpose financial statements, a public sector entity may prepare financial statements for other parties (such as governing bodies, the legislature or other parties that perform an oversight function). These financial statements may be tailored to meet their specific information needs. In some environments such financial statements are the only financial statements prepared by the public sector entity. Even when such financial statements are the only financial statements prepared by the public sector entity, they are considered to be special purpose financial statements. Auditors, therefore, need to carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users (“general purpose framework”) or the financial information needs of specific users or the requirements of a standard setting body.

Examples of special purpose frameworks relevant for the public sector may include:

- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for a governing body;
- The financial reporting provisions established by an international funding organization or mechanism
- The financial reporting provisions established by a governing body, the legislature or other parties that perform an oversight function to meet the requirements of that body; or
- The financial reporting provisions of a contract, such as a project grant.

Fair presentation framework

In case of fair presentation framework the OAG needs to evaluate whether the financial statements achieve fair presentation. The following may be considered:

- The overall presentation, structure and content of the financial statements; and
- Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

The principles of ISSAI 200 are relevant for audits of financial statements prepared in accordance with such frameworks. In addition to the principles, OAG may find it useful to consider the requirements and guidance in ISSAI 1800, which deals with special considerations in the application of ISSAIs and ISAs to an audit of financial statements prepared in accordance with a special purpose framework, when developing or adapting standards based on ISSAI 200 principles.

Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements.

Compliance framework
A compliance framework refers to a financial reporting framework which is prescribed by legislation.

4.4 EVALUATING THE FINANCIAL REPORTING FRAMEWORK OF AUDITEES

The financial reporting framework for auditees should be evaluated and there should be confirmation whether it is acceptable. The acceptability of a financial reporting framework is decided based on the nature of the entity and the objective of its financial statements. Reference can be made to working paper FRF 1. Evaluating the financial reporting framework.

OAG level evaluation of the financial reporting framework
As the same financial reporting framework is normally applicable for a group of government entities, it is most cost effective for the OAG to evaluate the acceptability of the financial reporting framework centrally at the beginning of the annual audit cycle. This approach also assists in avoiding duplication of work and possible conflicting conclusions by different auditors.

The central evaluation may be done for all government ministries preparing financial statements by using IPSAS cash basis. In addition, there may also be some additional requirements issued by the Ministry of Finance or Director General of Central Treasury. In this case the evaluation should also include confirming that the additional requirements are consistent with the requirements of the financial reporting framework prescribed by legislation. While some or all aspects may be considered centrally it still remains the responsibility of the auditor to ensure that the acceptability of the financial reporting framework is adequately considered, concluded and appropriate actions are taken when necessary.

The results of this central evaluation should be documented in the Annual Overall Audit Plan document of the OAG *[refer to Module 1. Part 3. for guidance on the Annual Overall Audit Plan]*.

Criteria for evaluation
To evaluate the financial reporting framework the following aspects should be considered:
1. What is the applicable financial reporting framework for the auditee?
2. Is the relevant financial reporting framework acceptable?
3. Is the financial reporting framework a special purpose or general purpose framework?
4. Is the financial reporting framework a fair presentation framework or a compliance framework and how to report correspondingly?

4.4.1 Identifying the financial reporting framework for the auditee

The financial reporting framework is normally prescribed by legislation or regulation. The Ministry of Finance or the Director General of Central Treasury often issue more specific guidelines on the preparation of the financial statements and prescribe additional disclosures. In certain environments a complete set of financial statements according to the financial reporting framework may also include other reports such as reports on performance and appropriation reports. If the financial statements are prepared in accordance with a framework for cash basis of accounting, a complete set of financial statements may not comprise all these statements.

Auditors should identify the legislative provision which prescribes the financial reporting framework. They should understand the exact requirements of the framework, including additional disclosures which may be required for the auditee.

For example, the public finance regulation may identify the financial reporting framework for ministries as cash basis IPSAS and accrual basis IPSAS for local government. In addition, the Department of Central Treasury issued a circular which provides guidance in preparing the financial statements and instructions on some additional disclosures. The auditors of ministries should understand how IPSAS financial statements are compiled before their audit commences. They should also identify and understand the additional disclosure requirements.

Considering consolidated (government wide) accounts

In some countries there may be only one financial statement issued centrally for the entire government. When this is the case auditors should apply the provisions of ISSAI 1600 (Special Considerations – Audits of Group Financial Statements).

The applicable financial reporting framework for the consolidated financial statements needs to be separately identified and evaluated by the auditors.

There may be additional considerations when evaluating the acceptability of the group financial reporting framework. For example, considerations may include whether or not it is appropriate for the framework to exclude a specific type of government entity (agency, department, bureau, corporation, fund etc.) from the group financial statements. The group auditor needs to consider whether this would result in a misleading group financial statement presentation.

Identifying and evaluating financial reporting framework for component audits

If there is a requirement to perform an audit and express an opinion on the government entities which are also components of a group account, the auditors should identify and evaluate the financial reporting framework for these entities.

In some instances the financial reporting framework may only be regulated for the central (group) accounts of government and not for individual audits. In such case there may be no financial statements prepared for each component audit. If there are no financial statements produced for components, auditors will not be able to express an audit opinion on them. When such audit is part of the mandate of the OAG, auditors should consider the proposed actions for when the financial reporting framework is deemed to be not acceptable.

4.4.2 Is the financial reporting framework acceptable?

Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements. Suitable criteria can be formal, for example in the preparation of financial statements; the criteria may be International Public Sector Accounting Standards (IPSASs), the International Financial Reporting Standards (IFRSs), or other national financial reporting frameworks for use in the public sector.

Acceptable financial reporting frameworks normally exhibit the following attributes:

- **Relevance**, in that the information provided in the financial statements is relevant to the nature of the audited entity and the purpose of the financial statements.

  Considerations may include whether:
  - The users of the financial statements are clearly identified in the financial reporting framework;
  - Financial reporting framework (i.e. IPSAS cash basis) is suitable for the type of entity (Central government entities may use cash basis accounting but revenue collecting entities - local government authorities prepare financial statements using full accrual basis).

- **Completeness,** in that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted. The financial reporting framework should include all relevant and / or applicable elements of the financial statements.

As discussed above, a complete set of financial statements for a public sector entity prepared in accordance with a financial reporting framework normally comprise:

- A statement of financial position;
- A statement of financial performance;
- A statement of changes in net assets/equity (if applicable);
- A cash flow statement (if applicable);
- A comparison of budget and actual amounts either as a separate additional financial statement or as a reconciliation;
- Notes, comprising a summary of significant accounting policies and other explanatory information.

- **Reliability**, in that the information provided in the financial statements:
  - Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
  - Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.
  - Provide information in a format that links to the accounting policies and / or financial procedures.

- **Neutrality and objectivity**, in that information in the financial statements are free from bias, or they do not provide an interpretation that can lead to bias towards certain results or entities.

- **Understandability**, in that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation. The financial statements are “fit for purpose” and are used and understood in the manner to which they were intended.

4.4.3 Is it a general or a special purpose framework?

Auditors need to carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users. In this case **general purpose framework** would be applicable.

At present, there is no objective and authoritative basis that has been generally recognized globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organizations (i.e. IAASB or country specific standard setting bodies) that are authorized or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities. This is provided the organizations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.

These financial reporting standards are often identified as the applicable financial reporting framework in law or regulation governing the preparation of general purpose financial statements. When law or regulation prescribe the financial reporting framework to be used in the preparation of general purpose financial statements for certain types of entities, such a financial reporting framework is presumed to be acceptable unless there are indications to the contrary.

When there is no recognized standards setting organization for public sector, or where use of the financial reporting framework is not prescribed by law or regulation, management may identify a financial reporting framework for the preparation of the financial statements. Acceptability of such a financial reporting framework should be evaluated and concluded by the auditors.

Special purpose frameworks provide financial information for specific users such as parliament or the requirements of a standard setting body. This information may be provided in separate statements by the government entity or in addition to the general purpose financial statements.

4.4.4 Is it a fair presentation framework or a compliance framework?

A "**fair presentation framework**" is a financial reporting framework that requires compliance with the requirements of the framework and:

- Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

A "**compliance framework**" is a financial reporting framework that requires full compliance with the requirements of the framework without giving any option to deviate.
The financial reporting standards established by an authorized or recognized standards setting organization (e.g. IPSAS) are supplemented by law or regulation, issued for example by the Department of Central Treasury. The auditor should determine whether there may be any conflicts between the financial reporting standards and the additional requirements. If such conflicts exist, the auditor should discuss with management about the nature of the additional requirements and shall agree to:

- Provide additional disclosures in the financial statements; or
- Amend the description of the applicable financial reporting framework in the financial statements accordingly.

If neither of the above actions is possible, the auditor should consider the impact this may have on the auditor's opinion.

4.5 CONSIDERATIONS WHEN THE FINANCIAL REPORTING FRAMEWORK IS DEEMED UNACCEPTABLE

Deficiencies in the applicable financial reporting framework indicate that the framework is not acceptable. If the financial reporting framework prescribed by law or regulation is found to be unacceptable, the auditor should:

- Request management to provide additional disclosures to avoid the financial statements being misleading;
- Draw attention to the disclosures in an emphasis of matter paragraph in the auditor's report
  Unless it is required by law or regulation, auditors should not use the phrases "present fairly, in all material respects," or "give a true and fair view" in accordance with the applicable financial reporting framework in the auditor's opinion. *(ISSAI 1210 P5) (ISSAI 1210.20)*

Where law or regulation prescribes the financial reporting framework to be used for general purpose financial statements, such a financial reporting framework may be presumed to be acceptable in the absence of indications to the contrary. However, when it is determined that the framework prescribed by law and regulation is not acceptable than also consider:

- Informing the legislature; and
- Influencing standard setting by professional or regulatory organizations.

When use of the financial reporting framework is not prescribed by law or regulation, the auditor should discuss this with management. In this case management may provide some additional disclosures or may even decide to adopt another framework that is acceptable. When management does so, the engagement letter should reflect the financial reporting framework which is acceptable.

When the deficiencies in the applicable financial reporting framework are identified after the audit engagement letter is concluded this may mean that such audit engagement is no longer applicable. When use of that framework is prescribed by law or regulation, the auditor should revert to the requirements of the previous paragraph. When use of that framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, new terms of the audit engagement are agreed to reflect the change in the framework as the previously agreed terms will no longer be accurate.

Considering the financial statements during the audit

The auditor should evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation should be done considering qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. This process is described in the Disclosure checklist working paper *(refer to working paper AS 1. Disclosure checklist).*

WORKING PAPERS

FRF. 1 CHECKLIST FOR EVALUATING THE FINANCIAL REPORTING FRAMEWORK

This checklist is completed for:___________________________ *[ministries, local authority etc.]*

QUESTION		**YES / NO**	**RECORD OF WORK DONE**
1.	Is there an identified financial reporting framework for the audited entity?		
2.	Is the financial reporting framework set by an acknowledged standard setting body?		
	Are there any conflicts identified between the requirements of the general purpose framework and the additional requirements contained in laws and regulations?		
3.	Is the financial reporting framework:		
	A general purpose framework?		
	A special purpose framework?		
	Prescribed by laws and regulations (a compliance framework)?		
	A fair presentation framework?		
RELEVANCE OF THE FINANCIAL REPORTING FRAMEWORK			
3.	Is information provided in the financial statements is relevant to the nature of the audited entity (ministries, commission, authority & office, local authority or other budgetary units) and to the purpose of the financial statements?		
4.	Are the users of the financial statements clearly identified?		
COMPLETENESS			
5.	Confirm that the audited group financial statement include the information of all relevant entities to achieve fair presentation. *(e.g. the group financial statement presentation is not misleading)*		
6.	Does the financial reporting framework provide for all relevant statements / elements?		
RELIABILITY			
7.	Does information in the financial statements reflect the economic substance of events and transactions and not merely their legal form?		
8.	Are basic principles applied consistently when used in similar circumstances, including evaluation, measurement, presentation and disclosure?		
OBJECTIVITY			
9.	Is the information in the financial statements that free from bias and it does not lead to bias towards certain results or entities?		
UNDERSTANDABILITY			
10.	Is the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation?		
QUESTION		**YES / NO**	**RECORD OF WORK**

			DONE
1.	Is there an identified financial reporting framework for the audited entity?		
2.	Is the financial reporting framework set by an acknowledged standard setting body?		
	Are there any conflicts identified between the requirements of the general purpose framework and the additional requirements contained in laws and regulations?		
3.	Is the financial reporting framework:		
	A general purpose framework?		
	A special purpose framework?		
	Prescribed by laws and regulations (a compliance framework)?		
	A fair presentation framework?		
RELEVANCE OF THE FINANCIAL REPORTING FRAMEWORK			
3.	Is information provided in the financial statements is relevant to the nature of the audited entity (ministry, parastatal entity or local authority) and to the purpose of the financial statements?		
4.	Are the users of the financial statements clearly identified?		
COMPLETENESS			
5.	Confirm that the audited group financial statement include the information of all relevant entities to achieve fair presentation. *(e.g. the group financial statement presentation is not misleading)*		
6.	Does the financial reporting framework provide for all relevant statements / elements?		
RELIABILITY			
7.	Does information in the financial statements reflect the economic substance of events and transactions and not merely their legal form?		
8.	Are basic principles applied consistently when used in similar circumstances, including evaluation, measurement, presentation and disclosure?		
OBJECTIVITY			
9.	Is the information in the financial statements that free from bias and it does not lead to bias towards certain results or entities?		
UNDERSTANDABILITY			
10.	Is the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation?		

CONCLUSION

Is the FRF acceptable for the audit? *Yes / No*

In case of a fair presentation framework, do the financial statements achieve fair presentation?
Yes / No

When the financial reporting framework was found to be not acceptable document the actions taken: *[Document actions taken, e.g. discussions held with management and resolutions taken]*

MODULE 2. PERFORMING A REGULARITY AUDIT

PART 1. OVERALL CONSIDERATIONS

1.1 HOW TO USE THIS MANUAL

All the information in this manual is aimed at providing the audit team with a methodology for completing an audit. The audit working papers are standardised and the method of documenting and referencing information is also provided to ensure consistency.

The intention is that the auditor will follow the sequence in this manual and through this process will conduct the audit:

- **Part 1 Overall considerations -** guidance covers documentation of the audit, compiling an audit file, communication and quality control throughout the audit.
- **Part 2 Pre-engagement activities** - includes an assessment of the objectivity, integrity and technical capacity of audit staff and establishing the budgeted time for the audit. Gaining a common understanding and expectations through issuing an engagement letter.
- **Part 3 Strategic planning** – during which auditors gain understanding of the auditee's environment, identify and evaluate risks on an institutional level. This process will also establish and ensure that the auditor has considered all relevant factors surrounding the environment within which the client operates. The overall strategic plan is at this point discussed with the auditee.
- **Part 4 Detail planning and fieldwork** – here the auditor is expected to understand the detailed processes for each audit component, design audit programs, and document the performance of the programs by completing the templates provided.
- **Part 5 Audit summary** – once audit programs have been performed this stage will allow auditors to aggregate audit results and look at some overall aspects before finalising the audit. The disclosures in the financial statements, events which may have occurred subsequent to financial year end are evaluated. Management is requested to provide representations on key risk areas.
- **Part 6 Audit reporting** – the auditor's report and final management letter that arise from the audit process.

At the end of each part the related working papers can be found. Explanatory notes, illustrations included in these templates are indicated with *[red italics]*. These notes should be removed from completed working papers.

Customisation process of this final regularity audit manual
This final manual has been customised to reflect the operating environment in Eritrea. The following has been considered in customizing this final manual:

- **Augmented with relevant materials from old manual (1996). -** The revised manual has been augmented with relevant material from the previous audit manual (1996) used by the OAG. Some of the relevant sections include ICQ at component level.
- **Use best practice v local legislation** - This manual will be used as a working document but also as a reference and training material. It follows that:-
  - Apart from reflecting the specific situation in Eritrea, the manual is also providing for best practice and current updates in International Standards of Supreme Audit Institutions (ISSAIs).
  - Brief explanation has been provided for each working paper as to the purpose and instructions on how to complete the respective working paper.
- **Customised key areas** –This final manual has been customized in certain key areas as indicated in Annexure F (ICQ). The aim is to tailor the manual to the specific situation in Eritrea but also provide the flexibility of being able to be updated in the future.

Working papers that have been customised include:

- The correct titles of team members;
- Correct references to the monetary unit in use of the respective country;
- Structure of financial statements in the specific country
- The letterhead of the SAI and bringing the documents which are externally communicated in line with communication policy of the SAI.

Please refer to the table below explaining the specific aspects of key areas relevant to working papers.

WORKING PAPERS	**KEY AREAS TO BE CONSIDERED**
PE 1. Budgeted vs. actual hours	The correct titles of team members
PE 6. Engagement letter	Letter head of the OAG, the scope of the audit should be in line with the mandate of the OAG.
SP 1. Materiality	Overall materiality considered on OAG level
SP 2. Lead schedule	This working requires to include general audit components i.e. from the financial statements
SP 4. and AS 4. Analytical review (preliminary and final)	These working papers should be brought in line with the contents of the lead schedule
SP 5. Review of internal audit	The checklist includes general issues of international good practices. It includes references to Eritrea's specific legislative requirements relating to internal audit / audit committees. References to the sections in the regulations should also be included.
SP 6. Audit committee checklist	
SP 7. Fraud checklist	Relevant legislative requirements are included and cross referenced in the checklist.
SP 8. Internal control checklist	The checklist includes general issues of international good practices. It includes references to Eritrea's specific legislative requirements relating to planning and budgeting, internal controls, related party transactions, risk assessments, policies and procedures, performance management systems, etc. References to the sections in regulations should also be included.
SP 9. IT internal control checklist	This checklist may include additional explanations on the systems used in government. Sometimes where systems are administered centrally i.e. by the Ministry of Finance questions which may not be applicable for each auditee need to be removed from the checklist.
DPF 1. System description	Potential internal controls for each component should link to regulatory requirements. For example, specific public finance regulations for expenditure prescribe approval and checking of payment vouchers. These controls should be included in the system description and also cross referenced to the applicable sections of the regulations. This is important as non-compliances identified will be easily linked to the relevant legislation.
OC 2. Audit query	Should reflect Eritrea's specific reporting requirements and formats, i.e. OAG letterhead
R 1. Management letter	
R 2. Audit report	

The following is an extract on how to include legislative references for potential controls:

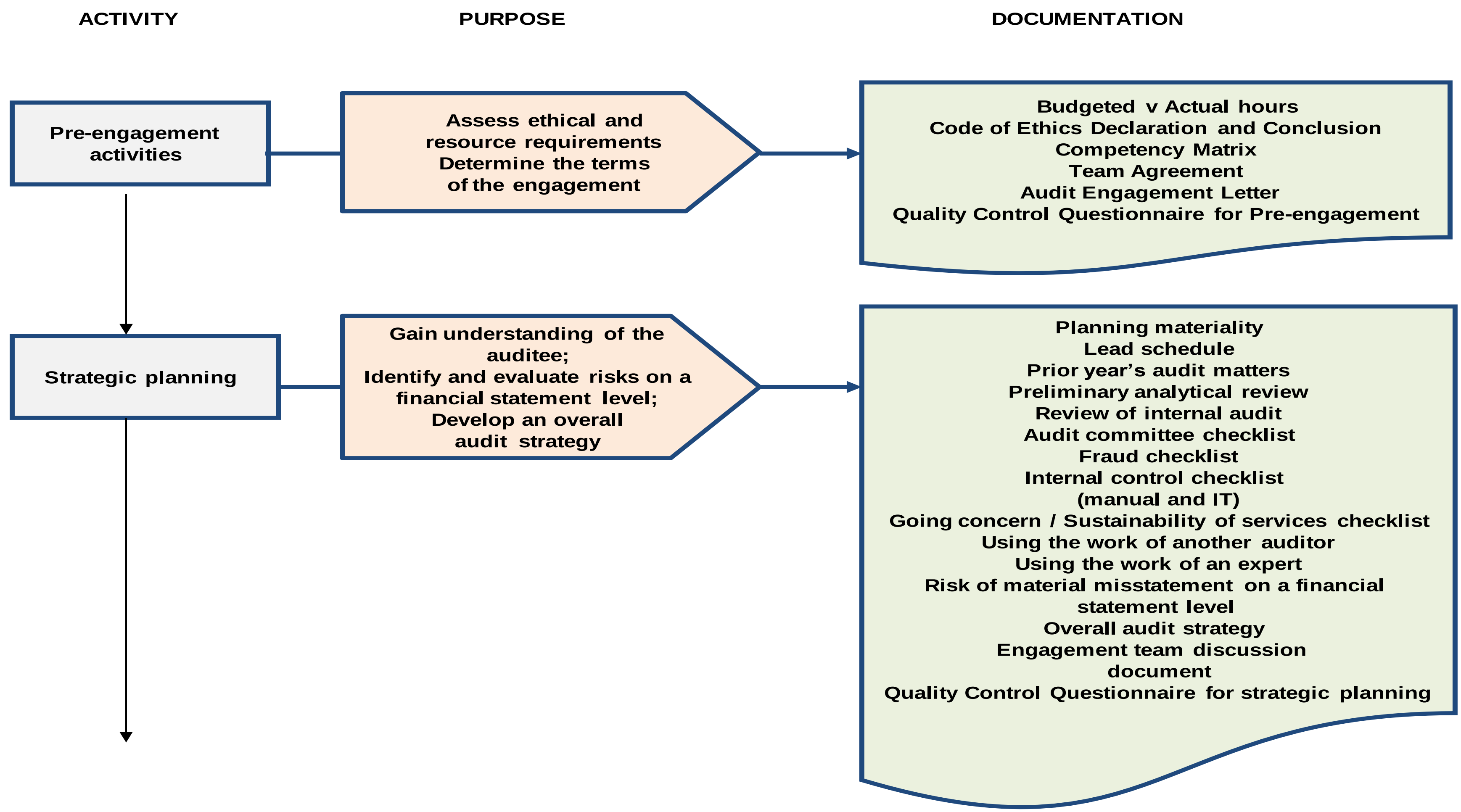
Transaction life cycle	**Risk**	**Potential Control**	**Assertion**	**Documentation used**	**Audit test to be performed *[transfer to the Audit program working paper]***	**Example of Finding if there is a problem**
Budgeting	Tender activities are not in line with the budget	Procurement plan is compiled in line with the budgets	Occurrence	Procurement plan Budget documents	1. ST[2]: Inspect the procurement plan of the auditee and confirm that planned activities are in conformity with budgeted funds. *(Par. 46(9) PPR[3])*	The procurement plan of the entity is not in line with budgeted activities
Establishment of organizational structures	The activities of the entity are not aligned to the legislation	Members of the tender board are appointed by the Accounting officer Procurement management is in place Policies and procedures are established	Occurrence	Minutes of tender board committee meetings Appointment letters for the tender board members Personnel information on staff of the performance management unit	2. TC[4]: Inspect documentation and confirm whether the auditee has a functioning tender board. *(Par. 28. PPA)* 3. TC: Obtain the Accounting Officer's approval for the members of the tender board. *(Par. 28. PPA)* 4. TC: Inspect appointment letters of the tender board members and confirm that their skills and competencies are as such that they can be expected to perform their functions adequately. 5. TC: Inspect that procurement policies and procedures are established and operational. 6. TC: Confirm that procurement management unit is in place. *(Par. 34 PPA)* 7. TC: Inspect appointment letter and personnel file to confirm that the procurement management unit is headed by person with appropriate	The auditee does not have (an adequately) functioning tender board. The auditee does not have adequate procedures in place during the financial period The procurement unit is not (fully) established and / or not appropriately staffed as required by *(Par. 34 PPA)*

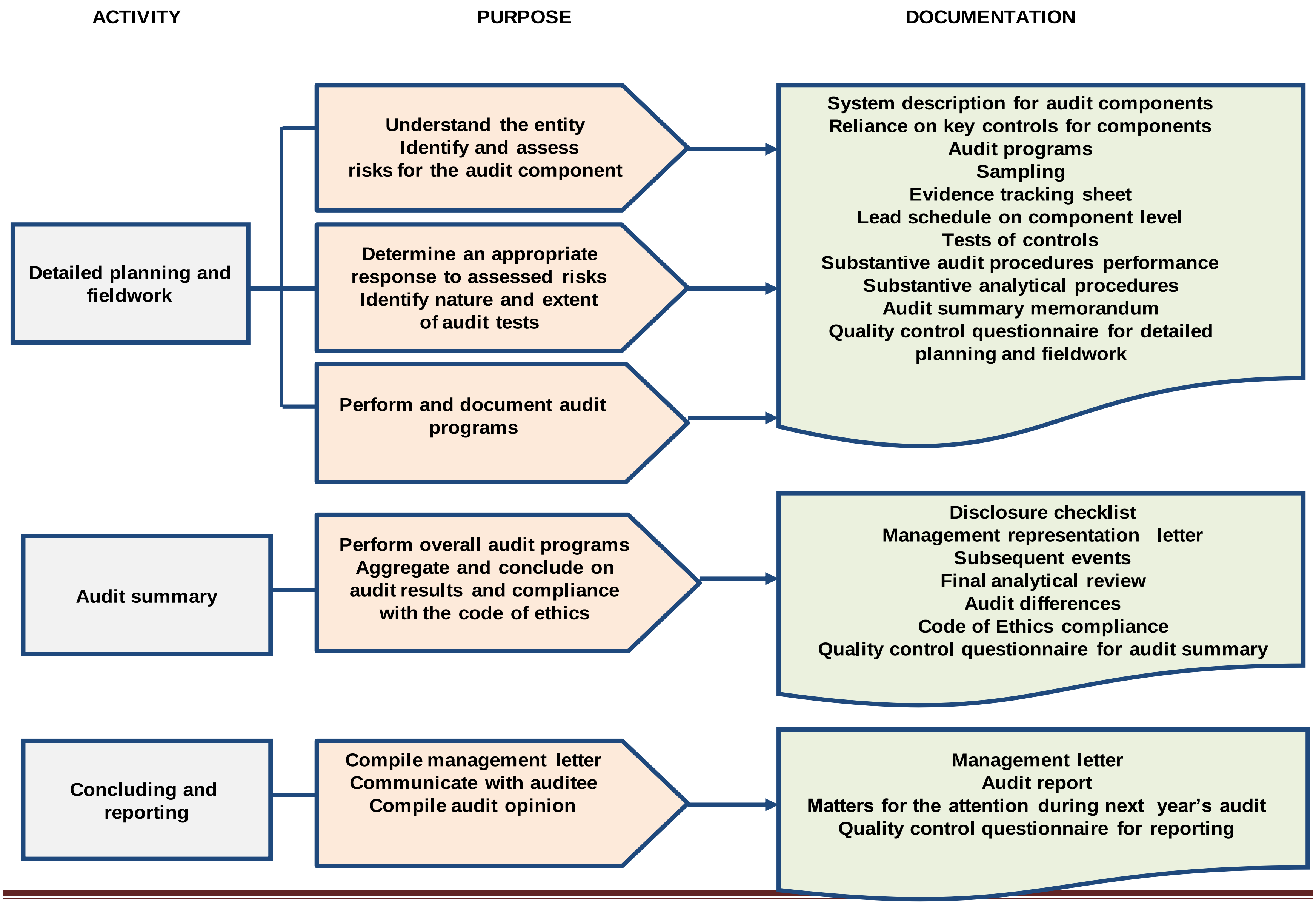
[2] ST: substantive tests
[3] PPR: Public Procurement Regulations
[4] TC: Tests of controls

Transaction life cycle	**Risk**	**Potential Control**	**Assertion**	**Documentation used**	**Audit test to be performed** ***[transfer to the Audit program working paper]***	**Example of Finding if there is a problem**
					academic qualifications and experience in procurement functions. *(Par. 34. PPA)*	
Documentation of tenders	Incomplete incorrect documentation of tenders or description of goods and services required	Approval of tender documentation by the tender board and the accounting officer.	Occurrence	Tender documentation Minutes of tender board meetings	ST: For a selected sample of tenders: 8. Review tender documentation and ensure it is in line with PPRA or applicable donor (including World Bank) standards. 9. Inspect the approval of the tender documents by the tender board and the accounting officer. Approval maybe granted for the tender in terms of including the tender in an approved procurement plan. *(Par. 47(2) PPR)* 10. Inspect proof that the tender documents including the specifications were checked to be correct before the approval was granted. *(Par. 54(2) PPR)* 11. Confirm that the date of approval was before the tender was advertised. *(Par. 54(1) PPR)*	Tender documentation was not in line with the Public Procurement Regularity Authority (PPRA) or equivalent donor requirement. Tender documentation was not checked and approved before advertising the tender by the tender board and the accounting officer

1.2 THE AUDIT PROCESS FLOW

The audit process flow depicted below demonstrates the stages of the audit and related working papers to be completed an audit using this manual. The working papers (templates) when completed adequately will ensure full compliance with the requirements of ISSAIs.




ACTIVITY
PURPOSE
DOCUMENTATION
Detailed planning and fieldwork
Understand the entity
Identify and assess risks for the audit component
Determine an appropriate response to assessed risks
Identify nature and extent of audit tests
Perform and document audit programs
System description for audit components
Reliance on key controls for components
Audit programs
Sampling
Evidence tracking sheet
Lead schedule on component level
Tests of controls
Substantive audit procedures performance
Substantive analytical procedures
Audit summary memorandum
Quality control questionnaire for detailed planning and fieldwork
Audit summary
Perform overall audit programs
Aggregate and conclude on audit results and compliance with the code of ethics
Disclosure checklist
Management representation letter
Subsequent events
Final analytical review
Audit differences
Code of Ethics compliance
Quality control questionnaire for audit summary
Concluding and reporting
Compile management letter
Communicate with auditee
Compile audit opinion
Management letter
Audit report
Matters for the attention during next year's audit
Quality control questionnaire for reporting

AUDIT PROCESS FLOW TABLE

The table below will provide the audit team with the complete understanding of an audit from planning right through to reporting. Most working papers must be completed to enable compliance to the standards but some of them are only suggested, to promulgate good practice. The Audit Process Flow table below includes the indications of this.

Items or templates included in highlighted rows in the table require communication with the audited entity. This is a vital aspect of the audit process as the effectiveness of any audit relies heavily on good communication with the audited entities.

OVERALL CONSIDERATIONS – working papers which can be used at any point throughout the audit.

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
OC 1.	Review worksheet	To document coaching / review notes issued by the reviewer and the responses on these notes.		To be completed when necessary	Reviewers on all levels	
OC 2.	Audit query	To provide a basis for communication of findings with the client.	Includes all findings / exceptions raised.	To be completed when findings are raised and communicated	Auditor/Team-leader/Assistant Auditor	Senior Auditor/Audit Director

PRE-ENGAGEMENT ACTIVITIES

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
PE 1	Budgeted versus Actual hours	To establish the time budgeted for the audit and to document actual hours spent on the audit. This working paper can be effectively used as a management monitoring tool. Actual hours spent should be completed throughout the audit.		Mandatory, to be completed for each audit.	Team leader/ Senior Auditor	Audit Director or person responsible for the auditor's report to sign off the conclusion
PE 2.	Code of ethics declaration	Each team member should sign a declaration relating to basic principles of the code of ethics.		Mandatory, to be completed for each audit.	Each team member	Audit Director or person responsible for the auditor's

PRE-ENGAGEMENT ACTIVITIES

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
						report to sign off the conclusion
PE 3.	Code of ethics Conclusion	Conclude on the team's independence	Code of ethics declarations by team members	Mandatory, to be completed for each audit.	Senior Auditor/ / Team leader to ensure that all team members sign the declaration	Audit Director or person responsible for the auditor's report to sign off the conclusion
PE 4.	Competency matrix of audit team	Conclude on the team's ability and competence to perform the audit. Identify competency gaps and training requirements.	For a conclusion that audit team has adequate time to perform the audit refer to the Budget v Actual hours working paper.	Mandatory, to be completed for each audit.	Senior Auditor/	Audit Director or person responsible for the auditor's report to sign off the conclusion
PE 5.	Team agreement	Agreement on the scope of the work required by each team member.	There should be a link between work allocated and the budgeted hours included in the Budget v Actual hours working paper for each team member. Key competencies of the team should also be considered when allocating tasks.	To be completed for each audit – administrative working paper	Team leader/ Senior Auditor/	Audit Director
PE 6.	Audit engagement letter	Agreement and common understanding about the terms of the engagement and informs both auditors and management regarding the expectations on the audit. The engagement letter is sent to the audited entity and normally discussed during a meeting. The Accounting Officer of the auditee should return a signed version of the letter.	Overall audit strategy should contain the same information relating to the scope and timelines of the audit.	Mandatory, to be completed for each audit.	Senior Auditor/Audit Director	Audit Director or person responsible for the auditor's report to sign the engagement letter

PRE-ENGAGEMENT ACTIVITIES

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
2.3.7	Quality control questionnaire for pre-engagement	Facilitating review and to identify aspects which may not have been adequately addressed during the pre-engagement phase of the audit.	Addresses main issues from other working papers	Mandatory, to be completed for each audit.	Team-leader/ Senior Auditor	Audit Director

STRATEGIC PLANNING

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
SP 1.	Planning materiality	Calculation of planning materiality.		Mandatory to complete for each audit.	Team leader	Senior Auditor
SP 2.	Lead schedule	Identification of audit components to be audited, including significant balances and transactions from the financial statements.	System descriptions will be compiled for each audit component identified	Mandatory to complete for each audit.	Team leader	Senior Auditor
SP 3.	Prior year's audit matters	Prior year's audit matters are identified as risk areas for the current year's audit.	Transfer identified risks to the Risk of material misstatement on a financial statement level working paper	Mandatory to complete for each audit.	Team leader	Senior Auditor
SP 4.	Preliminary analytical review	Identify risks areas where large differences are noted between trends	Transfer identified risks to the Risk of material misstatement on a financial statement level working paper	Mandatory to complete for each audit.	Auditor/ Team leader	Team leader / Senior Auditor
SP 5.	Review of internal audit	To provide an assessment of the work and competence of the internal audit function.		Mandatory, to be completed for each auditee with internal audit function.	Team leader	Senior Auditor
SP 6.	Audit committee checklist	To provide an assessment of the efficiency and compliance of the audit committee to prescribed laws and regulations.		Mandatory to complete for each audit where there is an audit committee	Auditor/ Team leader	Team leader / Senior Auditor

STRATEGIC PLANNING						
WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
3.6.7	Fraud checklist	To determine the entity's susceptibility to fraud.		Mandatory to complete for each audit.	Team leader	Senior Auditor
SP 8. and SP 9.	Internal control checklist IT Internal control checklist	Identify high level risks relating to the manual and computerised control environment.		Mandatory to complete for each audit. IT internal control checklist only where there is a computerized system	Team leader	Senior Auditor
SP 10.	Sustainability of services checklist (going concern)	Identify risks relating to sustainability of services or going concern	Transfer identified risks to the Risk of material misstatement on a financial statement level working paper	Mandatory to complete for each audit.	Team leader	Senior Auditor
SP 11.	Using the work of another auditor	To determine the extent of use of the work of another auditor (if any).		When applicable it is mandatory to complete	Team leader	Senior Auditor
SP 12.	Using the work of an expert	To determine the extent of use of the work of an expert (if any).		When applicable it is mandatory to complete	Team leader	Senior Auditor
SP 13.	Risk of material misstatement on a financial statement level	Transfer all risks identified from other checklists and the analytical review. Link these strategic risks to the components where there is an impact. Determine risk of material misstatement on a financial statement level.	Transfer risks identified to the system descriptions of the audit components affected	Mandatory to complete for each audit.	Senior Auditor	Audit Director
SP 14.	Overall Audit Strategy	Setting out the conclusion from all working papers up to this stage and formulating the high level audit approach. The Overall Audit Strategy is communicated to the management of the auditee.	Conclusions from all other working papers should be included here	Mandatory to complete for each audit.	Senior Auditor	Audit Director or person responsible for the audit

STRATEGIC PLANNING						
WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
SP 15.	Engagement team discussion document	Confirms understanding and informs the engagement team about important aspects of the audit.	Information included from other working papers in pre-engagement and strategic planning as well as previous years.	Mandatory to complete for each audit.	Team leader	Senior Auditor/ Audit Director
SP 16.	Quality control questionnaire for strategic planning	Facilitating review and to identify aspects which may not have been adequately addressed during the strategic planning phase of the audit.	Addresses main issues from other working papers	Mandatory, to be completed for each audit.	Team leader/ Senior Auditor	Senior Auditor/ Audit Director

DETAILED PLANNING AND FIELDWORK						
WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
DPF 1.	System description for audit components	Identification of risks for the transaction life cycle of each component. For each risk relevant controls are identified and a walkthrough is performed to assess whether the controls are implemented.	Identification of audited components in the Lead schedule. Identify risks relevant to the component from the Inherent risk on a financial statement level working paper.	Mandatory, to be completed for each audited component or group of components with largely similar processes.	Auditor/ Team leader	Team leader/ Senior Auditor
DPF 2.	Reliance on key controls for components	Evaluate whether the key controls address the control objectives and can be relied upon for all relevant assertions. If control reliance is possible proceed to the Tests of controls working paper. If no substantive audit procedures have to be designed (Substantive procedures performed working paper).	Link the risks identified in the system description to assertions and decide whether controls are going to be tested.	Mandatory, to be completed for each audited component with system descriptions.	Team leader	Senior Auditor

DETAILED PLANNING AND FIELDWORK						
WORKING PAPERS		**PURPOSE / DECISIONS / OUTCOMES**	**LINKS WITH OTHER WORKING PAPERS**	**MANDATORY WORKING PAPERS**	**COMPLETED BY**	**REVIEWED BY**
DPF 3.	Audit programs	Design appropriate procedures to address the risks identified in the System description working paper.	Risks identified in the System descriptions need to be covered.	Mandatory, to be completed for each audited component.	Team leader	Senior Auditor
DPF 4.	Sampling	Calculate sample sizes for each audit procedure or group of procedures by using systematic sampling.	Samples should be included in the Substantive procedures performance working paper	Mandatory, to be completed for each procedure / grouping of procedures	Team leader	Senior Auditor
DPF 5.	Evidence tracking sheet	To track outstanding audit evidence for further action	Requested evidence should be for the samples identified for testing.	Administrative working paper, to be completed for each audit.	Auditor/ Team Leader	Team leader/ senior Auditor
DPF 6.	Lead schedule on component level	To break down the audited component and identify any further focus areas relating to the component	Substantive analytical procedures	Mandatory, to be completed for each audit.	Auditor/ Team Leader	Team leader/ senior Auditor
DPF 7.	Tests of controls	Document the performance of tests of controls	Tests of controls are identified in the Identification of key controls document.	Mandatory, to complete for each audited component for which tests of controls are performed.	Auditor/ Team Leader	Team leader/ senior Auditor
DPF 8.	Substantive audit procedures performance	Document the performance of substantive procedures	Perform substantive procedures listed in the Audit programs.	Mandatory to complete for each substantive procedure of group of procedures	Auditor/ Team Leader	Team leader/ senior Auditor
DPF 9.	Substantive analytical procedures	Document the performance of substantive analytical procedures		Mandatory to complete for each substantive analytical procedure performed.	Auditor/ Team Leader	Team leader/ senior Auditor
DPF 10.	Audit summary memorandum	Summary of the audit process for each component	Summarises information from the following working papers: Reliance on key	Administrative working paper, to be completed for each audit.	Auditor/ Team Leader	Team leader/ senior Auditor

DETAILED PLANNING AND FIELDWORK						
WORKING PAPERS		**PURPOSE / DECISIONS / OUTCOMES**	**LINKS WITH OTHER WORKING PAPERS**	**MANDATORY WORKING PAPERS**	**COMPLETED BY**	**REVIEWED BY**
			controls, Sampling checklist, Tests of controls, Substantive testing performance working papers			
DPF 11.	Quality control questionnaire for detailed planning and fieldwork	Facilitating review and to identify aspects which may not have been adequately addressed during the detailed planning and fieldwork phase of the audit.	Addresses main issues from other working papers	Mandatory, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director)

AUDIT SUMMARY						
WORKING PAPERS		**PURPOSE / DECISIONS / OUTCOMES**	**LINKS WITH OTHER WORKING PAPERS**	**MANDATORY WORKING PAPERS**	**COMPLETED BY**	**REVIEWED BY**
AS 1.	Disclosure checklist	Financial statements review to evaluate appropriateness of disclosures.		Mandatory to complete for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director)
AS 2.	Management Representation letter	To obtain additional audit evidence in form of written representations from management of the auditee. This letter contains all requirements for the auditor and should be provided by the auditors to the auditee. It should be signed by the accounting officer and returned to the auditors as evidence.		Mandatory, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director or person responsible for the auditor's report
AS 3.	Subsequent events	To identify events after the year end that influence the financial statements / information audited.		Mandatory, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director)

AUDIT SUMMARY

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
AS 4.	Final analytical review	To confirm that given all changes to the financial statements all risks areas have been adequately covered and the correct conclusions have been drawn.	Preliminary analytical review should be used as basis to complete this working paper.	Mandatory, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director)
AS 5..	Audit differences	Documentation of all quantifiable misstatements and errors. Facilitates the evaluation of the affect of these errors on the auditor's report.	Audit summary memorandum All exceptions / findings	Mandatory, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director)
AS 6.	Code of Ethics compliance	Declaration on the compliance with the provisions of the Code of Ethics for the audit		Mandatory, to be completed for each audit.	Team leader to ensure that all team members sign the declaration	Senior Auditor / Audit Director)
AS 7.	Quality control questionnaire for audit summary	Facilitating review and to identify aspects which may not have been adequately addressed during the audit summary phase of the audit.	Addresses main issues from other working papers	Mandatory, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director)

CONCLUDING AND REPORTING

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
R 1.	Management letter	Final management letter is issued to the Accounting Officer and should include all matters that will be reported on in the auditor's report. Management's responses are requested on the findings.	All unresolved findings and exceptions are included in the management letter.	Mandatory, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director or person responsible for the auditor's report

CONCLUDING AND REPORTING						
WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	LINKS WITH OTHER WORKING PAPERS	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
R 2.	Auditor’s report	Provides templates for standard auditor’s reports	Includes all unresolved (Final) management letter issues	To be completed for each audit	Team-leader / Senior Auditor	Senior Auditor / Audit Director or person responsible for the auditor’s report
R 3.	Representation by audit management	Where applicable this working paper provides a tracking of the changes made to auditor’s reports.	Audit differences Auditor’s report	Mandatory, to be completed for each audit.	All senior / top managers involved in the audit.	Audit Director or person responsible for the auditor’s report to sign the letter
R 4.	Matters for attention during next year’s audit	Documentation of issues which is useful for the following auditors.		Administrative working paper, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director)
R 5.	Quality control questionnaire for auditor’s reporting	Facilitating review and to identify aspects which may not have been adequately addressed during the reporting phase of the audit.	Addresses main issues from other working papers	Mandatory, to be completed for each audit.	Team-leader / Senior Auditor	Senior Auditor / Audit Director)

1.3 WHAT IS AN AUDIT?

WHAT IS THE OUTPUT FROM THIS?
- Understanding the purpose and the framework of an audit.

This part of the manual describes:
- ***The most common types of audits;***
- ***The objectives of regularity or financial audit in the public sector***
- ***Applicable audit standards;***
- ***How the "audit scope" is deemed necessary to achieve the objective of the audit;***
- ***What the inherent limitations that affect the auditor's ability to detect material misstatements are; and***
- ***The auditor's responsibility towards the financial statements opposed to management.***
- ***Differences between the public and private sector.***

1.3.1 Types of audits

The most common types of OAG audits are regularity (financial and compliance audit) and performance audits.

Regularity audit embraces:
- Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- Attestation of financial accountability of the government administration as a whole;
- Audit of financial systems and transactions, including an evaluation of compliance statutes and regulations;
- Audit of internal control and internal audit functions;
- Audit of the probity and propriety of administrative decisions taken within the audited entity; and
- Reporting of any other matters arising from or relating to the audit that the OAG considers necessary to disclose. *(ISSAI 1200 P4)*

The terms 'regularity audit' and 'financial audit' are often used interchangeably. Such audits consist of an audit of financial statements, plus some or all of the elements set out above, depending on the mandate of the Supreme Audit Institution. This manual provides an integrated approach for the audit of financial statements and the compliance with laws and regulation with respect to financial matters. Where the OAG's mandate requires auditors to report on compliance or non-compliance with authorities, auditors may need to refer to the more comprehensive INTOSAI Compliance Audit Guidelines (ISSAI 4000 and 4200). Auditors may also need to apply ISAE 3000 as well as ISSAI 4100 for other assurance engagements. *(ISSAI 1200 P5) (ISSAI 1700 P6)*

As part of a financial or regularity audit mandates, OAG should express opinions as to whether the financial statements fairly present the financial position and financial results of the entity, in line with relevant reporting frameworks, for example IPSAS. When this is the case the full application of ISSAIs 1000-2999 will assist auditors in achieving this objective. *(ISSAI 1200 P6)*

Performance audit is concerned with the audit of economy, efficiency and effectiveness, and embraces:

- Audit of the economy of administration in accordance with sound administrative principles and practices, and management policies;
- Audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

Included in the audit types could be different focus areas such as:
- Information Systems Audit;
- Environmental Audit; and
- Forensic Audit.

The type of audit or a combination of any two or more will depend on the audit objective and the nature of the accounts to be audited.

1.3.2 Regularity audit

A regularity audit (audit) is conducted in accordance with the ISSAIs and relevant ethical requirements. This enables the auditor to express an opinion as to whether or not the financial statements are prepared, in all material respects, in accordance with a applicable financial reporting framework and statutory requirements relating to matters affecting financial statement disclosures. *(ISSAI 1200.3)*

The auditor's opinion on the financial statements:
- Enhances the credibility of the financial statements; **but**
- Does not guarantee the future viability of the entity; and
- Does not guarantee the efficiency or effectiveness with which management has conducted the affairs of the entity; and
- Does not guarantee that the entity is free of fraud. *(ISSAI 1200 A1)*

1.3.3 Objectives of regularity audit

The overall objectives of the auditor are:
- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- To report on the financial statements, and communicate as required by the ISSAIs, in accordance with the auditor's findings.
- 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 standard or by legislation. *(ISSAI 1200.9 & 11)*

To achieve this objective auditor should exercise professional judgment and maintain professional skepticism throughout the audit and, among other things:
- Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.
- Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- 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. *(ISSAI 1200.7)*

The additional objectives refer to the fact that the objectives of audits in the public sector are often broader then described above. 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 audit and reporting responsibilities, for example, relating to:

- Reporting instances of non-compliance with authorities including budget and accountability, and/or
- Reporting on the effectiveness of internal control.

These additional objectives may lead public sector auditors to assess additional risks of material misstatement. However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities or reporting on effectiveness of internal control. Auditors should keep such expectations in mind, and are 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. *(ISSAI 1315 P4)*

This manual addresses compliance with laws and regulations from a financial audit perspective as included in ISSAI 1250. Laws and regulations are considered throughout the audit process including high level considerations during strategic planning and requirements for audit components on a detailed level.

When a SAI has a specific mandate to audit and express an opinion on compliance with certain legislation or regulation the INTOSAI Compliance Audit Guidelines (ISSAI 4000 and 4200) should be consulted.

1.3.4 Reasonable assurance

An audit in accordance with auditing standards is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement. *(ISSAI 1200.5)*

Reasonable assurance is a high, but not absolute level of assurance due to inherent limitations to an audit as listed below. In terms of providing reasonable assurance the auditors should obtain sufficient and appropriate audit evidence to conclude that there are no material misstatements in the financial statements as a whole. Reasonable assurance relates to the whole audit process.

If reasonable assurance cannot be achieved with the evidence provided the auditor should consider the impact of scope limitation on the audit opinion expressed. *(ISSAI 1200.12)*

The limitations which are inherent in the audit process affect the auditor's ability to detect material misstatements and in turn to provide absolute assurance on the financial statements. These limitations exist because of the following factors:

- Only a sample of transactions or balances will be selected for the audit;
- The inherent limitations of any accounting and internal control system, for example, the possibility of collusion; and
- The fact that most audit evidence is persuasive rather than conclusive.

In many instances the auditors will rely on professional judgement, in particular when deciding on the nature, timing and extent of audit procedures or drawing conclusions based on the audit evidence gathered. For example, the auditor needs to decide on the reasonableness of the estimates made by management in preparing the financial statements.

1.3.5 Compliance with ISSAI (1000-2999)

The ISSAIs provide a framework for auditors which include the International Standards on Auditing (ISA) and additional practice notes for the application of ISAs in the public sector.

The auditor may only claim compliance with ISSAIs in the auditor's report when all the requirements including in the ISSAIs (1000 – 2999) relevant for the audit have been complied with during the audit. *(ISSAI 1200.18,20)*

To comply with an ISSAI the auditor should comply with each requirement included in that standard, in the circumstances of the audit:

- The entire ISSAI standard is not relevant; or
- One or more requirement of an ISSAI standard is not relevant because it is conditional and the condition does not exist. *(ISSAI 200.22)*

Auditor should understand the objective of each ISSAI and identify any additional procedures required to achieve these objectives. The auditor should also evaluate whether sufficient appropriate audit evidence has been obtained. *(ISSAI 1200.21)*

If, in exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISSAI the auditor should perform and document alternative audit procedures to achieve the aim of that requirement. *(ISSAI 1200.23*)

If it is impossible to achieve the objective of a relevant ISSAI the auditor should evaluate the impact of this non-achievement on the audit opinion. In such cases a modified audit opinion may be issued. *(ISSAI 1200.24)*

Before applying the principles or starting auditing, the auditor should read the manual to gain understanding of the entire text including how principles are applied in the working papers. *(ISSAI 1200.19; P19)*

If any law or regulation of a country prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of ISSAIs, the auditor should provide additional explanations to mitigate possible misunderstanding. If this is not possible, the audit conducted in accordance with such law or regulation does not comply with ISSAIs the auditor's report cannot include reference that the audit having been conducted in accordance with ISSAIs. *(ISSAI 1210.21)*

The following requirements should be maintained and considered by auditors throughout the audit work:

- *Professional Skepticism* or recognizing that circumstances may exist that cause material misstatements. Professional skepticism enhances and broadens the concept of due care and is fundamental for planning and performance of the audit. *(ISSAI 1200.15) (ISSAI 1200 P18)*
- *Professional judgment* by auditors leading to informed decisions and the appropriate application of relevant knowledge and experience to the facts and circumstances. *(ISSAI 1200.16)*
- *Sufficient and appropriate audit evidence* should be obtained to reduce audit risk to an acceptably low level and enable the auditor to draw conclusions and base the auditor's opinion on. *(ISSAI 1200.17)*

1.3.6 The audited financial statements

The financial statements subject to audit are those of the entity, prepared by management of the entity with oversight from those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities as it is prescribed by relevant laws or regulations. *(ISSAI 1200.4)*

As discussed in Module 1 Part 4 of this manual, public sector entities maybe required to present financial statements in accordance with the applicable financial reporting framework such as the International Public Sector Accounting Standards (IPSAS) which is a is an example of a fair presentation framework designed for use in the public sector. In this case the auditor's report will include the element of presentation in line with IPSAS. If however there is only a requirement for 'fair presentation' the audit opinion should also conclude on whether the financial statements fairly present or give a fair view in all material respects. *(ISSAI 1200.8; P11)*

A complete set of financial statements in terms of IPSAS prepared on a cash basis will include the following:

- A statement of cash receipts and payments;
- Accounting policies and explanatory notes; and
- When the entity makes publicly available it's approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments.

A complete set of financial statements for a public sector entity prepared on an accrual basis of accounting may normally comprise:

- A statement of financial position;
- A statement of financial performance;
- A statement of changes in net assets/equity;
- A cash flow statement;
- A comparison of budget and actual amounts either as a separate additional financial statement or as a reconciliation;
- Notes, comprising a summary of significant accounting policies and other explanatory information; and
- Other reports such as reports on performance and appropriation reports.*(ISSAI 1200 P12;13)*

Where consolidated set of financial statements are presented for the whole government auditors should refer to part 7 of this manual for additional considerations.

1.4 DOCUMENTING THE AUDIT

This chapter explains:

- ***The nature, types and purpose of audit documentation;***
- ***Form, content and extent of the audit documentation;***
- ***How to document audit findings and***
- ***The assembly of the final audit file.***

WHAT IS THE OUTPUT FROM THIS?

- Review worksheet *(Refer to working paper OC 1. Review worksheet)*
- Audit query *(Refer to working paper OC 2. Audit query)*

1.4.1 Audit documentation

The auditor should prepare, on a timely basis audit documentation that provides sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was performed in accordance with ISSAIs and applicable legal and regulatory requirements. *(ISSAI 1230.5,7)*

In addition the auditor should prepare documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions. Significant matters in this context may not only be material misstatements in the financial statements, but also matters relating to lack of compliance, violations of contract provisions or grant agreements or any other matters auditors are required to report on. (ISSAI 1230 P3)

Audit documentation refers to all relevant working papers and audit evidence that has been obtained throughout the audit. Where working papers are not applicable, only the fact that they are not applicable and the reasons therefore should be documented. There is no need to print or put copies of these checklists in the working paper file.

In some public sector environments, such as in a Court of Accounts environment, auditors may be subject to laws and regulations requiring precise documentation procedures related to rules of evidence. Public sector auditors should familiarize themselves with these additional requirements relating to audit documentation and that are designed to ensure compliance with applicable rules of evidence. *(ISSAI 1230 P15-17)*

Nature of audit documentation

Audit documentation may be recorded manually, electronically or on other media. Electronic working papers, for example, may be generated through using audit software or by preparing working papers on a spreadsheet.

Audit documentation includes working papers compiled by auditors containing audit programs, analyses, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists, and correspondence (including e-mail) concerning significant matters.

In addition, audit documentation may include abstracts or copies of the entity's records, for example, significant and specific contracts and agreements.

Types of audit documentation

Audit documentation either relates solely to the current year or they may be of a more permanent nature.

The audit file for the current year should include all the working papers and supporting evidence relating to the current year's audit objectives. There might be working papers and supporting evidence that is applicable for more than one financial year. In such cases it may be appropriate to retain them in the current audit file, placing a copy in the previous year's current file each time a schedule is carried forward. An example of this could be the system descriptions that may not change from one year to another.

The permanent file contains information of continuing nature about the entity's operations, accounting systems and other features (for example loan/funding agreements) that are important to the conduct of the audit. The contents of the permanent file should be reviewed at every audit and schedules updated to show the latest position. Schedules considered to be outdated should be removed from the permanent file and filed in the current file of the year they relate to.

Purpose of audit documentation

The purpose of audit documentation is to provide a record of how the objectives of an audit assignment were achieved and how the audit was planned and performed in accordance with ISSAIs and applicable legal and regulatory requirements. *(ISSAI 1230.2)*

The audit documentation is therefore to:

- Assist auditors to plan and perform the audit.
- Assist in discharging supervision and review responsibilities
- Enable the audit team to be accountable for its work.
- Retain a record of matters of continuing significance to future audits.
- Enable the conduct of quality control reviews
- Enable the conduct of external quality assurance reviews in accordance with applicable legal, regulatory or other requirements. *(ISSAI 1230.3)*

Extent of audit documentation

The auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand the following matters:

- Nature, timing and extent of the audit procedures performed to comply with ISSAIs and applicable legal and regulatory requirements including the identification of specific characteristics of items being tested; *(ISSAI 1230.8a.9a, 230.12)*
- Results of the audit procedures and the audit evidence obtained; *(ISSAI 1230.8b)*
- Significant conclusions reached; *(ISSAI 1230.8c)*
- Discussions of significant matters with management and others on a timely basis; *(ISSAI 1230.10)*
- How information that is contradictory or inconsistent with the auditor's conclusions has been addressed in forming the final conclusion; *(ISSAI 1230.11)*
- How the audit objectives have been achieved by using alternative audit procedures and, unless otherwise clear, the reasons for the departure from the requirements of the ISSAIs; *(ISSAI 1230.12)*
- Any new or additional audit procedures and conclusions after the date of the auditor's report, together with the circumstances encountered, audit evidence obtained, conclusions reached and their effect on the auditor's report. *(ISSAI 1230.13)*

Contents of audit documentation (working papers) and audit evidence

With regard to the form and content of working papers, the auditor should prepare working papers that are sufficiently complete and detailed to provide an overall understanding of the audit. Working papers should contain at least the following information:

- The client's name, year-end, person preparing and reviewing the working paper, and respective dates for preparation and review; *(ISSAI 1230.9b,c)*
- Explanations for tick-marks used should be provided;
- The work performed for example description of the audit procedure or review executed;
- The source of the sample of information that was used to perform the audit procedure (for example the source may be the ledger);
- List the transactions that were selected to be audited or the extent of the review performed;
- Sufficient information to enable re-performance of the procedure, e.g. document numbers, dates, names, reference numbers, etc;
- The value or amount of the sample selected and coverage obtained;
- Results of the procedures performed;
- Conclusion on the work performed based on, and warranted by, the work performed and supporting audit evidence;
- Explanations, motivations of basis used when using professional judgment and conclusions reached;
- Indication that all schedules, prepared by the auditee, have been cast and cross-cast;
- Indication of the purpose of photocopied or scanned documents; and
- References to other working papers or documents.

1.4.2 Documenting audit findings

Audit findings, exceptions or queries should be raised and documented in the required format as soon as discovered. These findings are communicated to the auditee through the following available means:

- Audit query;
- Management letter; and
- Auditor's report.

Audit queries are a more informal means of communication *(Refer to working paper OC 2. Audit query)*. These queries are sent via the accounting officer to the relevant division heads where the queries reside. This way management has an opportunity to give timely feedback or comments and additional information to the auditors. There is no restriction on the number of queries that may be sent by the auditor, but it is advised to avoid sending endless numbers of individual queries. The audit manager should rather collect the queries and send them simultaneously (for example, all queries for the week should be sent on Fridays). All such arrangements should be communicated and agreed to with the auditee.

Unresolved material findings which will be considered for reporting should nonetheless always be included (and this way repeated) in the management letter. Repeating unresolved findings will alert management to the items that will potentially appear in the auditor's report. This will ensure that auditor's reports do not contain issues that will 'surprise' management.

The management letter is normally issued at the end of the engagement summarising all unresolved findings previously raised in queries and any new issues not yet raised. Management is requested to give comments on the findings raised in the management letter.

The draft auditor's report will be presented to the auditee before it is finalised. Depending on the circumstances it may be done simultaneously with the management letter (e.g. if all findings already been reported to management). The management letter and auditor's report is dealt with in more detail under Part 6 of this manual.

1.4.3 The final audit file

The auditor should assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. The audit file contains audit documentation relating to a specific audit.

The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.

It is commonly accepted that 60 days after the date of the auditors' report the final audit file should be completed. *(ISSAI 1230.14, A22) (ISSAI 1230 P4)*

When the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor should, regardless of the nature of the modifications or additions, document:

- When and by whom they were made, and (where applicable) reviewed;
- The specific reasons for making them. *(ISSAI 1230.16)*

As a general rule the auditor ordinarily excludes from audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

Cross-referencing

All working papers documentation placed in the supporting files should have individual reference numbers.

The following documentation can be regarded as audit evidence:

- Original source documents (payment advices, invoices, tender documents and vouchers of the audited entity); and
- Schedules/working papers completed by the auditors such as a summary listing of selected transactions to test included in the work done by the auditor stating and explaining the conclusions that were drawn.

The final audited financial statements with trial balance where applicable should be referenced to the lead schedule.

It is important that the audit findings are referenced to the original source documents and not only to working papers / schedules compiled by the auditors. Auditors should be throughout the audit aware of these requirements and file copies of the audited source documents where the problems were found.

In certain instances there will be no original source document available to support a finding. For example this is the case when the lack of an adequate policy or process is reported.

As a rule of thumb the source documents should be cross-referenced to the summaries and working papers where the audit work has been documented and concluded on and vice versa.

Contents of the audit file

For an audit to be completed a set of pre-defined audit files have to be compiled. These files are compulsory and should include the following:

<table>
<tr><th>Reference</th><th>Title</th><th>Brief description</th><th>Reference to this manual</th></tr>
<tr><td>Section PE</td><td>Pre-engagement</td><td rowspan="2">The working papers included in part 2 (pre-planning) and part 3 (strategic planning) of this manual should be completed and put on file. All audit programmes should also be included in this section and signed by the relevant reviewer. The strategic audit plan should be reviewed and signed before the audit team commences with the audit.

This section also includes information that is similar to what is found on permanent files. The nature of this type of information can often be unchanged between financial years. Therefore the auditor can use and update the information held on the previous year's file.</td><td></td></tr>
<tr><td>Section SP</td><td>Strategic planning</td><td></td></tr>
<tr><td>Section DPF</td><td>Detailed planning and fieldwork relating to individual account areas</td><td>This section will contain the audit work completed to provide the necessary assurance for the auditor that an opinion can be expressed on the audit area.</td><td></td></tr>
<tr><td>Section AS</td><td>Audit summarisation</td><td>Contains the finalisation audit work on a financial statement level.</td><td></td></tr>
<tr><td>Section R</td><td>Management letter, auditor's report and audited financial statements</td><td>Contains management letter(s) with evidence for reported items and minutes of exit meeting.

All versions of the auditor's report with management amendments and evidence for the reporting items.</td><td></td></tr>
<tr><td>Section</td><td>Auditor's report</td><td></td><td></td></tr>
</table>

The AFROSAI-E Model Audit File (2013) can be referred to for an example on how an audit file may be compiled.

When the auditor performs the audit procedures standard tick-marks should be included in the working paper or on the source documentation (as applicable) to demonstrate the audit tests performed and the results of these tests. These tick-marks have to be inserted on each source document audited.

Examples of audit tick-marks:

√ Correct, no exceptions found.

X Incorrect, exception has been raised.

The documents tested that are satisfactory, should not be copied onto the audit file. The auditor's tick-marks allow the reviewer, if they desire, to check or even re-perform the auditor's work if necessary. This is why the auditor should use the tick-marks on the supporting documentation.

1.4.4 Document retention and confidentiality

Audit files should be retained with nothing deleted or discarded from them) for the period of retention required by the SAI but not less than 5 years from the date of the auditor's report. *(ISSAI 1230.15; P5)*

OAG also need to observe any legislative requirements for confidentiality of information and balance this requirements with the provisions of transparency which requires professional judgement. Requests which are made by third parties relating to audit documentation, in which instance OAG should normally refer the request to the auditee and consult with relevant parties before releasing the information. Legislation may grant access to audit correspondence, for example where electronic or other post journals are open to public scrutiny. Documentation which is of confidential nature should be identified and treated as such. OAG should have clear procedures on different types of information including lines of responsibility for authorising disclosure of audit documentation and routines for making such information available. *(ISSAI 1230 P6-13)*

In some environments where the public sector audit work is contracted out by OAG to other auditors, the other auditors should follow the same documentation requirements as OAG itself. *(ISSAI 1230 P14)*

1.5 QUALITY CONTROL

Quality Control entails the review of work performed by auditors throughout the audit.

1.5.1 Responsibility for quality control

Responsibilities of the audit team
Every auditor performing audit work should implement quality control procedures for each audit to provide reasonable assurance that:

(a) The audit complies with professional standards and applicable legal and regulatory requirements; and
(b) The auditor's report issued is appropriate in the circumstances. *(ISSAI 1220.6)*

Quality control procedures should be performed by the engagement team members for every audit as per the OAG policy. Quality control procedures are performed by team members on different levels, including the person with delegated responsibility for the audit. They are designed to ensure that each team member takes part in the responsibility for the overall quality of the audit assignment.

Team members are also responsible to provide OAG management with relevant information to enable the functioning of that part of OAG's system of quality control relating to independence. *(ISSAI 1220.3)*

Role of the person responsible for the audit

The person with delegated responsibility for the audit should take overall responsibility for the quality on the audit assignment. This person should throughout the audit observe evidence for non-compliance of the audit team with ethical requirements. If any non-compliance comes to light appropriate action should be taken. *(ISSAI 1220.6,8,9,10)*

In the public sector the Auditor-General is usually the statutory auditor responsible for all audits. However, practicalities dictate that other (high level) suitably qualified audit staff with the appropriate competence, capabilities may be delegated or appointed to take over the responsibility for an assignment. Such delegation should preferably be in writing and communicated for each engagement to all relevant personnel. *(ISSAI 1200 P16)*

For each audit assignment the person responsible for the audit should form a conclusion on compliance with requirements that apply to the audit engagement. This entails the following:

- Obtaining relevant information from the SAI to identify and evaluate circumstances and relationships that create threats to independence;
- Evaluating the information on identified breaches, if any, of the SAI's independence policies and procedures to determine whether they create a threat to independence for the audit engagement;
- Taking appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards. The person responsible for the auditor's report should promptly report to the SAI any failure to resolve the matter for appropriate action; and
- Documenting conclusions on independence and any relevant discussions with the SAI that support these conclusions. *(ISSAI 1220.11, ISSAI 1220 P4,P6)*

Person responsible for the audit should, throughout the audit:

- Remain alert, take note and document any non-compliance with relevant ethical requirements and ensure that appropriate actions are taken; *(ISSAI 1220.9,10)*
- Take responsibility for the direction, supervision and performance of the audit engagement; *(ISSAI 1220.15)*
- Take responsibility for the performance quality reviews throughout the audit (refer to chapter on quality control). In terms of this review the audit documentation and hold discuss with the audit team to confirm the sufficiency and adequacy of audit evidence; *(ISSAI 1220.16,17)*
- Take responsibility for ensuring that appropriate consultation is taking place on difficult or contentious matters, including the fact that appropriate conclusions are reached and implemented. Such consultation should be documented. *(ISSAI 1220.18,24d)*
- Take responsibility for issuing a report which is appropriate in the circumstances. *(ISSAI 1220.15)*

In addition, the person responsible for the audit should consider the results of the SAI's quality control monitoring processes as per the latest information circulated and the affect this may have audit. *(ISSAI 1220.23)*

WHAT IS THE OUTPUT FROM THIS?

- Quality control questionnaires *(Refer to working papers PE 7. Quality Control Questionnaire for Pre-Engagement; SP 16. Quality Control Questionnaire for Strategic Planning; DPF 11. Quality Control Questionnaire for Detailed Planning and Fieldwork; AS 7. Quality Control Questionnaire for Audit Summary; R 5. Quality Control Questionnaire for Reporting).*

1.5.2 Quality control during the audit

The Quality control questionnaire contains a series of procedures which were developed to monitor the compliance with the auditing standards throughout the audit. These procedures should be carried out by the audit team member on different levels.

The purpose of the quality control is to ensure that the principles of the Regularity Audit Manual have been followed during the audit and that sufficient, appropriate audit evidence has been obtained to support the audit opinion including the documentation and justification of significant professional judgments.

Quality control offers benefits for the SAI in the following ways:

- It enables the identification and sharing of good practices with members of staff;
- It discovers weaknesses in the audit process and assists the SAI to identify its training and development strategy; and
- It promotes consistency between audits and consequently reporting, enabling benchmarking between reports.

The review process can be divided into the following levels:

- First level – lowest level of review, e.g. assistant manager/audit manager or equivalent;
- Second level – reviews may be done by the responsible senior manager or equivalent person; and
- Third level – review by the senior manager or higher. This level of review includes the person who will sign off the auditor’s report.

All three levels of review should consider the following fundamental issues when reviewing an audit file:

- All required working papers and procedure steps have been adequately completed, signed by preparer and reviewer, dated and cross-referenced. When a working paper of procedural steps is omitted adequate reasons are supplied;
- The audited financial statements (and other relevant audited information) have been identified and clearly linked to the audit;
- Knowledge of business obtained is adequate to inform the auditors’ decision relating to the audit approach;
- Conclusions were adequately drawn and supported by appropriate and sufficient audit evidence;
- Significant deviations from the Overall audit plan and any changes in the scope of the audit have been documented;
- Adequate level of audit coverage has been obtained for material areas;
- All significant professional judgments made have been documented and are supported by appropriate audit evidence;
- The audit was conducted in accordance with the relevant audit approach, guidelines and other directives;
- All significant audit matters have been resolved or have been appropriately reported to management in the management letter as well as in the auditor’s report;
- The work performed and results obtained have been adequately documented;
- Based on the underlying audit work and findings the correct audit opinion has been expressed; and
- Reported findings are supported by adequate and sufficient audit evidence.

The working papers should be reviewed as far as possible immediately after the work has been completed. Timely review provides better control over the quality of work and the time consumed in its performance. Normally the reviewer will be on a higher level than the preparer. Quality control questionnaires have been included after each phase of the audit to facilitate timely reviews.

First level (audit supervisor/audit manager)

Depending on the size of the audit the audit supervisor or manager will conduct the first level of review. In the case of larger audits there may be more than one first-level reviewer. In such cases the reviewers should focus on the sections that have been allocated to them. First level review should be performed on an ongoing basis, for example, each time a working paper is finalized by the preparer it should be reviewed. All working papers, conclusions drawn, professional judgments made and the related audit evidence on the audit file should be reviewed. This includes the review of the following:

- Adequate and sufficient completion of working papers including clear and understandable language and spelling;
- Consistency of documented information and decisions made between different working papers;
- Significant decisions made and audit evidence supporting decisions and findings;
- The planning of the audit, balancing audit risk, tests of control and substantive tests performed, evaluating the sample sizes, conclusions, management letter issues, audit findings (exceptions), auditor's report issues, etc; and
- Inspecting the audit procedures performed and ensuring that all the assertions were addressed.

Second level (audit manager/audit director)

The second level of review is almost as detailed as the first, but some reliance can be placed on the review work already performed. The experience and seniority of the first reviewer will influence the reliance placed on the first review conducted.

The second reviewer will still concentrate on detailed work, but to a lesser extent. Focus will be placed on documentation of key working papers, including as a minimum:

- Pre-engagement working papers, including the engagement letter;
- Links between the audited financial statements and the Lead schedule;
- Overall audit plan, including significant risk areas and audit approach;
- Appropriateness of the nature and extent of audit work performed;
- Audit summary memorandums;
- Audit differences;
- Management letter, confirming that there is adequate audit evidence supporting the findings;
- Auditor's report with supporting audit evidence for the findings.

The second reviewer should also review the work performed by the first reviewer.

Third level (audit director and all subsequent reviewers)

The third level review should be performed by the person who has delegated responsibility for the auditor's report. In certain instances the review will be performed by more than one person within the SAI. For example, when the first level review is performed by the audit manager and the second level review is performed by the senior manager the third level review may be performed by the business executive who may still not be responsible for signing off the report. In this case the person signing off the report will perform another third level review.

The person performing a third level review should be, as far as possible, involved in major decisions relating to the audit. The Overall audit strategy should be approved by the third level reviewer before any of the fieldwork is conducted. If this is not possible the third-level reviewer should at least be consulted to obtain his or her inputs regarding the audit plan and scope. This is to ensure that the correct audit approach is followed and that the person who is responsible for signing the report is aware of the aspects covered in the audit plan.

The third-level reviewer's review should focus on the following aspects:

- Work performed by the second-level reviewer;
- Appropriate and sufficient audit evidence exists to support the audit findings;
- Issues correctly raised in the management letter and auditor's report;
- Compare the work performed with the Overall audit strategy to ensure that all risk areas have been addressed and deviations from the strategy have been documented with reasons;
- Aspects relating to finalizing the audit including working papers under Audit summary and Reporting; and
- The audited financial statements, disclosure notes and the trial balance aiming to ensure that the audit sufficiently covered all significant balances and risk areas.

The scope of the third-level reviewer should be increased if he or she identifies other possible risk areas or if there is any indication that the audit file does not meet the required technical standards.

Documenting reviews

Working papers have to be signed off and dated by the person who has 'prepared' and the one who has 'reviewed' the audit work. Reviews of audit work are performed on 3 levels, with the result that some working papers are reviewed more than once. When a review is complete, the reviewer should initial the working paper template and provide comments on the review sheet. *(Refer to working paper OC 1. Review worksheet)*

1.5.3 Engagement quality control reviews

In addition to the quality control procedures described above, SAIs are required to perform engagement quality control reviews of selected audits. This engagement quality control review is an independent review performed on a sample of audits which meet the established criteria. The OAG should determine in their annual overall audit plan which audits are subjected to an engagement quality control review. Usually, deciding on such reviews take into consideration aspects such as which audits carry high risk, large expenditure amongst other things. Reference can be made to Module 1, Part 3 of this manual for further guidance on the annual overall audit plan where these considerations are documented. These reviews should form part of the OAG's policies and procedures and are covered in more detail in the Quality Assurance Handbook OAG's Quality Control Manual.

OAG is required to establish monitoring processes designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. These procedures entail periodic quality assurance reviews which are performed on finalised audits. Engagement quality control reviews are different from the quality assurance reviews as they are conducted before the auditor's report is finalised. The auditors tasked with engagement quality control reviews should not be the same than those conducting quality assurance reviews.

The engagement quality control reviewer is a suitably qualified person or a team of individuals who are not part of the engagement team. Normally, the reviewer(s) are assigned from within the SAI. It is important that such engagement quality control reviewer should have sufficient and appropriate experience and authority to objectively evaluate the audit of the engagement team.

The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner for the audit engagement and its performance.

The reviewer should evaluate the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation includes:

- Discussion of significant matters with the engagement partner;
- Review of the financial statements and the proposed auditor's report;
- Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
- Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. *(ISSAI 1220.20)*

The extent of the engagement quality control review may depend, among other things, on the complexity of the audit, the level of public interest and the risk that the auditor's report might not be appropriate in the circumstances. For more complex, high risk and/or high profile audits the engagement quality control reviewer should also consider the following:

- The engagement team's evaluation of the firm's independence in relation to the audit engagement;
- Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
- Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. *(ISSAI 1220.21)*

Any disagreements between the reviewer and the audit team should be resolved through consultation and following processes in the policy of the SAI. *(ISSAI 1220.22)*

The engagement quality control reviewer should document for the audit reviewed the following:

- The process followed during the review in line with the policies of the SAI;
- The fact that the engagement quality control review has been completed on or before the date of the auditor's report;
- The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate. *(ISSAI 1220.25)*

1.6 COMMUNICATION DURING THE AUDIT

The communication policy of OAG

The communication policy of OAG should cover the basic aspects of communication between auditors, the management of the auditee, those charged with governance and any other third parties relating to the audit. The policy should make provision for the following:

- The purpose, timing, format and content of communication.
- The level of responsibilities within the audit team to communicate and the person receiving the communication at the auditee or third party.
- Documentation during meetings and verbal discussions with management and those charged with governance of the audited entity. This is usually done by preparing the minutes for the meeting which should include references to all matters that were discussed and decisions that were made during the meeting.
- Timely dissemination of all documentation forming part of meetings (e.g. management letters or draft auditor's report, etc.). Documentation should ideally be distributed at least 5 working days prior to the meeting to all attendees. This may be done electronically or by delivering the relevant material to the attendees. There should be provision for additional material prior to the meeting if the exact number of attendees is not known; and
- Reasonable time to respond wherever necessary, for example, on audit queries and management letters. This may vary depending on the length of communication, where 5 working days can be used as a benchmark. This can change due to a different arrangement with the client, but it should be discussed and agreed to by both parties. Strict deadlines or other unusual circumstances can be taken into consideration each time.

Throughout the audit there should be constant communication between the auditors, the management of the audited entity and those charged with governance. Discussions with management often occur to facilitate the conduct and management of the audit engagement. They should be in the form of formal meetings with any decisions and concerns documented in the minutes of meetings and followed up. According to the provisions of this manual the following minimum information should be communicated to the auditee:

- Audit engagement letter;
- Overall audit strategy;
- Management letter(s); and
- Auditor's report.

Besides keeping management informed, information gathering is a very important reason for communicating with the auditee. Information might be gathered through interviewing personnel of the audited entity. Even though this may be an effective way of obtaining relevant information and the views of personnel, auditors should always document or confirm verbal statements with alternative documentation when used as evidence. Meetings held with personnel should be documented in the minutes of these meetings. Minutes should contain any agreements reached or requirements raised by both parties.

For material issues confirmation may be included in the formal management representation. Alternatively other supporting evidence may be obtained to substantiate verbal statements.

Laws or regulations or the mandate of the auditors may limit the information to be communicated to the audited entity. Auditors should be aware of these laws and regulations. *(ISSAI 1300 P5)*

Communicating with those charged with governance

Effective two-way communication between auditors, management and those charged with governance is essential part of an audit. Communication is aimed to develop a constructive working relationship between auditors and those charged with governance while maintaining the auditor's independence and objectivity. Communication includes:

- Understanding matters related to the audit in context, the responsibilities of auditors;
- Obtaining information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and
- Providing timely observations to and assist in fulfilling the responsibility of those charged with governance in overseeing the financial reporting process, thereby reducing the risks of material misstatement of the financial statements. *(ISSAI 1260.3;4;9)*

To whom to communicate?

Firstly, the auditor needs to identify the appropriate person(s) within the entity's governance structure with whom to communicate. In the public sector, governance responsibilities may exist at several organizational levels as well as in several functions (i.e. vertically or horizontally). As a result, there may be instances where there are several distinct groups which are identified as those charged with governance. Furthermore, when the audit involve both financial statement objectives as well as compliance objectives and in some cases that may involve separate governance bodies which need to be identified. *(ISSAI 1260.11; P4)*

In situations where matters are communicated to subgroups of those charged with governance (such as an audit committee or an individual) auditors may need to convey the information, in full or in summary, to the governing body as a whole. This is particularly relevant in the public sector where it is not uncommon for those charged with governance to be involved in managing the entity. Auditors need to be particularly sensitive to meet the needs and expectations of the legislature or appropriate regulators about matters communicated to other governance levels, particularly where the matters may be of broad public interest or speculation. *(ISSAI 1260.12; P5)*

Audit committees exist in many governments. Although their specific authority and functions may differ, auditors' communication with the audit committee has become a key element in the auditor's communication with those charged with governance.

Good governance principles suggest that:

- The auditor will be invited to regularly attend meetings of the audit committee;
- The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically;
- The audit committee will meet the auditor without management present at least annually. *(ISSAI 1260.A7)*

What to communicate?

Auditors should communicate to those charged with governance matters identified during the normal course of the audit including:

- The form, timing and the expected general content of communications. *(ISSAI 1260.18)*

- The responsibilities of the auditor in relation to the audit, such as the responsibility for expressing an opinion on the financial statements and the fact that the audit does not relieve management or those charged with governance of their responsibilities.

- Overview of the planned scope and timing of the audit

  The scope and timing of the audit may be defined in relevant legislation or the audit mandate. Communication regarding the planned scope and timing of the audit may assist the auditor to better understand the entity and its environment. Auditors may find it helpful to communicate their understanding of which components' financial information should be included in the entity's financial statements and to use the entity's response to verify their understanding. For example, it may be difficult to determine if, and to what extent, joint ventures (including private and public sector entities), are to be included in the entity's consolidated financial statements of an audited entity. Communication should take place through an engagement letter and the overall audit summary. *(ISSAI 1260.15; P6; P7)*

- Significant findings

  Communication includes significant findings noted during the audit and other matters, which are in the auditor's professional judgment significant to the oversight of the financial reporting process. Significant findings should be communicated in writing when oral communication is not deemed sufficient. These may include the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Auditors may have access to information relevant to those charged with governance from auditing other entities in government, such as material errors in transactions with the audited entity which also affect other entities, or designs of relevant controls which have provided efficiency gains in other entities. Communicating this type of information to those charged with governance may add value to the audit when circumstances permit. However, legislation, regulation, ministerial directives, or ethical requirements may prohibit communicating this type of information. *(ISSAI 1260.16; P8)*

  If the auditor identifies risks of material misstatement which the entity has either not controlled, or for which the relevant control is inadequate, or if in the auditor's judgment there is a material weakness in the entity's risk assessment process, then the auditor includes such internal control weaknesses in the communication of audit matters of governance interest.

- Written representations the auditor is requesting unless those charged with governance are involved in managing the auditee. *(ISSAI 1260.16)*

- Significant difficulties encountered during the audit may include such matters as delays in management providing required information or the unavailability of expected information and restrictions imposed on the auditor by management. *(ISSAI 1260.16; A18)*

- Compliance with independence and Code of ethics requirements
  Auditors should communicate compliance with relevant ethical requirements including independence and political neutrality. Public sector auditors' independence and objectivity are critical to their ability (a) to hold governments accountable to legislatures and the public, and (b) to help identify threats to the good stewardship of public funds, such as corruption. *(ISSAI 1260.7; P9)*.

Communication of internal control weaknesses to management and to those charged with governance

Auditors should identify internal control deficiencies during the audit. On principle all misstatements are caused by inadequately designed or not properly functioning internal controls. Internal controls are deficient if their design or operation does not prevent or detect material misstatements on a timely basis. Auditors should appropriately report internal control weaknesses to management, to those charged with governance and to other parties such as legislature when the deficiencies in the auditor's professional judgment merit their attention. *(ISSAI 1265.6;7;P4)*

When one or more internal control deficiencies have been noted the auditor should evaluate whether the deficiencies alone or when combined together significant to warrant communication to those charged with governance. Internal controls in many instances are included in legislative requirements. Auditors should consider whether control weaknesses will lead to non-compliance with relevant regulations by the auditee. *(ISSAI 1265.5.8.9; P5; P6)*

All deficiencies in internal controls that are of sufficient importance to merit management's attention and those that the auditor has or intends to communicate to those charged with governance should be reported in the audit query or management letter *(Refer to OC* 2. *Audit query working paper)* *(ISSAI 1265.10;11)*

The auditor should ensure that audit findings including internal control weaknesses are communicated **in a timely fashion** to management at an appropriate level of responsibility. This communication is in a standard format of an audit query or management letter.

The following aspects should be included in the communication:

- Description of the problem, finding or internal control weakness;
- Risk or potential effect of the problem
- Recommendation; and
- A space provided for management's to comment on the finding.

Recommendations should always be in terms of management controls which should be designed and / or implemented to prevent or detect misstatements.

In addition to these requirements the communication should include:

- Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:
  - The purpose of the audit was for the auditor to express an opinion on the financial statements;
  - The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and

- The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

Several audit queries and management letters may be issued during the course of the audit. A good practice is to issue a management letter at the end of detailed planning. A second management letter could be issued after an audit visit is completed and a final management letter can be issued at the conclusion of the audit.

The management letter should provide all findings included in the auditor's report. Therefore the auditor's report can be seen as a filter for the management letter.

How and when to communicate?
The purpose, form and persons involved in the communication should be determined by the Communication policy of OAG.

Communication should take place on a timely basis. This is especially important when the audit takes place throughout the year or when an interim audit is performed. Matters relating to planning and scope of the audit should be communicated early in the audit. *(ISSAI 1260.21)*

Auditors should evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If the two-way communication is not adequate, the auditor should to take appropriate action. In the public sector, appropriate action may include communicating with the legislature or the appropriate regulators, or funding agencies. *(ISSAI 1260.22; P10)*

When communication has taken place orally auditors need to document the date and place of such communication. All written correspondence should be retained and filed. *(ISSAI 1260.23)*

SELF CHECKLIST

QUALITY CONTROL

For your purpose:

- ❑ ***Have team members responsible for the quality control reviews been made aware of their responsibilities?***
- ❑ ***Have aspects of quality been considered throughout the audit by all team members?***

WORKING PAPERS

OC 1. REVIEW WORKSHEET

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

WP Reference	Comment / note by reviewer	Response by the auditor	Issue attended to (Initials of auditor and date)	Issue cleared (initials by reviewer and date)

OC 2. AUDIT QUERY

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

AUDIT QUERY WITH RESPECT TO THE AUDIT OF *[insert the name of the auditee]* **FOR THE YEAR ENDED** *[insert the date of financial year-end audited]*

Addressee: *[insert the name of the auditee, the Accounting Officer or delegated authority and the delivery address]*

Issued on: *[insert date]*

Audit query *[Insert the query number and the title of the query, for example: Audit query 22. Missing Payment Voucher]*

Description of finding:

[Include the following detail:

- *Description of problem found*
- *Amounts of misstatement/error*
- *Reference to section of act or regulation where non-compliance has become evident]*

Risks

Include the risks for example assets are not guarded...etc.

Recommended action to be taken by Accounting Officer:

[Recommendations should always refer to the cause of the problem, ie. an internal control failure]

It would be appreciated if you could use the space below to include your written responses to this query, and send it to us by no later than *[insert response date]*. Your cooperation is highly appreciated.

Yours faithfully

....
Signed by *[insert name and title of team member issuing the query]*

Management response:

Management's response to the query is documented here.

Auditor's evaluation:

Consider management's response and decide on further action to be taken, when necessary.

PART 2 – PRE-ENGAGEMENT ACTIVITIES

2.1 CODE OF ETHICS

WHAT IS THE OUTPUT FROM THIS?
- Signed Code of ethics declarations and conclusion *(Refer to working papers PE 2. Code of Ethics Declaration and PE 3. Code of Ethics Conclusion).*

This part of the manual describes:
- ***IFAC and INTOSAI Code of ethics***
- ***The Code of ethics statements***
- ***The concept, background and objective of Code of ethics;***
- ***Integrity;***
- ***Independence;***
- ***Political neutrality;***
- ***Conflicts of interest;***
- ***Confidentiality or professional secrecy;***
- ***Professional competence and due care.***

2.1.1 Responsibilities for the Code of Ethics

The person with delegated responsibility for the audit should:
- Identify and evaluate circumstances and relationships that create threats to independence;
- Evaluate conflicts and breaches, if any, to determine whether they create a threat to independence for the audit engagement; and
- Take appropriate action to eliminate such threats or reduce them to an acceptable level by taking appropriate actions as safeguards. Withdrawal from the engagement is one of such action; however it may not be possible under applicable law or regulations.
- Document issues relating to compliance with relevant ethical issues and independence requirements and how they were resolved, including relevant discussions within the OAG supporting conclusions drawn. *(ISSAI 1220.24)*

Each audit team member should complete and sign the Code of ethics declaration for the audit assignment. The person with delegated responsibility for the audit should ensure that team members understand the principles of the Code of ethics and based on the individual declarations conclude for the audit assignment. *(Refer to working paper PE 2. Code of ethics declaration and PE 3. Code of ethics conclusion)*

2.1.2 Code of ethics statements

International Federation of Accountants (IFAC) Code of Ethics statements, INTOSAI Code of Ethics for Auditors in the Public Sector
The Code of Ethics for Professional Accountants, developed by IFAC and the INTOSAI Code of Ethics establishes ethical requirements for public sector auditors. A conceptual framework for all professional accountants was provided to ensure compliance with the fundamental principles of professional ethics. In addition, in the public sector there may be applicable national ethical requirements auditors need to consider. *(ISSAI 1200 P17)*

The auditors should comply with ethical requirements relating for all audit engagements. *(ISSAI 1200.14) (ISSAI 1220 P5)*

These requirements relate to the following fundamental principles:

- Integrity i.e. honesty;

Independence i.e. the auditor should not have personal or financial dealings which might cause a conflict of loyalty or interest; *(ISSAI 1300.6)*

- Conflict of interest i.e. auditors should avoid all relationships with managers and staff of the audited entity and other parties which may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently;
- Confidentiality i.e. auditors should not disclose information obtained in the auditing process to third parties; and
- Professional competence and due care i.e. auditors must not undertake work they are not competent to perform.
- Political neutrality.

The code gives guidance to how auditors should behave in specific circumstances. It deals with professional attitudes of the member SAIs of AFROSAI–E and their professional staff.

Concept, background and objective of code of ethics

A code of ethics is a comprehensive statement of the values and principles that should guide the daily work of auditors. The independence, powers and responsibilities of OAG place high ethical demands on the audit staff they employ or engage for audit work. A code of ethics for auditors in the public sector should consider the ethical requirements of civil servants in general and the particular or additional requirements for auditors in line with the principles described above.

The legislative and/or executive authority, the general public and the audited entities are entitled to expect the auditing body's conduct and approach to be above suspicion and reproach and worthy of respect and trust.

Auditors should conduct themselves in a manner that promotes co-operation and good relations among auditors and within the profession. The support of the profession by its members and their co-operation with one another are essential elements of professional character. The public confidence and respect that an auditor enjoys are largely the result of the cumulative accomplishments of all auditors, past and present. It is therefore in the interest of auditors as well as the general public that the auditor deals with fellow auditors in a fair and balanced way.

In all parts of society there is a need for credibility. It is therefore essential that the reports and opinions of the auditing body are considered to be thoroughly accurate and reliable by knowledgeable third parties.

All work performed by the auditing body must stand the test of legislative and/or executive scrutiny, public judgements on propriety and examination against the Code of Ethics.

The conduct of auditors should be beyond reproach at all times and in all circumstances. Any deficiency in their professional conduct or any improper conduct in their personal life places the integrity of auditors, the auditing body that they represent, and the quality and validity of their audit work in an unfavourable light, and may raise doubts about the reliability and competence of the auditing body itself. The adoption and application of a code of ethics for auditors in the public sector promotes trust and confidence in the auditors and their work.

A code of ethics recognizes that the objective of auditors is to work to the highest standards of professionalism, to attain the highest levels of performance and to meet the public interest requirements. These objectives require four basic needs to be met:

- Credibility: In the whole of society there is a need for credibility in information and information systems;
- Professionalism: There is a need for individuals who can be clearly identified by stakeholders as professional persons in the audit field;
- Quality of Services: There is a need for assurance that all services obtained from a professional auditor are carried out to the highest standards of performance; and
- Confidence: Users of the auditor's reports should be able to feel confident that there exists a framework of professional ethics which governs the work of the auditors. The legislative and/or executive authority, the general public and the audited entities should be fully assured of the fairness and impartiality of all the auditing body's work.

Integrity
Integrity is the core value of a code of ethics. Auditors have a duty to adhere to high standards of behaviour (e.g. honesty and candidness) in the course of their work and in their relationships with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach.

Independence
Independence from the audited entity and other outside interest groups is indispensable for auditors. Auditors should also be objective and impartial in dealing with the issues and topics under review. Independence may be impaired, for example, by external pressure or influence on auditors; prejudices held by auditors about individuals, audited entities, projects or programmes; recent previous employment with the audited entity; or personal or financial dealings which might cause a conflict of loyalty or interest. Auditors have an obligation to refrain from becoming involved in all matters in which they have a vested interest.

There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should therefore be based exclusively on evidence obtained and assembled in accordance with the applicable auditing standards. Auditors should make use of information brought forward by the audited entity and other parties. This information is to be taken into account in the opinions expressed by the auditors in an impartial way. The auditor should also gather information about the views of the audited entity and other parties. However, the auditor's own conclusions should not be affected by such views.

Political neutrality
It is important to maintain both the actual and perceived political neutrality of the OAG. Therefore it is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way. If auditors are permitted to participate in political activities they have to be aware that these activities may lead to professional conflicts.

It is important to maintain both the actual and perceived political neutrality of the auditing body. Therefore, it is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way. This is relevant for auditors since auditing bodies work closely with the legislative authorities, the executive or other government entities empowered by law to consider the auditing body's reports.

It is important that where auditors undertake or consider undertaking political activities they bear in mind the impact that such involvement might have – or be seen to have – on their ability to discharge their professional duties impartially. If auditors are permitted to participate in political activities they have to be aware that these activities may lead to professional conflicts.

Conflicts of interest
When auditors are permitted to provide advice or services other than audit to an audited entity, care should be taken that these services do not lead to a conflict of interest. In particular, auditors

should ensure that such advice or services do not include management responsibilities or powers, which must remain solely with the management of the audited entity.

Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities, which could influence or be perceived as influencing their independence and integrity.

Auditors should avoid all relationships with managers and staff of the audited entity and other parties which may influence, compromise or threaten the ability of auditors to act and be seen to be acting independently.

Auditors should not use their official position for private purposes and should avoid relationships which involve the risk of corruption or which may raise doubts about their objectivity and independence.

Auditors should not use information received in the performance of their duties as a means of securing personal benefit for themselves or for others. Auditors should not divulge information that would provide unfair or unreasonable advantage to other individuals or organisations, nor should they use such information as a means for harming others.

Confidentiality or professional secrecy
Auditors should not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purposes of meeting the auditing body's statutory or other identified responsibilities as part of the auditing body's normal procedures or in accordance with relevant laws.

Professional competence and due care
Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work in order to enable them to perform their duties competently and with impartiality. Auditors must not undertake work they are not competent to perform.

Auditors should know and follow applicable auditing, accounting and financial management standards, policies, procedures and practices. Likewise, they should have a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity.

Auditors should exercise due professional care in conducting and supervising the audit and in preparing related reports.

Auditors should use methods and practices of the highest possible quality in their audits. In conducting the audit and issuing reports, auditors have a duty to adhere to basic postulates and generally accepted auditing standards.

Auditors have a continuous obligation to update and improve the skills required for meeting their professional responsibilities.

2.2 RESOURCE CONSIDERATIONS

WHAT IS THE OUTPUT FROM THIS?
- Document the hours to be spent on completing the working papers and the audit *(Refer to working paper PE 1. Budgeted v Actual hours)*
- Assessment of capacity (skills and resources); *(Refer to working paper PE 4. Competency matrix of the audit team)*; and

- Agreement on the scope of the work for team members *(Refer to working paper PE 5. Team agreement)*
- Engagement letter with audited entity. *(Refer to working paper PE 6. Audit engagement letter).*
- Quality control review *(Refer to working paper PE 7. Quality control questionnaire for pre-engagement)*

In addition to concluding on the code of ethics, before the commencement of the audit the person responsible for the audit should also confirm and document that the audit team, and any experts who are not part of the audit team, collectively and individually:

- Have sufficient time to perform the audit. *(Refer to PE 1. Budget versus Actual hours working paper)*.
- Have appropriate competence and capabilities to perform the audit engagement and report appropriately in accordance with professional standards and applicable legal and regulatory requirements *(Refer to PE 5. Competency Matrix working paper)*. *(ISSAI 1220.14, 24)*

2.2.1 Planning the audit time

Planned budgeted hours (or days) may be estimated, or based on actual time spent on the audit activities from last year. The Budget versus actual working paper *(Refer to PE 1. Budget versus actual hours working paper)* should include all the activities which relate to the audit, the budgeted time allocated to each team member. This working paper can also be informed by the budgets set out in the operational plan of the OAG.

Throughout the audit the actual hours / days taken to perform the audit should be documented. If used correctly, this working paper will allow audit management to monitor the progress of audit work and take corrective action where necessary. Reasons for variances between actual and budgeted hours should be documented.

2.2.2 Competency of the audit team

Can we perform this audit in line with the standards? What can we do at this point to improve our capacity? Certain aspects, such as qualifications are normally given and should be noted, but these aspects are not simple to change before the audit begins.

However, some capacity issues may be solved by simple actions, for example:

- Self-study of manuals, standards, legislative or accounting frameworks for team members who are not familiar;
- Assigning coaching responsibilities to more senior team members;
- More frequent reviews of work performed;
- Providing short courses on specific problem areas, this could even mean going through the financial reporting framework together as a team and resolve misunderstandings.

Conclusion on the capacity of the audit team should be documented and signed by the person responsible for the audit *(Refer to PE 4. Competency Matrix working paper)*.

2.2.3 Pre-conditions for the audit

A financial audit conducted in accordance with ISSAIs is premised on the following conditions:

- The financial reporting framework used for preparation of the financial statements is deemed to be acceptable.
- Management of the entity acknowledges and understands its responsibility:
    - For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;

- For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- To provide the auditor with unrestricted access to:
  - All information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

All the above aspects are confirmed and signed by the management in the Engagement letter *(refer to working paper P 6. Audit Engagement Letter)*. When the pre-conditions are not present the auditor should discuss this fact with management. Since in government there may not be an option to not undertake the audit, the impact of this limitation should be considered on the audit engagement. *(ISSAI 1210.P5; 6; 8) (ISSAI 1200.13.j)*

2.2.4 The financial reporting framework of the auditee

An agreement should be obtained from management acknowledging its responsibility:

- For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
- For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement; and
- To provide the auditor with access to all information and personnel deemed necessary to obtain audit evidence. *(ISSAI 1210.6)*

Auditors of public sector entities should identify the relevant financial reporting framework used by the auditee to prepare financial statements and evaluate its acceptability. The evaluation should conclude whether the financial reporting framework is acceptable to prepare the financial statements and include considerations on:

- The purpose of the financial statements, for example, whether they are prepared to meet the common financial information needs of a wide range of users (general purpose financial statements) or the financial information needs of specific users (special purpose financial statements);
- The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
- Whether law or regulation prescribes the applicable financial reporting framework.

Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements.

Within a OAG, the adequacy of the financial reporting framework applicable to a group of auditees should be evaluated centrally to avoid duplication and conflicting conclusions. If the financial reporting framework is identified to be inadequate or misleading, then:

- Evaluate the impact on the auditor’s report
- Document it in the engagement letter
- Proceed by informing the legislature and influencing standard setting by professional or regulatory organizations. *(ISSAI 1210 P5) (ISSAI 1210.20)*

NOTE:

The high level evaluation of the financial reporting framework for a group of auditees should be undertaken on a OAG level and it is described in more detail in Module 1. Part 4. of this manual.

Auditors of each government entity should refer to the decisions made based on the central, OAG level evaluation and determine the impact these may have on the audit.

In addition, auditors should familiarise themselves with the laws and regulations of the auditee and identify any possible conflict between the prescribed financial reporting framework and the requirements of the laws and regulation. To comply with the financial reporting framework additional disclosures should be identified and agreed with management. *(ISSAI 1210.18;19)*

2.2.5 Audit Engagement Letter

In the public sector the Auditor General is normally the mandatory auditor of public sector entities and may not be in a position to decline or resign from an engagement. This adds to the uniqueness of auditing in the public sector and has a specific effect on the pre-engagement phase of the audit. However, when considerations during pre-engagement indicate circumstances that in the private sector would result in withdrawal from the engagement, the responsibilities for public sector auditors may include expanded or enhanced reporting, for example to the legislature. *(ISSAI 1200 P15) (ISSAI 1300.6)*

When aspects of ethical and competency requirements have been duly considered and it is clear that the assigned team is capable to perform the audit an engagement letter is compiled and sent to the accounting officer of the auditee. The engagement letter is signed by the Auditor General of the OAG or the person with delegated the responsibility for the auditor's report *(Refer to PE 6. Audit engagement letter working paper).*

The engagement letter is used to communicate to management of the audited entity regarding the objective and scope of the regularity audit and the OAG's obligations as established by law. Agreement is reached on the mutual understanding on the issues communicated and the letter is signed by both parties to evidence this agreement. It is in the interest of both the entity and OAG that the engagement letter is agreed upon before the commencement of the audit to avoid any misunderstandings.

The objective of the auditor is to agree with management of the auditee on the basis upon which the audit is to be performed, through:

- Establishing whether the preconditions for an audit are present. This refers to the use of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management to the premise on which an audit is conducted; and
- Confirming that there is a common understanding between the auditor and management the terms of the audit engagement in writing. *(ISSAI 1210.3,4)*

Since the auditor is normally engaged by and reports to the legislature, agreements often need to be reached with both the legislature and management. *(ISSAI 1210 P3)*

Contents of the engagement letter

Once documented, the auditor should agree on the terms of the engagement with management of the auditee. The agreed terms should be in written format recorded in an audit engagement letter and it should include:

- The objective and scope of the regularity audit;
- The responsibilities of the auditor;
- The responsibilities of management of the auditee which maybe broader in the public sector;

- Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
- Reference where applicable to the fact that the audit is contracted out.
- Any additional reporting responsibilities for the entity established by the legislature that may influence the scope and timing of the audit.
- Target dates for the audit stating each main event including all communication with management. *(ISSAI 1210.9.10) (ISSAI 1300 P7; 1210 P6; P8)*

If a law or regulation prescribes in sufficient detail the terms of the audit engagement as above, the auditor may not need to record them in detail in the engagement letter, as long as it is made clear that such law and regulation applies and there is adequate reference made to it. *(ISSAI 1210.11)*

The wording used in the law or regulation describing the detailed responsibilities of management may be used in the engagement letter as long as the responsibility is equivalent to those described above. Management should still acknowledge and understand the details of all its responsibilities as per the above requirements set out by ISSAI. All requirements as per this manual which are not legislated should still be included in the engagement letter. *(ISSAI 1210.12) (ISSAI 1300.6)*

Changes to the terms of engagement
On recurring audits, the OAG should consider whether or not circumstances require the terms of the engagement to be revised and whether there is a need to remind the audited entity of the existing terms of the engagement. When it is decided not to send a new engagement letter to the auditee, the auditor should still update and communicate to management the relevant the target dates applicable for the audit. *(ISSAI 1210.13)*

The following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- Any indication that the entity misunderstands the objective and scope of the audit. Indicators may include late responses on requests by auditors for evidence or responding to audit queries.
- Any revised or special terms of the audit engagement.
- A recent change of senior management.
- A significant change in nature or size of the entity's operations.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.
- A change in other reporting requirements. *(ISSAI 1210.A28)*

Normally, the scope of an audit engagement in the public sector is regulated by legislation. In such instances no changes may be effected to the engagement on the request of the audited entity. If, however, the legislation allows the OAG to change the terms of engagement in any way, (for example to provide a lower level of assurance) the auditor should consider whether there is a reasonable justification for doing so. The new terms of engagement should be documented and agreed to in the engagement letter. *(ISSAI 1210.14,15,16) (ISSAI.1220.24c) (ISSAI 1210 P11)*

If the auditor is unable to agree the terms of engagement or management imposes a scope limitation on the audit, the auditor should report this fact to the relevant authorities, such as those charged with governance, regulators or oversight bodies. The effect of such disagreements and scope limitations imposed by management should be evaluated on the risk assessment of the audit and on the audit opinion issued. In some instances this may also involve informing legislature. *(ISSAI 1210.17) (ISSAI 1210 P9; P10)*

PART 3: WHAT TO DO BEFORE AN AUDIT COMMENCES?

For your purposes:

- ***Has the code of ethics been appropriately considered and concluded for the engagement?***
- ***Have conclusions been documented on the audit teams' ability to conduct the audit in line with the audit manual after considering the availability of time, capabilities and the code of ethics?***
- ***Has the mandates and responsibilities of auditors and management been adequately communicated and agreed to in the engagement letter?***
- ***Has the financial reporting framework been adequately identified and evaluated?***
- ***Has the auditee's management confirmed an understanding of the terms of the engagement?***
- ***Is a signed audit engagement letter been put on file?***

WORKING PAPERS

PE 1. BUDGETED versus ACTUAL HOURS

[This working paper is to be completed on excel spreadsheet]

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1:			
Prepared by:		Level 2:			
Rank:		Level 3:			
Date:		Date:			

[This working paper should be amended as necessary to reflect actual considerations, working papers and audit teams for the audit]

ACTIVITIES	TOTAL Budget	TOTAL Actual	TOTAL Variance	Explanations for variances	AUDITOR 1 Budget	AUDITOR 1 Actual	AUDITOR 1 Variance
Pre- engagement activities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Code of ethics declaration	0	0	0				0
Competency matrix	0	0	0				0
Audit engagement letter	0	0	0				0
Opening meeting	0	0	0				0
Strategic planning	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Planning materiality	0	0	0				0
Follow up prior year's matters	0	0	0				0
Lead schedule	0	0	0				0
Preliminary analytical review	0	0	0				0
Review of internal audit	0	0	0				0
Audit committee checklist	0	0	0				0
Fraud checklist	0	0	0				0
Internal control checklist (Manual + IT)	0	0	0				0
Going concern checklist	0	0	0				0
Risk of material misstatement	0	0	0				0
Overall audit strategy	0	0	0				0
Meeting with the auditee	0	0	0				0

Detailed planning & fieldwork	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Expenditure	0	0	0				0
System description	0	0	0				0
Reliance on key controls	0	0	0				0
Audit programs	0	0	0				0
Sampling	0	0	0				0
Tests of controls	0	0	0				0
Performing substantive tests	0	0	0				0
Audit queries	0	0	0				0
Audit summary memorandum	0	0	0				0
[Insert rows to add all components separately]							
Overall fieldwork							
Disclosure checklist	0	0	0				0
Management representation letter	0	0	0				0
Subsequent events	0	0	0				0
Conclusion and reporting	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Audit differences	0	0	0				0
Management letter	0	0	0				0
Audit report	0	0	0				0
Meeting with the auditee	0	0	0				0
Quality control	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Quality control questionnaire	0	0	0				0
TOTAL AUDIT HOURS	**0**	**0**	**0**	**0**	**0**	**0**	**0**

NOTE: Incorporate Time budget (PR1); PR2 and PR3

PE 2. CODE OF ETHICS DECLARATION

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

[This declaration should be completed by all audit team members]

CODE OF ETHICS DECLARATION

Audited entity: *[insert the name of the audited entity]*
Financial year audited: *[insert the date of the financial year-end]*

For the purposes of the audit of *[insert the name of the audited entity]*, I confirm that:

1. I fully understand the requirements of INTOSAI Code of ethics applicable to me on this audit.
2. Myself, or my any members of my immediate family do not have a financial interest[5] in the *[insert the name of the audited entity].*
3. I do not have any business relationships with the audited entity or any of its directors, officers and employees.
4. I have not received any benefits or gifts in the past from persons employed by or associated with the auditee.
5. I am not, and have not been in the last two financial years, an officer, employee or director of the audited entity.
6. I do not have any immediate or close family member(s)[6] that currently hold(s) a financial reporting and oversight role[7] at the audited entity or held such a position during the financial year under audit.
7. I do not have any other relationship with any director officer and employee of the entity under audit that may impair my independence.
8. My independence was not impaired by the attitude of management and / or staff of the auditee through intimidation.
9. I understand the requirements in the INTOSAI Code of Ethics as far as:
   - 9.1 I should exercise due care and perform the audit in a professional manner and to the best of my abilities.
   - 9.2 I should perform the audit with honesty, integrity, impartiality and political neutrality.
   - 9.3 The confidentiality of information obtained during the audit process and that I should not disclose such information to third parties.

Circumstances which may impair my compliance with the above statements for the audit:
[List circumstances where applicable]

DECLARATION
I, the undersigned fully understand the requirements and responsibilities contained in the Code of Ethics. Where applicable, I have disclosed the circumstances which may impair my compliance.

[5] Including the ownership of shares, loans or guarantees to or from the entity, its directors or officers.
[6] Including any dependents of the team member, parents, step-parents, children, step-children and siblings
[7] A financial reporting oversight role refers to those persons exercising influence over the accounting records or financial statements. This would include a member of the board of directors or similar governing body, chief executive officer, president, chief financial / operating / accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

In addition, should any circumstances arise during the audit to impair my compliance with any of the above provisions, I undertake to communicate them without delay.

Name of team member	Rank	Signature of team member

PE 3. CODE OF ETHICS CONCLUSION

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

Audited entity:

Financial year-end:

[This conclusion should be inserted in the Code of ethics declaration by the person responsible for the audit. It is not part of the declaration of any other team members]

Threats identified by team members	Actions taken to address the threats
[Insert threats identified in the individual code of ethics declarations]	

After consideration of the above declarations by the audit team and interviews with team members, I conclude that the all the requirements contained in the INTOSAI Code of Ethics have been duly considered and met for the audit engagement. Any threats to the audit teams' independence have been eliminated or reduced to an acceptable level.

Signature of person responsible for the report	Date

PE 4. COMPETENCY MATRIX OF AUDIT TEAM

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

Competency Aspect	***Auditor*** *[insert each auditor separately]*	Team Leader	Senior Auditor	Audit Director
Required competency in terms of qualifications and experience	*Insert required qualifications / experience*			
Team member's actual professional qualifications and relevant experience	*Insert relevant experience / qualifications*			
Differences between actual and required competencies	*Any differences in competencies should be addressed*			
Number of years the person has been auditing in the public sector				

Competency Aspect	Does the team member have the relevant skills and competencies? (YES/NO)			
	Auditor	**Team Leader**	**Senior Auditor**	**Audit Director**
Specific competency aspects identified, in terms of knowledge relating to the:				
Audit approach and working papers of the OAG				
Previous quality control findings relating to the team, the audit or overall OAG level				
Involvement in the prior year's audit of the entity				
Legislation and regulations relevant to the audited entity				
Understanding of the systems and processes of the audited entity				
Reporting framework for the compilation of financial statements (e.g. IPSAS Cash or accruals)				
IT systems and computerised environment				
Matters reported in prior year's management letter and auditor's report.				
Specific training needs identified	*List competency aspect where training is needed e.g. all*			

Competency Aspect	Does the team member have the relevant skills and competencies? (YES/NO)			
	Auditor	Team Leader	Senior Auditor	Audit Director
	aspects marked 'NO' above			
Actions to be taken to address competency requirements	*Identify actions to be taken to address the needs e.g. training through self study, courses etc.*			
Timeframes for training to be concluded				

CONCLUSION

The engagement team collectively has the appropriate capabilities, competence and time to perform the audit. Any training needs have been identified and will be addressed before the commencement of the audit.

Signature of person responsible for the report	Date

PE 5. TEAM AGREEMENT

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

ASSIGNMENT OF RESPONSIBILITIES

Working papers	Insert auditor's name responsible for		Dates for finalisation	
	Completing	Reviewing	Completed by	Reviewed by
Code of ethics declaration				
Competency matrix				
[Insert all other working papers]				

AGREEMENT OF TEAM MEMBERS

I understand the extent of tasks assigned to me relating to this audit in this document. I also took note of the timeframe I was given to complete the tasks.

Name of team member	Rank	Signature of team member

PE 6. AUDIT ENGAGEMENT LETTER

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

LETTERHEAD OF THE OAG

Audit of the *[insert name of audited entity]* performed by the Auditor General

Addressee *[Applicable title of the accounting officer]*

Date

Dear Sir / Madam

The financial statements of *[Insert the name of the audited entity]* for the year ended *[insert relevant date]* are subject to audit by the *[Auditor General or other applicable title]* in terms of *[Refer to the relevant section of the act]*.

The purpose of this letter is to outline:

- The terms of the audit engagement and the nature, and limitations, of the annual audit
- The respective responsibilities of the auditor and the management of the *[insert name of audited entity]* in the annual audit.
- The terms of the audit engagement are set out below. This letter will remain effective until a new audit engagement letter is issued.

Objective(s) of the audit

The objective(s) of the annual audit are:
To express an independent opinion on the financial statements prepared in accordance with *[the applicable financial reporting framework]* and legislation. These financial statement comprise the *[insert statements as applicable i.e. statement of financial performance, statement of financial position, cash flow statement etc.]* for the year then ended, and a summary of significant accounting policies and other explanatory information.

[Insert any additional audit objectives e.g. the evaluation of compliance with authorities or internal controls, where applicable]

This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of the services we will provide. Our audit will be conducted with the objective of our expressing an opinion on the financial statements as well as the compliance with relevant laws and regulations applicable to financial matters *[also refer to any other reporting responsibilities if any]*.

Responsibilities of the auditor
Our audit will be conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the

appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements or compliance with all applicable legislation. *[Where applicable, include reference to the SAI's policy to report on amounts of projected errors / misstatements]*

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the International Standards on Auditing.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will report or communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

While our audit is not directed to reporting the following, we will report these items if we become aware of them during the course of the audit:

- Non-effective performance of operations – relates to management's responsibility to undertake activities in an effective and efficient manner.
- Instances of non-compliance with authorities – relates to management's responsibility to undertake activities, use resources, and fulfill accountability requirements, in accordance with authority granted by the legislature and all other relevant directions.
- Waste – relates to management's responsibility to obtain and apply resources in an economical manner, without any public money being wasted.
- Instances of abuse – relates to management's responsibility to meet the expectations of the legislature and the public as they relate to appropriate standards of behavior.

Responsibilities of management

Our audit will be conducted on the basis that management has responsibility:

- To prepare financial statements in accordance with *[insert relevant financial reporting framework]* and in the manner required by *[Insert section and title of relevant act]*.
- To establish and maintain internal controls necessary to:
  - Enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
  - Provide reasonable assurance that adopted policies and prescribed procedures are adhered to and errors and irregularities, including fraud and illegal acts are prevented or detected.
- To provide us with access to:
  - All information which is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Any additional information that we may request from management for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

The following are the key deliverables and target dates that should be met by both parties:

	Activity	Responsibility	Target date
1.	Meeting between OAG and the management of the audited entity to discuss the Overall Audit Strategy.	*[Management of the audit team and the audited entity at relevant levels]*	
2.	Request information from audited entity.	Team Leader	
3.	Submit information requested for audit.	Management of the audited entity	
4.	Issue interim management letter to audited entity. *[if applicable]*	Audit Director	
5.	Submit written response to interim management letter to OAG. *[if applicable]*	Director-General/ Director/Head of Finance and Administration	
6.	Submit financial statements and supporting file (Trial balance, lead schedules, ledger) to auditors.	Management of the audited entity	
7.	Issue management representation letter.	Director-General/ Director/Head of Finance and Administration)	
8.	Issue Draft management letter and Draft Audit Report.	Director General of Audit (After review by AG)	
9.	Submit written response to draft management letter to OAG, before or on the exit conference.	Director General/Director/Head of Finance and Administration)	
10.	Meeting between management of OAG and management of the audited entity to discuss the management letter findings. (Exit conference)	*[Management of the audit team OAG and the audited entity at relevant levels]*	
11.	Issue final management letter.	AG	
12.	Issue approved audit opinion to audited entity.	AG	

Fees ***[Only applicable if any audit fees or allowances are recovered from the auditee – delete when not applicable]***

(Our fees are based on the time spent on your affairs by our managers and staff, and on the levels of skills and responsibility involved. Our fees will be billed at monthly intervals during the course of the audit and settlement is due within 30 days of the date of invoice.)

Agreement to terms

This letter will remain effective until it is replaced. We shall be grateful if you could confirm your agreement to the terms of this letter by signing and returning the enclosed copy, or let us know if the terms of our engagement are not in accordance with your understanding.

We look forward to full cooperation from your staff during our audit.

Yours faithfully

....

For Auditor General

Enquiries: Name and surname
Telephone: (xxx) xxx xxxx
Email:

Acknowledgement of terms of the audit engagement

The terms of this audit engagement are acknowledged and agreed by *[designation of person signing]* on behalf of the *[name of entity]*.

……………………………..
Signed

………..……..................
Name and position

…………..
Date

PE 7. QUALITY CONTROL QUESTIONNAIRE FOR PRE-ENGAGEMENT

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

Question		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
1.	Was there a time budget for the audit engagement? *(Refer to working paper PE 1 Budget v Actual hours)*	ISSAI 1220												
2.	Are audit staff available that have the degree of technical training and proficiency required to perform the audit? *(Refer to working paper PE 4. Competency matrix)*	ISSAI 1300												
3.	Do all audit team members (with special emphasis on management) comply with the office's requirements in terms of independence and ethical requirements as declared at the beginning and at the end of the audit? *(Refer to working paper PE 2. Code of ethics declaration)*	ISSAI 1200												
4.	Did the manager responsible for the audit ensure that team members comply with ethical requirements? *(Refer to working paper PE 3. Code of ethics conclusion)*	ISSAI 1200												
5.	Have the contents of the engagement letter been agreed to and signed by the auditee? *(Refer to working paper PE 6. Engagement letter template)*	ISSAI 1210												

PART 3 – STRATEGIC PLANNING

3.1 STRATEGIC CONSIDERATIONS FOR PLANNING AN AUDIT

WHAT IS THE OUTPUT FROM THIS?

- The auditor should plan the audit and develop an audit approach so that the engagement will be performed in an effective manner

This part of the manual will provide guidance on:

- ***The purpose and contents of the Overall audit strategy;***
- ***Direction, supervision and review; and***
- ***Communications with those charged with governance and management.***

The auditor should develop and document an audit plan including

- The nature, timing and extent of planned risk assessment procedures. This is done during strategic planning phase of the audit (Refer to the working paper SP 14. Overall audit strategy) and
- The nature, timing and extent of planned further audit procedures at the assertion level which is documented during detailed planning (Refer to DPF 2. Reliance on key controls; DPF 3. Audit programs; DPF 4. Sampling working papers)
- Any other procedures which may be necessary to ensure compliance with the standards. *(ISSAI 1300.9;12)*

The objective is to plan the audit so that it will be performed in an effective manner. It is acknowledged that the planning phase of the audit will take a substantial amount of time. This is because the auditor has a responsibility to understand the systems and processes of the auditee in order to assess risks. *(ISSAI 1300.4)*

Adequate audit planning will assist the auditor to:

- Devote appropriate attention to important areas of the audit.
- Identify and resolve potential problems on a timely basis.
- Properly organize and manage the audit engagement and to stay 'on top of things'.
- Select and assign team members to tasks.
- Facilitating directing, supervision and the review of audit work.
- Co-ordinate work done by auditors of components and experts. *(ISSAI 1300.2)*

The person who is duly assigned responsibility by the Auditor General for the audit should be involved in reviewing key working papers and should participate in the discussion among engagement team members. *(ISSAI 1300.5)*

During the strategic planning stage the auditor should obtain thorough understanding of the audited entity and make vital decisions affecting the audit such as:

- Identify what is material for the audit and set the level of planning materiality *(Refer to the working paper SP 1. Planning materiality)*;
- Study the reported financial information (financial statements) and identify transactions and balances to be audited *(Refer to working paper SP 2. Lead schedule)*;
- Understand the auditee's operations in order to identify risks of material misstatement. This is done through performing analytical review *(Refer to the working paper SP 4. Preliminary analytical review)*, assessing the internal controls and governance environment *(Refer to SP 8 and 9 Internal control checklists; SP 7. Fraud checklist and SP 3. Prior year's audit matters working papers)* evaluating the work of internal audit and audit committees *(Refer to SP 5. Review of internal audit and SP 6. Audit committee checklist working papers)*, and assessing

the sustainability of services delivered or going concern *(Refer to SP 10. Sustainability of services checklist)*; and

- Compile and communicate the overall audit strategy to the audited entity *(Refer to SP 14. Overall Audit Strategy working paper).*

Overall responses to risks of material misstatement on a financial statement level

In order to reduce audit risk to an acceptable level, auditors need to determine the overall responses aimed at addressing the risks of material misstatement identified at the financial statement level. Such responses may include emphasizing to the audit team the need to maintain professional scepticism in gathering and evaluating audit evidence, assigning more experienced staff or those with special skills or using experts, providing more supervision, or incorporating additional elements of unpredictability in the selection of further audit procedures to be performed. The auditor may also make general changes to the nature, timing, or extent of audit procedures as an overall response, for example, performing substantive procedures at period end instead of at an interim date *(Refer to SP 13. Risk of material misstatement on a financial statement level working paper)*.

When carrying out audits of public sector entities, the auditor takes into account the legislative framework and any other relevant regulations, ordinances or ministerial directives that affect the audit mandate and any other special auditing requirements. Such factors may impact for example, the extent of the auditor's discretion in establishing materiality and judgments on the nature and scope of audit procedures to be applied.

The auditor should document the overall responses to address the assessed risks of material misstatement on the financial statement level and the nature, timing and extent of the further audit procedures, the linkage of those procedures with the assessed risks at the assertion level, and the results of the audit procedures performed so far. *(ISSAI 1330.28)*

For initial assignments the auditor should consider communicating with the previous auditor. *(ISSAI 1300.13; P10)*

The Overall Audit Strategy

The overall audit strategy should set the scope, timing and direction of the audit, and guide the development of the more detailed audit plan. The establishment of the overall audit strategy involves the summary of the audit work completed during the strategic planning phase of the audit. *(ISSAI 1300.7)*

The aspects which should be summarised in the overall audit strategy include:

- Scope, timing and direction of the audit including characteristics of the engagement that define its scope;
- Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- Significant factors directing the audit;
- Results of preliminary engagement activities and any relevant previous knowledge gained
- The nature, timing and extent of resources necessary to perform the engagement. *(ISSAI 1300.8)*

Private sector auditors compile the overall audit strategy to only include the above information, before performing risk assessment procedures. The overall audit strategy template included in this manual however, summarises all high level considerations and risks that may influence the audit *(Refer to SP 14. Overall audit strategy working paper)*.

Key decisions and significant matters are documented in the overall audit strategy which will be presented to management but also serves as a document to form a discussion with auditors about the above aspects of the audit.

Changes to planning decisions during the course of the audit
The overall audit strategy and the detailed audit plan should be documented, updated and changed as necessary during the course of the audit. *(ISSAI 1300.10)* Planning an audit is a continual and iterative process throughout the audit engagement. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan (for one or more components), and thereby the resulting planned nature, timing and extent of further audit procedures. All changes made should be documented. *(ISSAI 1300.12)*

Direction, supervision and review
The auditor should plan the nature, timing and extent of direction and supervision of the audit team members and the review of their work. *(ISSAI 1300.11)*

The nature, timing and extent of the direction and supervision of the audit team members and the review of their work vary depending on many factors, including the size and complexity of the entity, the area of audit, the risks of material misstatement, and the capabilities and competence of personnel performing the audit work.

3.2 MATERIALITY

WHAT IS THE OUTPUT FROM THIS?
- Calculation of overall materiality for financial statements as a whole *(Refer to working paper SP 1. Planning materiality).*

This part of the manual will provide guidance on:
- ***What is materiality and the types of materiality auditors need to consider;***
- ***How to determine materiality for the financial statements as a whole;***
- ***Identifying performance materiality;***
- ***The uses of materiality during planning, fieldwork and reporting.***

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances, and are affected by the size (quantitative materiality) or nature (qualitative materiality) of a misstatement, or a combination of both. What is material for the citizens of a country, the legislatures and regulators making decisions about the entity (users of financial statements) are based on a consideration of the common financial information needs of users. In addition, the inherent nature or characteristics of items also need to be considered as this may render them material. *(ISSAI 1320.2) (ISSAI 1320 P5; P6)*

3.2.1 Overall materiality

When a misstatement (or the aggregate of all misstatements) is significant enough to change or influence the decision of an informed person, a material misstatement has occurred. Below this threshold, the misstatement is generally regarded as not material. This threshold, above which the financial statements would be materially misstated, is what can be called ‘overall materiality’, referring to the financial statements as a whole.

The determination of overall materiality is based on the professional judgement of the auditor and so it requires an understanding of the auditee’s operations and financial statements. It is assumed that users of the financial statements would have a reasonable level of understanding of the entity and the information audited to make appropriate decisions relating to the entity. In certain countries materiality level is already indicated in the financial reporting framework issued centrally for audited entities (i.e. by the Accountant-General, or Ministry of Finance). Overall materiality would typically be the same as that used by the preparer of the financial statements – where the applicable financial reporting framework identifies materiality. *(ISSAI 1320.3; 4; 10)*

Overall materiality is determined as a numerical value based on professional judgement *(refer to SP 1. Planning materiality)*.

- ***Selecting the benchmark (financial statement item)***

In general terms the overall materiality for an audit is usually set based on a percentage of a benchmark which is normally an item in the financial statements. Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as total revenue or expenses, total or net asset value, total equity and profit before tax for some entities. When the most appropriate item is volatile, other items may be more appropriate to base materiality on. For example when an asset rich entity has changing asset figures from one year to the next, this may not be appropriate to base materiality on. The ISSAI also suggests that in an audit of a public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for programme activities. Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.

- ***Determining the data source***

For some audits it is important to consider the source of the data underlying the financial statement item chosen to form basis of the materiality calculation. After having selected the appropriate item, the auditor has to consider the actual data source on which to determine the amount of materiality. The calculation may be based on data such as prior periods' financial statements, the period-to-date financial results and financial positions, and budgets or forecasts for the current period, but there may be a need to adjust it for significant changes in the circumstances of the entity (for example, a significant acquisition or merger) and relevant changes of conditions in the industry or economic environment in which the entity operates. When an interim audit is performed the rule of thumb is to use the information which is closest to the final financial statement figures. This is to avoid having to lower the materiality at a later stage of the audit which impacts on the extent of tests performed.

- ***Selecting a Percentage***

Determining a percentage to be applied to a chosen item involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue. For example, the auditor may consider five percent of profit before tax from continuing operations to be appropriate for a profit-oriented entity in a manufacturing industry, while the auditor may consider one percent of total revenue or total expenses to be appropriate for a not-for-profit entity. Higher or lower percentages, however, may be deemed appropriate in the circumstances.

Clearly trivial amounts

During the audit all errors and misstatements are accumulated, except for those which can be regarded as clearly trivial. Clearly trivial misstatements would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements. The threshold for clearly trivial transactions is calculated as a percentage of overall materiality in the Planning materiality working paper *(refer to SP 1. Planning materiality).*

When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

3.2.2 Specific materiality for audited components

The overall materiality should be determined for the financial statements as a whole. However, if the auditor believes that for some balances or disclosures a lesser amount of materiality is applicable, a specific materiality maybe calculated for that audited component and used throughout the audit of that component. Auditors should consider lower materiality for audit component when the following apply:

- When law, regulation or the applicable financial reporting framework affects users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, and the remuneration of management and those charged with governance).
- The key disclosures are required for the entity (for example, research and development costs, consultancy costs etc.).
- Whether attention is focused on a particular aspect of the entity's operations that is separately disclosed in the financial statements (for example, a newly acquired mine or hospital, or census performed in the year etc).

The decision to use a different materiality figure for a component should be documented in the Planning materiality working paper (refer to SP 1. Planning materiality) with relevant explanations for calculating such materiality. In addition, materiality maybe set at a lower level also as a result of specific mandate which may be applicable to audit certain disclosures. Financial statements are used predominantly by legislature and may be used to make decisions other than economic ones. *(ISSAI 1320 P7; 1320.10)*

3.2.3 Performance materiality

The auditor's responsibility is to perform the audit and reduce the probability to an acceptable level that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds overall materiality. If the auditor performs the audit to only identify individual misstatements exceeding overall materiality, there would still be a risk that the aggregate of individually immaterial misstatements not identified during the audit would exceed the overall materiality. So the auditor needs to perform some additional work that is sufficient to allow for a margin or buffer for possible undetected misstatements. For this reason performance materiality is used for determining the nature, timing and extent of audit procedures to be performed. The performance materiality is identified as a percentage of the overall materiality. *(ISSAI 1320.11)*

The purpose of setting the performance materiality at a lower level is provide for a buffer to reduce the probability that the total of uncorrected and undetected misstatements in the financial statements exceeds the overall materiality level. The percentage used to calculate performance materiality is based on the risk of material misstatement identified on a financial statement level. The higher the risk of material misstatement is for the audit the lower the level of performance materiality and vice versa. As the performance materiality calculation requires the assessment of the risk of material misstatement auditors should confirm at the end of strategic planning that the correct percentage is used.

Performance materiality is taken to the Sampling worksheet for each audited component as 'tolerable misstatement' *(Refer to working paper DPF 4. Sampling worksheet).*

3.2.4 Qualitative materiality

While the size of misstatements and errors is an important aspect to evaluate the nature of the item and the circumstances surrounding the occurrence is equally necessary to consider. In some situations, a matter well below the quantitative materiality level may be determined as material based on the nature of the item or the circumstances related to the misstatement. For example:

- The information that there are a number of transactions with related parties may be very significant to a person making a decision based on the financial statements.
- The existence of a fraud by management (however immaterial) would likely be significant to financial statement users;
- Where emphasis is placed on the issue by applicable laws and regulations and the compliance to it. For example overspending may be deemed material irrespective of the amounts involved; and
- If the matter(s) in the public's interest or the sensitivity of the matter. In some cases the fact that there is a need for legislative oversight and regulation in a particular area.

Qualitative materiality in the public sector gets an additional emphasis as the "context and nature" of an item needs to be considered. This includes, for example, sensitivity covering a variety of matters such as compliance with authorities, legislative concern or public interest. The public interest reflects the fact that all public funds represent the taxpayers' money and therefore the accountability for spending public money is much greater than for a private business. Public interest requires an understanding that money is not simply spent and recorded in the books of account but that the money was spent on its intended purpose in an economic, efficient and effective manner. Although regularity audit does not directly aim to address these objectives, it should, it should however be kept in mind throughout the audit. *(ISSAI 1320.6) (ISSAI 1320 P5; P6; P8; P10)*

Materiality levels may also be set for assessing control deviations. This is particularly important when there is a specific requirement to audit internal controls. In such instance a deviation rate is establish for each kind of control evaluated. The cost-effectiveness of the controls and non-compliance should be considered when setting such levels. *(ISSAI 1320 P9)*

3.2.5 Materiality during the audit

Restating materiality

Auditors often need to calculate materiality before the final financial statement is available. Budgeted figures, estimated amounts or interim financial information may be used. A revision of overall materiality should be done as soon as final information is available.

Overall materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) needs to be revised if the auditor becomes aware of information during the audit that would have caused the auditor to determine a different amount (or amounts). At the end of the audit the auditor should consider whether the materiality level(s) is still appropriate. The revised materiality is documented in the Audit differences working paper. *(ISSAI 1320.12) (ISSAI 1320 P12)*

The auditor may conclude that a lower overall materiality (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) is now appropriate. When materiality needs to be restated at a lower amount, this may affect the sufficiency and adequacy of audit work performed so far and the nature, timing and extent of further audit procedures also need to be considered. *(ISSAI 1320.13)*

The objective of the auditor is to apply the concept of materiality appropriately throughout the audit, especially when:

- Identifying the components to be audited (strategic planning)
- Determining the nature, timing and extent of audit procedures (detailed planning); and
- Evaluating the effect of misstatements (reporting). *(ISSAI 1320.5; 8)*

Documentation

The following information should be documented in the working papers:

- Overall materiality for the financial statements as a whole;

- If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;
- Performance materiality; (*Refer to working paper SP 1. Planning Materiality)* and
- Any revision to materiality *(Refer to working paper AS 5. Audit differences)*. *(ISSAI 1320.14)*

3.3 UNDERSTANDING THE AUDITED ENTITY

WHAT IS THE OUTPUT FROM THIS?

- Identification of transactions and balances to be audited (*Refer to working paper SP 2. Lead schedule)*;
- Prior year's audit matters *(Refer to working paper SP 3. Prior year's audit matters)*
- High level Analytical Review (*Refer to working paper SP 4. Preliminary Analytical review)*;
- Internal audit evaluation *(Refer to working paper SP 5. Review of Internal audit)*
- Audit committee checklist *(Refer to working paper SP 6. Audit committee checklist)*
- Fraud checklist; *(Refer to working paper SP 7. Fraud checklist)*
- Assessment of management's governance arrangements (*Refer to working paper SP 8. Internal Control checklist SP 9. IT Internal Control checklist)*;
- Sustainability of services considerations (*Refer to working paper SP 10. Sustainability of services)*;
- Identification of risk of material misstatement on a financial statement level; *(Refer to working paper SP 13. Risk of material misstatement on financial statement level)*; and
- Overall Audit Strategy (*Refer to working paper SP 14. Overall audit strategy)*.
- Engagement team discussion document *(Refer to working paper SP 15. Engagement team discussion document).*

This part of the manual will provide guidance on:

- ***Understanding the audited entity;***
- ***Risk of material misstatement;***
- ***Risk assessment procedures;***
- ***Understanding the entity and its environment, including internal controls;***
- ***Analytical review;***
- ***Going concern / sustainability of services considerations; and***
- ***Assessment of Inherent risk by the auditors and management.***

3.3.1 Understanding the audited entity

The auditor should obtain an understanding of the audited entity's environment and internal controls. This enables the auditor to assess the risk of material misstatement whether due to fraud or error and to determine the relevant audit approach to be followed. *(ISSAI 1315.1)*

The working papers, including forms and checklists under this section will prompt auditors to ask basic questions and consider such information obtained about the audited entity in light of the audit. Auditors should exercise professional scepticism when completing the working papers and obtaining evidence from different sources supporting conclusions drawn. Results of interviews with management should be also supported by other evidence.

The internal control checklists provide an insight into the organisations current competencies and processes. The Preliminary analytical procedure working paper provides an indication into the values and changes to the activities of the organisation pointing out potential risk areas. The risks identified in these checklists will be carried over to the Risk of material misstatement on a financial statement level working paper. The conclusions drawn during strategic planning are summarised in the overall audit strategy working paper.

Risk assessment procedures

Auditors need to establish whether the audited financial statements are free of material misstatements. Risks are inherently present in the operations of the entity. Examples of these inherent risks are:

- The risk that services cannot be delivered due to for example capacity constraints;
- The risk that the entity is subject to fraud by its employees or management; and
- The risk that the financial statements may include material errors due to a lack of training or instructions.

The following process relates to the identification and assessment of risks for the audit:

1. Risks are identified on a financial statement level by performing risk assessment procedures with the help of the working papers;
2. Existence of management controls relating to these risks are evaluated on the strategic level. This is done by considering aspects of the internal controls instituted by management, the work of internal audit and audit committees; and
3. The risks on a financial statement level are considered for each audited component and assertion during detailed planning.

Public sector auditors may not have the option to decline or discontinue an audit. However, if information becomes available at any point of the engagement that, in the private sector, would result in a discontinuance of the engagement, the public sector auditors should consider such information in identifying and assessing the risks of material misstatement. When auditors have a statutory responsibility to report such issues they may consult with legal counsel in this regard. (ISSAI 1315 P9; ISSAI 1300 P6)

Risk assessment procedures assist the auditor in obtaining an understanding of the entity and its environment. The procedures should be sufficient to identify and assess the risks of material misstatement both on a financial statement and for each relevant assertion. These risk assessment procedures alone do not provide sufficient or appropriate audit evidence to base an opinion on, they merely assist auditors to focus their attention on important high risk areas. *(ISSAI 1315.5)*

The auditor can perform the following (or a combination of the following) risk assessment procedures to obtain an understanding of the entity and its environment, including its internal control: *(ISSAI 1315.6)*

- Inquiries of management and others within or outside the entity; This may include discussions with personnel on different levels of the entity, knowledgeable persons outside the entity, other auditors involved in other audits running within the entity.
- Analytical procedures whereby relationships between the following is considered:
  - Expenditure versus appropriation
  - Benefit payments, such as child support and pensions versus demographic allocations
  - Interest as a percentage of debt compared to the established borrowing rate; (ISSAI 1315 P7) and
- Observing or inspection of documentation such as
  - Legislative reports or minutes
  - Additional documents prepared by management for the legislature, such as performance reports or funding requests
  - Testimonies of agency officials
  - Ministerial and other directives
  - Official records of proceedings of the legislature.
- Re-performance of internal control activities. (ISSAI 1315 P6, P8)

These procedures are essential in identifying risks of material misstatement. The auditor needs to determine what information is required, the person to whom these inquiries must be directed and the extent thereof.

Analytical procedures are helpful in identifying matters that have financial statement and audit implications. These include identifying the existence of unusual transactions, the analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or deviations from predicted amounts. In performing analytical procedures at the planning stage the auditor compares budgeted to actual or to extrapolated figures (where actual figures are not yet available). When these comparisons yield significant deviations (normally identified for each audit), the auditor considers those results in identifying risks of material misstatement and the auditor should investigate and obtain adequate explanations and appropriate corroborative audit evidence**.** *(Refer to working paper SP 4. Preliminary analytical review)*

Observation and inspection may support inquiries of management and others, and also provide information about the entity and its environment. Such audit procedures ordinarily include the following:

- Observation of entity activities and operations;
- Inspection of documents (such as operational plans and strategies), records, and internal control manuals;
- Reading reports prepared by management (such as quarterly management reports and interim financial statements) and those charged with governance (such as minutes of management meetings);
- Visits to the entity's premises and plant facilities; and
- Tracing transactions through the information system relevant to financial reporting (walk-through procedures).

For continuing engagements, the auditor's previous experience with the entity and both the permanent file information and the previous year's audit files contribute to the understanding of the entity. For example, audit procedures performed in previous audits ordinarily provide information about the entity's organizational structure, operations, systems and controls, as well as information about past misstatements and whether or not they were corrected on a timely basis. This may assist the auditor in assessing risks of material misstatement in the current audit. However, such information may have been rendered irrelevant by changes in the entity or its environment. The auditor makes inquiries and performs other appropriate audit procedures, such as walk-through procedures of systems, to determine whether changes have occurred that may affect the relevance of such information.

When relevant to the audit, the auditor may also consider other information such as that obtained from the auditor's client acceptance or continuance process, or, where practicable, experience gained on other engagements performed for the entity, for example, engagements to review interim financial information. *(ISSAI 1315.7;8)*

When the auditor intends to use information about the entity and its environment obtained in prior periods, the auditor should determine whether changes have occurred that may affect the relevance of such information in the current audit. *(ISSAI 1315.9)*

Depths of understanding the audited entity

The auditor should understand the entity and its environment including the following aspects:

- The applicable financial reporting framework, the transactions and balances to be audited.
- Applicable legislative framework and considering the compliance with laws and regulations also including any framework applicable due to the broader objectives of the audit. (ISSAI 1315 P12 b; ISSAI 1300 P4)

- Nature of the entity and its operations, financing, governance structures. Decisions due to political processes for example new geographic locations or closures of existing locations, reorganizations, including transfer of activities to other entities, new program areas, budgetary constraints or cut backs. (ISSAI 1315 P12 a, g)
- Planning activities, objectives and strategies and the related operations and risks that may result in a material misstatement of the financial statements. (ISSAI 1315 P12 d, e; ISSAI 1300 P4)
- Measurement and review of the entity's financial performance.
- Relevant internal controls including the manual and the information technology (IT) environment. This includes the evaluation of the design and implementation of the controls;
- Specific consideration should be given to fraud, litigations and claims against the entity, related parties and the sustainability of service delivery (going concern).
- Expectations of the legislature and other users of the auditor's report. *(ISSAI 1315.11;12;13)* (ISSAI 1300 P4)

The nature, timing, and extent of the risk assessment procedures performed depend on the circumstances of the engagement such as the size and complexity of the entity and the auditor's experience with it. In addition the auditor may be required to look at the measurement and review of the entity's non-financial performance. (ISSAI 1315 P13)

3.3.2 Identification of transactions and balances to be audited

The financial reporting framework of the entity and its application to the auditee should be understood by the auditor. The auditor needs to be able to break down the total transactions of the organisation into units that are to be audited. This process is critical to ensure audit coverage is complete. The comparison between the audited areas should be made in accordance to the account balances as presented in the financial statements. In the absence of such financial statements the trial balance or interim statements can be used. (ISSAI 1315 P12c)

The lead schedule working paper requires the auditor to understand the basis behind the account balances and to ensure that similar type transactions are appropriately categorised into components. Once this working paper is complete the auditor can proceed with the same audited components throughout the detail planning stage. *(Refer to working paper SP 2. Lead schedule)*

The lead schedule is one of the most important working papers of the audit. The purpose of the lead schedule is to provide a link between the audited financial statements and audit work performed. This is why it should be updated with any changes to the figures disclosed in the financial statements up till the end of the audit.

Completing the working paper starts with including all the items included on the face of the financial statements. One of the most important considerations is how much detail to include or should the balances be broken-up. Reference can be made to the account balances based on an IPSAS reporting framework inserted in the working paper in red italics. If it is necessity to break the balances and transactions down into sub-components in the main lead schedule, this can be done, as long as the totals shown can easily be traced to the financial statements. Caution should be exercised to avoid breaking down account balances in too much detail as this may result in many immaterial sub-balances leading to the decision not to audit many of them. It is recommended that such detailed breakdown of balances should be provided for in the lead schedule on a component level *(Refer to working paper DPF 6. Lead schedule on component level).*

It should be kept in mind that all the components identified should be followed by detailed audit work. When reported items follow the same or largely similar processes, they can be grouped together for the purposes of detailed planning, including system descriptions, reliance on key controls and even sampling when the same audit programs are applicable. Whether the system descriptions will be prepared for an individual financial statement items or whether they will be grouped together should be clearly indicated in the column titled ‘Will items be included as a separate audited component?’.

As the lead schedule should provide a link to further audit work performed it is important to identify all the requirements in terms of audit areas. The SAI may have a directive for auditors to audit additional areas for a transversal audit. These areas may include the audit of the budget process, HIV/AIDS etc. These focus areas should be listed in the lead schedule, even if there is no respective financial statements disclosure as there should be an audit component created in the audit file for these aspects. Reference can be made to paragraph 3.5, Part 3, Module 1 of this manual on the annual overall audit plan.

3.3.3 Prior year’s audit matters

One of the first things auditors should look at when commencing an audit is the items reported in prior year’s auditor’s report and management letter. Important issues noted in the previous reports should be identified as risk areas. The corrective actions taken by management will be followed up during detailed planning and fieldwork, not at this point. Reports previously issued by performance or any other type of audits should also be reviewed and implications should be considered on the timing and planning of the audit. (ISSAI 1315 P10) (ISSAI 1300 P4) *(Refer to working paper SP 3. Prior year’s audit matters)*

For initial audits or where there has been a change of auditors, information should be gathered through communicating with the predecessor auditor, who may ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional procedures may include:

- Arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor’s working papers.
- Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
- The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances. (ISSAI 1300.13)

3.3.4 Considering compliance with laws and regulations

Non-compliance is an act contrary to the requirements of prevailing laws or regulations, either intentionally or unintentionally. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. It does not include aspects of personal misconduct by those charged with governance, management or employees of the auditee. *(ISSAI 1250.10)*

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 also on the operations of the auditee. *(ISSAI 1250 P5; P6; P7) (ISSAI 1250.2;6)*

Auditors need to obtain evidence regarding the auditee’s compliance with the provisions of those laws and regulations which have direct effect on the financial statements. For laws and regulations which effect the operations of the entity audit work may be limited to specific audit procedures to identify non-compliances with those laws and regulations that may have a material effect on the financial statements. Maintaining professional skepticism throughout the audit is important in this context. *(ISSAI 1250.7;8)*

During strategic planning 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. This is done through completing the strategic planning working papers which should be customized to reflect legislative requirements. *(ISSAI 1250.12)*

In audit environments where auditors have a judicial role including Court of Accounts environments, the auditors' report is often judged and used to determine personal legal implications of those who are responsible for financial acts, including significant matters, control deficiencies, and instances of non-compliance with authorities. Therefore, public sector auditors in such environment may plan and perform procedures to meet legal requirements and to identify those responsible for financial acts. When this is the case auditors should additionally consult the requirements included in ISSAI 4100 and/or 4200 as applicable. *(ISSAI 1300 P11)*

Responsibilities of management

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 noncompliance with laws and regulations:

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements;
- Instituting and operating appropriate systems of internal control;
- Developing, publicizing and following a code of conduct;
- Ensuring employees are properly trained and understand the code of conduct;
- Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it;
- Engaging legal advisors to assist in monitoring legal requirements;
- Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints. *(ISSAI 1250.3; A2)*

Responsibilities of auditors

In the public sector auditing laws and regulations often have a broader scope identified in the mandate of the OAG or in other regulations. This manual only covers the audit of compliance as far as it forms part of a regularity audit. When a OAG is mandated to perform a separate compliance audit reference should be made to the provisions of ISSAI 4100.

The following options may be applicable for the OAG:

1. OAG is mandated to audit the financial statements of public sector entities but this mandate does not specifically require the audit of compliance with laws and regulations.
2. OAG's mandate states the responsibility of auditors to report on non-compliance with laws and regulations as part of auditing the financial statements.
3. In addition to audit the financial statements, the OAG may be mandated to report on the auditee's compliance with specific regulations (for example Procurement Act and Regulations). Auditors may also be required to express an opinion on compliance matters.

The Box below provides examples on OAG mandates.

Example 1. Extract from the OAG's mandate as per the National Audit Act, 2008 of Uganda

13. Functions of Auditor General

(1) The Auditor General shall—

(a) audit and report on the public accounts of Uganda and of all public offices including the courts, the central and local government administrations, universities and public institutions of a similar

nature, and any public corporation or other bodies or organisations established by an Act of Parliament;
(b) conduct financial, value for money audits and other audits such as gender and environment audits in respect of any project or activity involving public funds;
(c) audit classified expenditure;
(d) audit all Government investments;
(e) carry out procurement audits; and
(f) audit treasury memoranda.

The following box shows the Mandate to audit compliance with procurement laws and regulations in Tanzania as per the Public Procurement Act.

Example 2. Mandate of the National Audit Office of Tanzania

Section 143 of the Constitution of the Republic of Tanzania

143.-(1) There shall be a Controller and Auditor-General of the United Republic.

(2) The Controller and Auditor-General shall have the responsibility over the following matters:

(a) to ensure that the use of any moneys proposed to be paid out of the Consolidated Fund has been authorized and that the funds shall be paid out in accordance with the provisions of Article 136 of this Constitution, and where he is satisfied that those provisions shall be duly complied with, then he shall authorize payment of such moneys;

(b) to ensure that all the moneys the payment of which has been authorized to be charged on the Consolidated Fund of the Government of the Untied Republic, or the moneys the use of which has been authorized by a law enacted by Parliament and which have been spent, have been applied to the purposes connected with the use of such moneys and that such expenditure has been incurred in accordance with the authorization for such expenditure; and

(c) at least once every year to audit and give an audit report in respect of the accounts of the Government of the Untied Republic, the Republic and the accounts of all courts of the United Republic and the accounts managed by the Clerk of the National Assembly.

The Public Audit Act, 2008

9.-In addition to the functions assigned to the Controller and Auditor-General by the Constitution, the Controller and Auditor-General shall be-

(a) Responsible for examining, inquiring into, auditing and reporting on the accounts of –

(i) All Ministries, Independent Department of Government, Agencies and their accounting officers;
(ii) Local Government Authorities and their accounting officers;
(iii) all persons entrusted with the collection, receipt, custody, issue or payment of public monies or with the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other public properties;
(iv) All public authorities and other bodies;
(v) Any public authority or public body which receives funds from the Consolidated Fund or from public monies for a public purpose;
(vi) any public authority of public body which is authorised by law to receive money for a public purpose;
(vii) any public authority or bulic body required by law to be audited by the Controller and Auditor-General.

(b) Conducting any other audit as provided in this law or other written laws.

<u>The Public Procurement Act 2004</u>

Additional requirement is included in the Public Procurement Act:

44. (1) Notwithstanding anything to the contrary contained in any written Law, where any expenditure is to be incurred on any entities procurement of goods, works or services, it shall be the duty -
(a) in respect of a head of expenditure, the Accounting Officer designated as such for that head of expenditure under the Public Finance Act, 2001; and
(b) in respect of a head of expenditure the Accounting Officer designated as such for that head of expenditure under the Local government (Finances) act, 1982;
(c) in respect of a parastatal body, the chief executive officer of that parastatal body, to ensure that such procurement of goods, works or services is in accordance with the procedures prescribed by or under this Act or Regulations.
(2) The auditor of every public body shall, in his annual report, state whether or not section 44(1) of this Act has been complied with.
In terms of ISSAI 1700 the audit opinion is included under 'Report on Other Legal and Regulatory Requirements'.

Objectives of a regularity auditor
The objectives of the regularity auditor in relation to auditing compliance are:

- To identify and understand the legal and regulatory requirements of the entity;
- To obtain audit evidence regarding compliance with the provisions of those laws and regulations which have a direct effect on the financial statements. This includes an understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework; *(ISSAI 1250.10;12;13)*
- To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations including inquiring to management and inspecting correspondence with relevant licensing and regulatory authorities; *(ISSAI 1250.10;14)* and
- To respond appropriately to non-compliance or suspected noncompliance with laws and regulations identified during the audit. *(ISSAI 1250.10)*

Auditors should gain an understanding of the legal and regularity framework of the entity and design and perform audit procedures to identify material misstatements due to non-compliance. However, the auditor is not responsible for preventing non-compliance and at the same time cannot be expected to detect all noncompliance with laws and regulations. As public sector entities are often governed by requirements which are detailed auditors need to focus work on the legislation that materially affects the entity and consider compliance thereto. *(ISSAI 1250.4;5)*

Consideration should also be given to any non-compliance reported in other reports (such as performance reports). *(ISSAI 1250 P8)*

Audit approach when there is no specific requirement to report on compliance
Throughout the audit the auditor should recognize that non-compliance by the entity to laws and regulations may materially affect the financial statements. *(ISSAI 1250.2)*

Non-compliance is considered in the following way in a regularity audit:

Stage of audit	Audit steps	Where to document it?
Strategic planning	Identify laws and regulations applicable for the entity, including those relating to the functioning of: • Public finance transactions, organization setup and responsibilities, including i.e:	Internal Control Checklist Review of internal audit Audit committee checklist Overall audit strategy – list all applicable legislation

Stage of audit	Audit steps	Where to document it?
	○ Planning and budgeting ○ Internal audit ○ Audit committees ○ Management of procurement, expenditure, revenue, asset and liability management etc. ○ Environmental matters	
	Consider qualitative materiality factors where auditing compliance is in the mandate of the OAG	Planning materiality
Detailed planning and fieldwork	Consider the key requirements of the laws and regulations relating to the audited component (for example asset or expenditure management). Document requirements in the key controls column of the systems description.	Systems description
	Design adequate substantive tests to cover key aspects of compliance	Substantive procedures performance
	Management should provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations	Management representations
Reporting	Consider non-compliance with laws and regulations for all audit findings.	

For all other audit findings the auditor should identify whether there is an element of non-compliance or suspected non-compliance with laws and regulations. *(ISSAI 1250.15)*

If the auditor finds or suspects non-compliance with laws and regulations, the auditor should:

- Understand the nature of the act and the circumstances in which it has occurred;
- Design further tests to evaluate the effect of noncompliance on the financial statements;
- Discuss the matter with management and, where appropriate, those charged with governance; *(ISSAI 1250.19)*
- Consider the need to obtain legal advice where necessary.

If sufficient information about suspected non-compliance cannot be obtained the effect of this needs to be considered on the auditor's opinion. *(ISSAI 1250.20)*

Evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. The auditor should communicate non-compliances with laws and regulations identified during the course of the audit to those charged with governance unless the matters are clearly inconsequential. OAG may have a mandate to order the auditee to correct non-compliances with legislation. In this case auditors should consider the fact that subjectivity in interpretation of laws may impair the auditors' independence. *(ISSAI 1250.21; 22) (ISSAI 1250 P9)*

All intentional non-compliances should be communicated to those charged with governance as soon as practicable. *(ISSAI 1250.23)*

If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity. *(ISSAI 1250.24)*

If it is not possible to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion. *(ISSAI 1250.27)*

If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. These may include prosecutors, police and affected third parties. *(ISSAI 1250.28) (ISSAI 1250 P10)*

The auditor should document all identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity. *(ISSAI 1250.29)*

When reporting on non-compliances the auditor should:
Express a qualified or an adverse audit opinion if the non-compliance has a material effect on the financial statements, and has not been adequately disclosed, or
Express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope if the auditor is precluded by the entity to obtain sufficient appropriate audit evidence relating to a material non-compliance. *(ISSAI 1250.25-26)*

Approach when there is specific requirement to report on compliance
In some cases the OAG may have a specific mandate to report on the compliance to specific regulations. In such cases there should be sufficient and appropriate audit tests designed and performed to audit an express an opinion on compliance with the provisions of the laws and regulations. The auditor should identify and understand the impact of specific expectations for the audit, for example:

- Is there a specific format / wording in the regulation for the report?
- Should there be a separate audit opinion included in the audit report on compliance?
- Is the level of expected assurance specified? i.e. reasonable or a limited assurance?

OAG mandated to audit compliance may decide to include additional findings on compliance issues, disclosures, conclusions, recommendations and management responses in a separate report. This separate report could be issued together with the auditor's report or as prescribed by laws or regulations. *(ISSAI 1700 P5)*

When OAG has such specific mandate it is recommended that ISSAI 4200 (Compliance Audit Guidelines: Compliance Audit Related to the Audit of Financial Statements) is consulted for further information. *(ISSAI 1250 A5) (ISSAI 1250 P5; P7)*

The box below includes some extracts from actual audit reports as examples on how to include reporting aspects on compliance within the regularity audit report.

Example for reporting on compliance with the Public Procurement Act from Tanzania

Management Responsibilities for the Financial Statement

Responsibilities of the Controller and Auditor General
My responsibility as an auditor is to express an opinion on these financial statements based on my audit...

... Further, Sect 44(2) of the Public Procurement Act No.21 of 2004 and Reg No. 31 of the Public Procurement (Goods, Works, Non-consultant services and Disposal of Public Assets by Tender) Regulations of 2005 requires me to state in my annual audit report whether or not the auditee has complied with the provisions of the Law and its Regulations.
...

Unqualified Opinion with Emphasis of matters
In my opinion, the financial statements present fairly, in all material respects the results of operations of the National Assembly for the year ended June, 2011 and its cash flows for the year

then ended in accordance with the International Public Sector Accounting Standards (IPSAS) – cash basis of accounting.

Emphasis of matters
Without qualifying my opinion, I draw the attention of the users of this report to the following matters

1. Procurements amounting to shs. 508,901,000 were not approved by the tender board contrary to section 68 of the Public Procurement Act of 2004.
2. .....

...

Report on Other Legal and Regulatory Requirements

Compliance with the Procurement Act of 2004

In view of my responsibility on the procurement legislation, and taking into account the procurement transactions and process I have reviewed as part of this audit, I state that except for the procurement matters discussed in the emphasis of matters paragraph above, the Ministry of AAA has generally complied with the requirements of the PPA No.21 of 2004 and its underlying Regulations of 2005.
...

3.3.5 Nature of the entity

The auditor should obtain an understanding of the nature of the entity including the entity's operations, locations, its management and governance, the types of services it is offering and plans to offer, the way that the entity is structured and the sources of its finances. An understanding of the nature of an entity contributes towards understanding the classes of transactions, account balances, and disclosures to be expected in the financial statements.

The auditor should obtain an understanding of the entity's application of accounting policies and consider whether they are appropriate and consistent with the prescribed financial reporting framework. The presentation of financial statements in conformity with the applicable financial reporting framework includes adequate disclosure of material matters. Presentation is normally matters relating to the form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the basis of amounts set forth. The auditor should consider whether the entity has disclosed a particular matter appropriately in light of the circumstances and facts of which the auditor is aware at the time.

3.3.6 Objectives and strategies and related risks

The auditor should obtain an understanding of the entity's objectives and strategies, and the related risks that may result in material misstatement of the financial statements.

Strategies are the operational approaches by which management intends to achieve its objectives. Strategies should include provisions to managements' approach to deal with applicable risks. An understanding of risks in the public sector environment relates to an organisation not possessing the sufficient capacity or processes to deliver on its mandate.

3.3.7 Measurement and review of the entity's financial performance

The auditor should obtain an understanding of the measurement and review of the entity's financial performance. This will include what may motivate management to take action to improve the performance or to misstate the financial statements. Information may include key performance indicators (financial and non-financial), budgets, variance analysis, segment information and divisional, departmental or other level of performance reports, and comparisons of an entity's performance with other public sector entities.

Much of the information used for performance measurement may be produced by the entity's own information system. If management assumes that data used for reviewing the entity's performance are accurate without having a basis for that assumption, errors may exist in the information, potentially leading management to incorrect conclusions about performance. When the auditor intends to make use of the performance measures for the purpose of the audit (for example, for analytical procedures), the auditor should consider whether the information related to management's review of the entity's performance provides a reliable basis and is sufficiently precise for such a purpose. If the audit makes use of performance measures, the auditor should consider whether they are precise enough to detect material misstatements.

3.3.8 Internal controls

The auditor should obtain an understanding of internal controls put in place relevant to the audit. These controls should provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. It follows that internal control should be designed and implemented to address identified risks that threaten the achievement of the entity's objectives. Internal control consists of the following components:

- The control environment;
- The entity's risk assessment process;
- The information system, including the related processes, relevant to financial reporting, and communication;
- Control activities; and
- Monitoring of controls. *(Refer to working paper SP 8. Internal control checklist)*

The auditor should obtain an understanding of internal controls relevant to the audit. In the evaluation of the above some of the categories of control will be performed on a financial statement level (control environment, risk assessment process), and some of it such as control activities will be documented and evaluated for each audited component. The controls are adequately designed when they can prevent, or detect misstatements and errors. If controls are not appropriately designed, the auditor should not consider its implementation but report the ineffective design to management. The aspects relating to this are covered later in this manual.

In obtaining understanding of internal controls, auditors should take the following into account:

- Any additional reporting responsibilities regarding internal controls
- Relevant controls that relate to compliance with laws and regulations
- Controls related to monitoring performance against the budget
- Controls related to transferring budgetary funds to other entities
- Controls of classified data related to national security and sensitive personal data, such as tax and health information
- As public sector entities are part of a larger government system, supervision and other controls may be performed by parties outside the entity. These controls may relate to areas such as compliance with procurement regulations, execution of the budget, other areas as defined by legislation or audit mandate and management's accountability. *(ISSAI 1315 P14)*

Internal controls may only provide a limited assurance about achieving the entity's financial reporting objectives. No matter how well designed and operated, controls will not be able to prevent faulty human judgment in decision-making or human errors.

When communicating material weaknesses in internal control auditors should also take into account that in some public sector environments reports may be made available to third parties, including the public. *(ISSAI 1315 P18)*

Control environment

The auditor should obtain an understanding of the control environment. The control environment includes aspects of governance, management functions, behaviour and attitudes, actions to prevent and detect fraud and error, commitment to ethical values and competence. *(ISSAI 1315.14)*

Even though for some of these elements documented evidence may be difficult to obtain (for example management's attitude and awareness), the assessment of the control environment should not only be based on inquiries and discussions. Conclusions drawn should be linked back to documented policies and procedures or lack thereof.

The auditor should understand how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting.

The entity's risk assessment process

The auditor should obtain an understanding of the entity's process for identifying risks relevant to financial reporting objectives and deciding about actions identified to manage those risks. The process is described as the "entity's risk assessment process" and forms the basis for how management determines the risks to be managed. This includes how management identifies risks, estimates the significance of the risks, assesses the likelihood of their occurrence, and decides upon actions to manage them. If the entity's risk assessment process is appropriate to the circumstances, it assists the auditor in identifying risks of material misstatement. Auditors should also keep in mind that risk assessment processes maybe set out in legislation, included in directives or conducted by other public sector entities. *(ISSAI 1315.15;16) (ISSAI 1315 P15)*

If the entity has not established risk assessment process or manages risk in an ad-hoc manner, the auditor should discuss with management whether risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor should evaluate whether the absence of a risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control. *(ISSAI 1315.17)*

Information system, including the related processes, relevant to financial reporting and communication

Most entities make use of IT systems for financial reporting. As a result, an entity's system of internal control is likely to contain manual and automated elements, the characteristics of which are relevant to the auditor's risk assessment and subsequent audit procedures.

The auditor should obtain an understanding of the information system, including related processes, relevant to financial reporting, including the following areas:

- The classes of transactions in the entity's operations that is significant to the financial statements;
- The procedures, within both IT and manual systems, by which those transactions are initiated, recorded, processed and reported in the financial statements;
- The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial statements, in respect of initiating, recording, processing and reporting transactions;
- How the information system captures events and conditions, other than classes of transactions that are significant to the financial statements; and
- The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures;
- Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. *(ISSAI 1315.18)*

The auditor should obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:

- Communications between management and those charged with governance; and
- External communications, such as those with regulatory authorities. *(ISSAI 1315.19)*

For further discussion on considering the IT environment of the auditee refer to par. 3.3.9 of this manual.

Control activities

The auditor should obtain an understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. Control activities are the policies and procedures that help ensure that management directives are carried out; for example, that necessary actions are taken to address risks that threaten the achievement of the entity's objectives. Control activities, whether within IT or manual systems, have various objectives and are applied at various organizational and functional levels.

Examples of specific control activities include those relating to the following:

Control activity	**Description**
Authorisation	How and by whom transactions are authorised are detailed in the procedures and included in the job descriptions of personnel.
Performance reviews	Performance contracts for personnel relate to the actual job performed.
Information processing	Detailed descriptions of information processing. This includes general and application controls.
Physical controls	Safeguarding of assets, for example controls over access to the inventory storeroom.
Segregation of duties	Different persons are responsible for: • Authorising a transaction/acquisition • Recording the details in the cash book/general ledger etc • Handling the goods/stock/assets

Control activities implemented by management can also be categorised by determining whether the controls are preventative or detective.

Preventative controls are controls with functions to prevent errors and misstatements from happening. Detective controls are controls with functions to detect and correct errors and misstatements after they already happened.

Implementing a preventative control is normally a better and more sustainable solution, but sometimes it takes longer to implement and can be more costly. In such cases a detective control can provide a temporary solution until the preventative control is implemented.

Control activities need to be understood by auditors in order to assess risks of material misstatement at the assertion level and to design relevant audit procedures. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. The auditor's emphasis is on identifying and obtaining an understanding of control activities that address the areas where the auditor considers that material misstatements are more likely to occur. *(ISSAI 1315.20)*

The auditor should obtain an understanding of how the entity has responded to specific risks arising from IT. *(ISSAI 1315.21)*

Monitoring of controls

Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It includes pre-identified aspects such as the identification of information monitored e.g. exception reports drawn from the system on large value spending on a monthly basis. These processes should be built into the normal recurring activities of an entity and include regular management and supervisory activities. Auditors should evaluate the sources of information used to monitor and evaluate whether such information is reliable. Corrective actions taken in response to management's monitoring activities should be evident. *(ISSAI 1315.24)*

The auditor should obtain an understanding of the major types of activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates corrective actions to its controls. *(ISSAI 1315.22)*

Management should also make effective use of internal audit to contribute to the monitoring of an entity's activities. Auditors should evaluate the responsibilities of internal audit and its position in the entity's organizational structure; and the activities performed, or to be performed, by the internal audit function. *(ISSAI 1315.23)*

3.3.9 Considering the information technology (IT) environment

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. The IT internal control checklist under this section provides a basic general control evaluation which should be undertaken for the IT system used by the auditee *(Refer to working paper SP 8. IT internal control checklist)*.

Management has responsibility to take reasonable steps to safeguard the general control environment relating to the IT system. During planning of the audit a high level review should be performed and any deficiencies will be reported to management. A best practice would be to take the aspects covered in the IT internal control checklists and use it as a tool for testing throughout the year.

Generally, an IT system provides certain benefits and also disadvantages in terms of internal controls. It normally enables fast and accurate processing of information and facilitates additional analysis by also using computer assisted auditing techniques (CAATs). The disadvantages include that the use and understanding of the systems require training for the users and for the auditors. There are additional risks of unauthorised / undetectable access to the system that can lead to unauthorised changes to data.

The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures and records established to initiate, record, process, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities and equity.

General control environment refers to all aspects surrounding the IT environment and has an indirect effect on the IT environment and the financial statements. Application controls on the other hand has a direct influence on the IT environment and the financial statements. General controls form the basis of application controls and should therefore be assessed before the auditor performs tests on the application controls. The risks relating to the application controls are similar to those of general controls. It does, however include some additional risks. A growing number of organisations are implementing enterprise resource programmes (ERP) to perform their financial tasks. The data on these systems are used for the compilation of the financial statements and assists management in the decisions-making process. Therefore, when performing an application control audit on these systems the auditor needs to determine whether they are reliable and the data included in the financial statements are correct.

Before a general control review is embarked upon, the auditors should gain an understanding of the auditee's application systems in order to:

1. Identify major application systems involved in processing financial information or information relating to service delivery transactions. If there are different modules available, auditors should also understand which modules are actually implemented from the system (GL, payroll, accounts receivable etc.). For example the auditee may use IFMS system to document financial transactions. However, there may be other systems such as a payroll system calculating and documenting transactions relating to payroll. Also note the non-financial systems. Where more than one system is used auditors should request a network diagram from the auditee.

2. Understand how different financial and non-financial systems interlink or feed information into the system which generates information for the financial statements. There may also be other systems documenting information on revenue collected, or debtors, which may regularly interface with the financial system. The frequency and nature of such links between systems should be understood and documented.

For example once the salaries are calculated on the payroll system it automatically link to the financial system at the end of the month to enable the payments of salaries. Auditors should understand what kind of information is transferred from one system to another? How often does this happen? Also, the modules or sub-systems used should be understood and documented by the auditors.

The main checklist covers aspects relating to the following areas:

IT Governance
An IT steering committee are a key component in IT governance since it provides the strategic alignment required to fulfil the organisations' goals and objectives. Top management usually establishes the committee to oversee the information systems function and activities. It is a mechanism that ensures the IT section is in harmony with the corporate mission and goals.

Some of the basic roles and responsibilities performed by the IT Steering committee includes:
- Ensuring the alignment of the IT strategy with the organisation's strategy;
- Enhancing the understanding and satisfaction of the value of an IT investment;
- Promoting two way communication between business and IT;
- Reviewing and approving of major acquisitions;
- Reviewing and approving of major IT projects;
- Reviewing and approving of plans to outsource IT activities;
- Reviewing the adequacy and allocation of resources;
- Making decisions with regard to centralisation and decentralisation;
- Supporting development and implementation of an organisation wide information security management program; and
- Reporting to the Board of Directors on IT activities.

IT Strategic plan
Once the steering committee agrees on the future direction of IT, the decisions should be formalised and documented in a plan. The IT strategy document is in effect the starting point for any investment in IT as it identifies future changes which have to be budgeted for. The decisions and planned changes specified in the IT strategy are likely to have a minimal effect on the current audit but it may have a significant effect on future audits. A review of the clients IT strategy could forewarn the auditor of problems which may arise in years to come. For example, the IT strategy may state that the organisation will replace its financial system in 2 year's time. This may have an impact on the work of the auditor.

The size, detail and content of the IT strategy will vary according to various factors which include the size of the organisation and its IT department and the importance or criticality of the IT systems. For example, a large government ministry are likely to have detailed IT strategies which span over several hundred pages, or on the other hand, a small ministry might comprise of a one page document. When reviewing the strategy the auditor should consider what is appropriate for the organisation.

The main purpose for an IT strategic plan is not only to maximise the benefits of IT and perform planning for a three year period but also ensures that IT is aligned with the business.

Security management

Unauthorised or malicious software could contain certain security risks to the auditee's network. In many instances (according to good practices) auditee's have a policy which prohibit staff members from having unauthorised software on their computers.

Measures can be implemented by management to prohibit the installation of unauthorised software. Examples include:

- Deactivation of CD-ROM's on computers;
- Limitation on file sizes sent through the auditee's network;
- Limitation on file sizes that can be downloaded from the internet;
- Websites can be blocked; and
- Periodic reviews of computers hard drives to detect unauthorised software.

There should be documented disciplinary steps which should be taken against an employee who is found to have unauthorised software on his computer.

Defining roles and responsibilities

IT human resources usually forms part of the organisation's human resources management. The following needs to be taken into consideration:

1. Compulsory leave;
2. Rotation of staff;
3. Procedures for critical functions which needs to be properly documented and monitored;
4. Job descriptions;
5. Performance contracts; and
6. Segregation of duties.

When the auditor reviews the process, he needs to determine whether there is sufficient segregation of duties. Small organisations may have combined IT functions, however, the following functions cannot be combined:

- Programmer and database administrator;
- System administrator and database administrator;
- Security administrator and database administrator; and
- Network administrator and database administrator.

Program change management

Change controls are part of the change management process and focuses on what a staff member should do when requesting system changes. There should be a formally documented policy describing the process to be followed and a standardised form(s) to be completed by the employee when requesting these changes.

Physical access controls

Physical access controls are designed to protect the organisation from unauthorised access. This includes not only the access to the computer room but also access to the premises.

The auditor can have a tour through the organisation's building to gain an overall understanding and perception of the installation being reviewed. Most of the procedures the auditor will perform can be performed on the basis of observing the organisations' facilities. Also included in testing physical access is access to personal computers or laptops. The auditor should take into consideration what controls are implemented to ensure the proper safeguard of these items. Securing laptops and personal computers are not only limited to physical access controls but also logical access controls. Some examples of controls an organisation can implement to reduce the risk of disclosure of sensitive data stored on a laptop includes:

- Engrave a brand or serial number and company name on to a laptop using tamper resistant tags;
- Use a cable locking system to lock the laptops to desks;
- Backup critical data on a regular basis;
- Encrypt data using well known encryption software;
- Allocate passwords to individual files to prevent anybody to access the file; and
- Activate the automatic locking system on laptops if it is not in use for a number of minutes.

Environmental controls

Environmental exposures are primarily relating to natural occurrences such as earthquakes and storms. The result of these natural occurrences can lead to many types of problems for example power surges that have a negative effect on the information infrastructure.

There are a number of controls an organisation can implement to reduce the risks for environmental exposures which include:

- Water detectors;
- Handheld fire extinguishers;
- Manual fire alarms;
- Smoke detectors;
- Fire suppression systems;
- Regular inspections by fire departments;
- Fireproof walls, floors, ceilings surrounding the computer room;
- Electrical surge protectors;
- Uninterruptible power supply / generators; and
- Emergency power-off switch.

IT service continuity

When a disaster occurs the organisation should have a plan in place to assist and guide personnel in timeous recovery of data restoring key functions first.

When developing the business continuity and disaster recovery plan there are different stages that an organisation must undergo. The business continuity planning process can be divided into the following phases:

Business impact analysis

This process involves the identification of various events which could have an impact on the continuity of services either in a financial, human resources or reputation aspect. Persons involved in this phase should have a thorough understanding of the business, the key business processes and IT resources used by the organisation to support the key business processes. Persons involved in this process will mainly be senior management representatives and IT management.

A process to classify the criticality of information resources such as networks, IT infrastructure, applications, data, etc, must be established and approved by management. There is a number of aspects which should be considered when a disaster strikes including the recovery process. Systems can be divided into four groups, based on their importance to the organisation, i.e:

- Critical systems – these functions cannot be performed unless they are replaced by identical capabilities. Critical applications cannot be replaced by manual methods. Tolerance to interruptions is very low and the cost of recovery will be very high;
- Vital systems – These functions can be performed manually for a brief period and there is a higher tolerance to interruption than with critical systems. Cost for recovery is lower, provided that these functions are restored within a certain time frame;
- Sensitive – These functions can be performed manually at a tolerable cost and for an extended period of time; and
- Non-critical – these functions can be performed manually for an extended period of time with little or no cost to the company and requires minimal updating ('catching-up') when restored.

Develop business recovery strategies
After identifying the various events that can have an impact on the organisation the next phase will be to identify possible recovery strategies for the events and select the most appropriate strategy for recovering from the disaster.

The selection of a recovery strategy will depend upon the criticality of the business processes, the cost and time to recover the business processes and security issues. The most appropriate strategy an organisation can select is where the cost for an acceptable recovery time is reasonable compared to the likelihood of occurrence as determined in the business impact analysis.

There are some alternative strategies the organisation needs to take into consideration when developing recovery strategies. When a disaster impairs the primary site the organisation must have offsite facilities available which can be used as backup alternatives. This includes:

- Duplicate processing facilities – these facilities are dedicated, self developed recovery sites that can back up critical applications. They can range in form from a standby hot site to a reciprocal agreement. One of the advantages of using such facilities is that there are fewer problems in coordinating compatibility and availability in the case of a disaster. There are certain principles which should be kept in mind when selecting this approach:
    - The site chosen should not be subjected to the same natural disaster than the primary site;
    - There must be a coordination of hardware and software strategies;
    - Resource availability must be assured;
    - There must be agreement as to the priority of adding applications; and
    - Regular testing is required;
- Hot sites – that are fully configured and ready to operate within a short period of time. Hardware and software is fully compatible with that of the organisation. When using these facilities the organisation only needs the staff to move in and go on with their duties. The costs of these sites are normally high but can be set off against the insurance policy if it is planned properly. These facilities are only used for a limited period of time;
- Warm sites – these sites are partially configured with network connections and certain peripheral equipment. Warm sites are less costly than the hot sites and can be ready within a few hours;
- Cold sites – these sites only provide the basic environment and all other equipment should be brought in by the organisation. The activation of the site might take longer since all the equipment needed should be purchased and installed; and
- Reciprocal agreements with branches in the organisation or other organisations – these agreements are between branches within the organisation or other organisations with similar infrastructure or applications. The organisations promise to provide computer time to each other when an emergency occurs.

Develop a detailed plan
The detailed plan should address all issues involved in recovering from a disaster. Factors which should be considered when developing the plan:

- Pre-disaster readiness;

- Evacuation plan;
- How to declare a disaster;
- The identification of the business processes and IT resources that should be recovered first;
- Clear identification of the responsibilities in the plan;
- Clear identification of the persons responsible for each function of the plan;
- The clear identification of contract information;
- Step-by-step explanation of recovery options;
- Clear identification of the various resources required for recovery and continued operation of the organisation; and
- Step-by-step application of the constitution phase.

The plan should be understandable and properly documented. Copies of the most recent plan should not only be kept offsite but all participants in the plan should also have a copy.

Implementation, testing and maintenance of the plan
When testing the plan, it should be scheduled in such a way to minimise disruptions to normal operations. The test should strive to accomplish:

- Completeness and precision of the plan;
- Evaluate the performance of the personnel involved;
- Appraise training and awareness of non-business continuity team members;
- Measure the ability and capacity of the backup site to perform prescribed processing;
- Assess the vital records retrieval capability;
- Evaluate the state and quantity of equipment and supplies that have been relocated; and
- Measure the overall performance of operations and information systems processing activities.

The following types of tests can be performed:

- Paper test – walk through of the plan, including all the major roll players in the execution of the plan. The paper test usually precedes the preparedness test;
- Preparedness test – usually a localised version of the full test. This test should be performed regularly on different aspects of the plan and is a more cost effective approach of testing the plan; and
- Full operations test – this test is one step away from an actual service disruption.

When testing the plan all results should be documented and maintained. After each test, based on the results, the plan should be updated accordingly.

Logical access controls
Logical access controls are the controls built into the application to prevent unauthorised users from using an application. In most instances organisations will require a user to authenticate him or herself when that person logs onto the network. When that person logs onto the system the application will ask for a username and password. If it is the first time the user logs onto the system, the administrator should provide them with a username and password. The password should be set that it forces the user to change it when they log onto the system. The length and the difficulty of the password will depend upon the policy the organisation have with regard to passwords. In some instances organisations can move toward a single sign on. The user is only using one password to log onto the organisations' network and application system. A username and password is not the only method an organisation can use to sign on to the network and application. Where there is critical information on the application additional security features can be included to request a person to identify themselves.

When the user is using the application the profile which is set up for the user needs to be in line with their job description and the duties they perform. Normally a request to register the user on the application with approval from the manager will be given to the relevant department.

Personnel should be granted different types of access according to the role they have in the organisation. For example, a person capturing invoices should not have access to approving them as well. When a staff member leaves the organisation, the access provided to that individual on the system should be terminated.

Passwords for staff members are implemented to:
- Gain access to the organisations network and application systems; and
- Ensure accountability on the applications.

In certain circumstances (due to size or a lack of knowledge) the auditee may make use contractors to perform some of the IT functions. It should be emphasised that in such cases the organisation still need to ensure that proper controls are in place with regard to the contractors.

3.3.10 Consideration of fraud

What is fraud?
Misstatements in the financial statements can arise from either fraud or error. The distinction is that fraud is caused intentionally while an error is unintentional. *(ISSAI 1240.2)*

There are two types of fraud – fraudulent financial reporting and misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred. *(ISSAI 1240.3)*

Fraudulent financial reporting may be accomplished as follows:
- Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared.
- Misrepresentation or omission of transactions, events or other significant information from the financial statements.
- Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.
- Abuse, including the misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. *(ISSAI 1240 P6)*

Misappropriation of assets can be accomplished in a variety of ways including:
- Embezzling receipts (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts).
- Stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a supplier by disclosing technological data in return for payment).
- Causing an entity to pay for goods and services not received (for example, payments to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating prices, payments to fictitious employees).
- Using an entity's assets for personal use (for example, using the entity's assets as collateral for a personal loan or a loan to a related party).

Usually fraud is committed when there are certain factors present:
- Incentive or **pressure** to commit fraudulent financial reporting may exist when management is under pressure to achieve an expected (and perhaps unrealistic) target. In the public sector employees or management maybe under pressure to deliver high quality services with few resources and to meet budgets.
- There is an **opportunity** to commit fraud when internal control can be overridden. Lack of skills, high volume low value cash transactions maybe prevalent in the operations.
- **Rationalisation** of the act of fraud when staff (including management) has ethical values allowing them to commit a dishonest act. Lower salaries in the public sector may lead employees to justify misuse of funds. *(ISSAI 1240 P5)*

The primary responsibility for both fraud prevention and detection rests with management and those charged with governance or oversight. *(ISSAI 1240.4)*

Responsibilities of auditors
Auditors are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. *(ISSAI 1240.5)*

However, due to inherent limitations of an audit, there may be material misstatements which may not be detected, however well the auditor planned and performed the audit. This is particularly true in the case of fraud where the risk of not detecting a material misstatement is higher, due to the applicability of the following scenarios:

- Person(s) committing fraud will try to conceal it and in most cases also involve sophisticated and carefully organized schemes to do so. These may include forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor.
- Collusion between more than one employee will usually make detection of fraud particularly difficult during routine audit. *(ISSAI 1240.6)*
- Fraud involving management whereby accounting records are easily manipulated, present fraudulent information, overrun control procedures. *(ISSAI 1240.7)*

The objectives of the auditor are:
- To identify and assess the risks of material misstatement of the financial statements due to fraud;
- To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, and
- To respond appropriately to fraud or suspected fraud identified during the audit through designing and implementing appropriate responses. *(ISSAI 1240.10)*

Auditors should maintain professional skepticism throughout the audit, recognizing that fraud could exist, notwithstanding the auditor's past experience with the entity and management. For this reason an attitude of professional scepticism is vital for the auditors throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist and internal controls effective to discover errors may not be effective to discover fraud. *(ISSAI 1240.8) (ISSAI 1240 P7)*

Threats to maintain professional scepticism may exist due to:
- The nature of personnel or professional relationships as a result of the political process/environment
- The public sector audit organization's exclusive mandate, resulting in the lack of audit competitors
- In some environments, the lack of requirements to rotate auditors regularly. *(ISSAI 1240 P8)*

Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If the auditor believes that a document may not be authentic or have been modified without disclosing this to the auditor, or there are inconsistencies in the responses of management or those charged with governance, the auditor should investigate further. *(ISSAI 1240.12-14)*

The affect of fraud considerations on the audit approach
The audit team should discuss the susceptibility of the entity's financial statements to material misstatement due to fraud. The auditor responsible for the audit should make sure that important matters are communicated to members of the audit team that was not involved in the discussion. *(ISSAI 1240.15) (Refer to working paper SP 15. Engagement team discussion document)*

Identifying risks of material misstatement due to fraud (ISSAI 1240.16)

Auditors should inquire to management and obtain evidence regarding:

- Management's assessment of the risk of fraud;
- Management's process for identifying and responding to the risks of fraud in the entity, including any specific transactions or account balances where risk of fraud is likely to exist;
- Management's communication to those charged with governance, other government entities and to employees relating to the processes for identifying and responding to the risks of fraud and on management's views on practices and ethical behaviour; *(ISSAI 1240.17; P11)*
- Any actual, suspected or alleged fraud affecting the entity identified through for example internal audit activities; *(ISSAI 1240.18,19)*
- The internal controls established by management to mitigate the risk of fraud, processes for identifying and responding to the risks of fraud and monitoring by those charged with governance; *(ISSAI 1240.20)*
- Whether those charged with governance, selected officials, board members or members of legislative committees have knowledge of any actual, suspected or alleged fraud affecting the entity; *(ISSAI 1240.21; P12)*
- Whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud; and *(ISSAI 1240.22)*
- Whether any information obtained throughout the audit indicates that fraud risk factors are present; *(ISSAI 1240.23)*
- Whether any the information obtained from the other risk assessment indicates that fraud risk factors are present. While fraud risk factors may mean that there is actual fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud. *(ISSAI 1240.24)*

The auditor should treat risks of fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks. *(ISSAI 1240.27)*

The relative importance of the risk factors varies among engagements and entities from critical to insignificant. Accordingly, the team should exercise professional judgment when considering the risk factors individually and in combination. When considering the presence of risk factors, the team should consider whether there are other factors or specific controls that mitigate or exacerbate the risk factors that have been identified.

When risk is identified this does not necessarily mean that entity wide internal control is ineffective or there is a risk of fraud. It should merely heighten the team's awareness, and should therefore give these aspect(s) due consideration.

The auditor should identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for audited components. *(ISSAI 1240.25)*

Overall assessment on a financial statement level

In determining overall responses to address the risks of material misstatement due to fraud at the financial statement level the auditor should:

- Assign and supervise personnel taking account of the knowledge, skills and ability of the individuals and the risk of material misstatement.
- Consider the accounting policies used by the entity; and
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. *(ISSAI 1240.28; 29)*

The Fraud checklist *(Refer to working paper SP 7. Fraud checklist)* lists risk factors that are relevant to assess the risk of fraud on a financial statement level. However, the list is not necessarily all inclusive and may be expanded for other risk factors arising from the team's understanding of the entity and its operations.

Assessment of fraud on an assertion level for audited components
The auditor should perform audit procedures in response to the assessed risks of material misstatement due to fraud for each audited component and each assertion. *(ISSAI 1240.30)*

Management is in a unique position to perpetrate fraud because of the ability to override well functioning controls to manipulate accounting records and to prepare fraudulent financial statements. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, the risk of material misstatement due to fraud is thus a significant risk. *(ISSAI 1240.31)*

This assessment is done during the detailed planning stage of the audit.

During the preparation of system descriptions *(Refer to working paper DPF 1.System description for audit components)*, the auditor should identify and assess the risks for account balances and assertions. Fraud risks are normally identified as significant risks and consequently auditors should evaluate the design and implementation of the related controls for these areas *(Refer to working paper DPF 2. Reliance on key controls for components)*;

In terms of this, auditors should be able to identify the **red flags (fraud risks)** in a particular audit area. Red flags are anomalies that point to symptoms or indicators that are to be associated with fraud such as:

- Invoices without matching orders (Occurrence or validity of expenditure)
- Payments have been made without matching invoices (Occurrence or validity of expenditure)
- Over invoicing and under delivery by suppliers (Occurrence or validity of expenditure)
- Unclaimed wages were not remitted to cashier (Occurrence or validity of personnel expenditure)
- There is poor segregation of duties in asset management (Asset management – existence of assets)
- Poor physical security of assets (Asset management – existence of assets)
- Lack of controls relating to complete recording of income received (Completeness of revenue) *(ISSAI 1240.26)*
- Fees charged are less than identified by government (Completeness of revenue). *(ISSAI 1240 P15) (ISSAI 1240.26)*

To respond to the risk of management override of controls, the auditor should design and perform audit procedures to: *(ISSAI 1240.34)*

- Test the appropriateness of material journal entries recorded in the general ledger especially around the financial year end and making inquiries about any unusual or inappropriate activity relating to the processing of journals. Examples of such transactions maybe relating to privatisation of government services, real-estate purchases or sales etc. Consider whether there is a need to further test journal entries and other adjustments. *(ISSAI 1240.32) (ISSAI 1240 P17)*
- Review accounting estimates for biases in management's judgment and decisions made that could result in material misstatement due to fraud. *(ISSAI 1240.32)*
- Evaluate business rationale for significant transactions that are outside the normal course of business or otherwise unusual transactions,*(ISSAI 1240.32)*

There may be a need to perform further audit procedures in addition to those referred to above, in order to respond to the specific / additional risks of management override of controls. *(ISSAI 1240.33)*

During the evaluation of audit evidence:

- The auditor should consider whether the results of final analytical review performed at or near the end of the audit are consistent with the auditor's knowledge of the auditee. The impact of any previously unrecognized risk of material misstatement due to fraud should be considered when forming an overall conclusion on the financial statements. Unusual or unexpected relationships in for example revenue accounts may indicate manipulation of financial information. *(ISSAI 1240.34) (ISSAI 1240 P13)*

- For identified misstatements, the auditor should consider whether there is an indication of fraud. If there is such an indication, the auditor should consider the implications of this in light of other aspects of the audit, particularly the reliability of management representations. *(ISSAI 1240.35)*

- When a misstatement is identified, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor should also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained. *(ISSAI 1240.36)*

- When the financial statements are materially misstated as a result of fraud, the auditor should consider the implications for the entire audit. The reliability of evidence previously obtained when there is a possibility of fraud should be considered. *(ISSAI 1240.36,37)*

- If, due to misstatement(s) from fraud or suspected fraud brings into question the auditor's ability to continue performing the audit, the auditor should:
  - Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report separately to regulatory authorities. *(ISSAI 1240 P19)*
  - Identify whether there is a need to request the help of forensic auditors where applicable. *(ISSAI 1240.38)*
- The auditor should obtain written representations from management relating to their responsibilities and knowledge of fraud, including the following:
  - Acknowledgement of management's responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;
  - The fact that all the fraud risks and the results of management's assessments were disclosed to the auditor;
  - All knowledge of fraud or suspected fraud affecting the auditee was disclosed, involving:
    - Management;
    - Employees who have significant roles in internal control; or
    - Others where the fraud could have a material effect on the financial statements; and
    - Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. *(ISSAI 1240.39) (Refer to working paper AS 2. Management representation letter)*

Communication of fraud
If the auditor has identified fraud or obtained information that indicates that fraud may exist, the auditor should communicate these matters on a timely basis to the appropriate level of management and to those charged with governance as soon as practicable. *(ISSAI 1240.40)*

The auditor auditor should communicate identified or suspected fraud to those charged with governance on a timely basis, involving:
- Management;
- Employees who have significant roles in internal control; or

- Others where the fraud results in a material misstatement in the financial statements. *(ISSAI 1240.41)*

If the auditor has identified or suspects a fraud, the auditor shall determine whether there is statutory responsibility to report to oversight bodies. Such legal responsibilities may override the duty of confidentiality in some circumstances. Reporting responsibilities relating fraud may include legislature, regularity bodies and enforcement authorities, prosecutors and police.
(ISSAI 1240.43; P20; P21)

Suspected abuse at the auditee should be considered from both a qualitative and quantitative perspective. Public sector auditors do not provide reasonable assurance of the detection of abuse, but consider the need to report such instances as deemed appropriate. *(ISSAI 1240 P9)*

Auditors in a Court of Accounts environment may work closely with prosecutors and police when dealing with financial fraud. Therefore, they may have obtained information from prosecutors and police that are relevant to the understanding of the entity and its environment, and to the risk assessment. *(ISSAI 1315 P16) (ISSAI 1300 P12)*

The auditor should consider whether there are any other matters related to fraud to be discussed with those charged with governance of the entity when it is relevant to their responsibilities. *(ISSAI 1240.42)*

Documentation of the auditor should include the following aspects:
- Significant decisions reached during the discussion among the engagement team and the identified and assessed risks of material misstatement due to fraud at financial statement and assertion level. *(ISSAI 1240.44)*
- The audit procedures performed in response to the assessed risks due to fraud at financial statement level and the at assertion level together with clear links between the two. The results of the audit procedures performed relating to the risk of fraud, including those designed to address the risk of management override of controls. *(ISSAI 1240.45)*
- Conclusions and reasons for stating that any risk of material misstatement due to fraud related to is not applicable in the circumstances of the engagement. *(ISSAI 1240.47)*
- Communications about fraud made to management, those charged with governance, regulators and others. *(ISSAI 1240.46)*

Reference should be made to the Fraud Guideline issued by AFROSAI-E for additional explanations and to Annexure E of this document for key extracts from the Fraud Guideline.

3.3.11 Procedures regarding litigations and claims

Litigations and claims involving an entity may have a material effect on the financial statements and thus may be required to be disclosed and/or provided for in the financial statements. Auditors may also have additional reporting responsibilities for example identifying future claims and potential wider consequences of those claims. *(ISSAI 1501.9; P7)*

The auditor should carry out audit procedures in order to become aware of any litigation and claims involving the entity which may result in a material misstatement of the financial statements. Such procedures would include the following:
- Make appropriate inquiries of management and those charged with governance including obtaining written representations. *(ISSAI 1501.12)*
- Make inquiries to the management of the central legal department which administers claims against the government where applicable. *(ISSAI 1501 P7)*
- Review minutes of those charged with governance and correspondence with the entity's legal counsel.
- Examine legal expense accounts bearing in mind that where legal counsels are within government there may not be a respective legal expenditure. *(ISSAI 1501 P8)*;

- Use any information obtained regarding the entity's operations including information obtained from discussions with any in-house legal department.
- Any other information which may assist in identifying litigations and claims including media reports, general public and stakeholder feedback, information from complaints officials and whistle-blowers or outcomes of performance and other audits. *(ISSAI 1501 P9)*

When existing litigation and claims have been identified the auditor should seek direct communication with the entity's legal counsel. The letter, which should be prepared by management and sent by the auditor, should request the entity's legal counsel to communicate directly with the auditor. Inquiries may include general or specific depending on the applicable legislative framework. The independence and objectivity of the legal counsel should be evaluated by the auditor. *(ISSAI 1501.10; P10; P11)*

If management refuses to give the auditor permission to communicate with the entity's legal counsel, this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion. The impact on the auditor's report would be considered in a similar manner when auditor is not able to obtain sufficient adequate audit evidence. *(ISSAI 1501.11)*

3.3.12 Related parties

Related party can be defined as:

- Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
- Another entity that is under common control with the reporting entity through having:
  - Common controlling ownership;
  - Owners who are close family members; or
  - Common key management.

However, entities that are under common control by a state (that is, a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another. *(ISSAI 1550.10; P5)*

Auditors should consider whether the exemption from the definition of related parties of entities under common control by the state leads to areas of greater risk in their audit of public sector entities. For example, there may be a situation where a minister is in control of a number of entities. Auditors should keep in mind that while these entities may not share resources or transact to a significant extent, there may be many, smaller apparently 'insignificant' transactions taking place which may be deemed irregular. There may also be situations where there is no transaction at all, for example the minister may exert influence on one entity to withhold paying a dividend to another entity in order to influence cash flow and possible budgetary appropriations decisions. *(Refer to working paper SP 8. Internal Control checklist)* *(ISSAI 1550 P6; P7)*

For example auditors may find transactions between entities falling under the control of the same minister. These transactions maybe in form of transfer funds, sales of goods or expenditure transactions or any other means with the potential for example to hide budget overspending of one entity. These transactions between entities should be identified for further where the transactions are scrutinized for the relevant assertions such as validity.

The objectives of the auditor are:

- To obtain sufficient understanding of related party relationships and transactions of the auditee in order to recognize risks including the risk of fraud, and
- To conclude whether the financial statements, insofar as they are affected by those relationships and transactions achieve fair presentation in line with applicable financial reporting framework or that it is not misleading.
- To conclude that related party transactions are in compliance with legislative requirements – where applicable. *(ISSAI 1550.9; P10; P11)*

Understanding the auditee's related party transactions

The auditor should obtain an understanding of the auditee's related party relationships and transactions having regard to:

- The legal structure and regulatory requirements governing the entity and its related parties, for example whether the entity is a ministry, department, agency or another form of public entity.
- The operations of public sector entities, including the types of government activities carried out, their programs and the principal entities they engage in the execution of those programs.
- The arrangements for the controlling the entity to exercise control. Ownership of public sector entities may not have the same relevance as in private sector.
- The entity's reporting requirements prescribed by the applicable financial reporting framework, including those for the disclosure of related party relationships and transactions.
- Other regulations that may be relevant to the auditee's ability to transact with related parties. This may include compliance with procurement regulations, which may include a requirement for public sector entities to demonstrate that transactions with related parties are conducted at arm's length. Limitations on the entity's capacity to establish wholly or partly owned entities which would be deemed related parties should be identified and considered.
- Where legislative requirements exists for those charged with governance of public sector entities, management and employees to declare their interests in entities with which they transact, auditors need to apply risk assessment procedures to identify and assess the risks of material misstatements arising from non-compliance with those requirements. *(Refer to SP 8. Internal control checklist working paper)* *(ISSAI 1550.3; P8; P12; P13)*

Responses to the risk of material misstatement

Based on the above procedures the auditor should assess the risks of material misstatement, design and perform appropriate procedures in response to these risks. *(ISSAI 1550.11)*

The following procedures should be performed in all cases:

- The team discussion should include specific aspects of related parties. *(Refer to SP 15. Engagement team discussion working paper)*
- The auditor should inquire from management regarding the identity of related parties, the nature of relationship and any transactions between the auditee and the related parties.
- The auditor should inquire about management's controls in place to identify, authorize and properly account for related party transactions.
- Inspect documentation such as bank and legal confirmations, minutes of management meetings to identify any related party transactions.
- Identify fraud risk factors arising from dealing with related parties and 'flag' these areas as significant risk areas.
- For any significant transactions outside normal course of operations the auditor should inquire from management about the potential involvement of a related party. Evaluate the validity of reasons documented to carry out the transactions and ensure that they are accounted for and approved appropriately. The auditor should treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.
- Where additional legislative requirements are applicable auditors should ensure that that management has obtained authorization and approval from the legislature, the finance ministry, or a „parent" or sponsoring department. This procedure may apply irrespective of whether the transactions are significant or outside the normal course of operations.
- Auditor should obtain sufficient appropriate evidence that related party transactions are conducted at terms equivalent to those prevailing in an arm's length transaction. *(ISSAI 1550.12;13;14;15;16;17;18;19;20;23;P14;P15;P16)*

An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present because fraud may be more easily committed through related parties. The fact that management maybe is not aware of all the transactions and the fact that fraudulent activities may be concealed adds to the inherent limitations of an audit to detect material misstatements. Professional skepticism is important here in order to identify risks. *(ISSAI 1550.5;6;7)*

Auditors have to make reference to any legislative requirements which are applicable to public sector entities and employees in respect of related party transactions. Such legislation may prohibit entities and employees from entering into transactions with related parties. There may also be a requirement for public sector employees to declare their interests in entities with which they transact on a professional or commercial basis. Where such legislative requirements exist, the audit procedures would need to be expanded to detect instances of non-compliance with these requirements.

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial statements. This should be done even if the relevant financial reporting framework does not require any specific disclosures. Where there is any indication that material transactions have been entered into with related parties, the auditor should perform modified, extended or additional audit procedures as are appropriate to audit the validity, completeness and accuracy of such transactions and ensure that fair presentation have been achieved. *(ISSAI 1550.4; 20)*.

Identification of undisclosed related parties

If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions. *(ISSAI 1550.21)*

If the auditor identifies related parties which were not disclosed by or know to management:

- The auditor should communicate to other members of the audit team.
- When there are requirements on management with respect to related parties:
    - Request management to identify all transactions with the newly identified related parties for further evaluation; and
    - Inquire why the auditee's controls (if any) over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;
- Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions.
- Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary.
- If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit. *(ISSAI 1550.22)*

Procedures for significant related party transactions

For identified significant related party transactions outside the entity's normal course of business, the auditor shall:

- Inspect the underlying contracts or agreements, if any, and evaluate whether:
    (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
    (ii) The terms of the transactions are consistent with management's explanations; and
    (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and

- Obtain audit evidence that the transactions have been appropriately authorized and approved. *(ISSAI 1550.23)*

If management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion. *(ISSAI 1550.24)*

Where the applicable financial reporting framework establishes related party requirements, the auditor shall obtain written representations from management and, where appropriate, those charged with governance that:

- They have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
- They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework. *(ISSAI 1550.26)*

Unless all of those charged with governance are involved in managing the entity, the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties. *(ISSAI 1550.27)*

The auditor shall include in the audit documentation the names of the identified related parties and the nature of the related party relationships. *(ISSAI 1550.28)*

Reporting

In forming an opinion on the financial statements the auditor should evaluate:

- Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
- Whether the effects of the related party relationships and transactions prevent the financial statements from achieving fair presentation or cause the financial statements to be misleading *(ISSAI 1550.25)*

If the auditor is unable to obtain sufficient appropriate audit evidence concerning related parties and transactions with such parties or concludes that their disclosure in the financial statements is not adequate, the auditor should modify the auditor's report appropriately.

3.3.13 Sustainability of services considerations

How is the going concern assumption applicable in public sector?

Sovereign governments, and in particular, sovereign central governments, ordinarily do not become legally insolvent or bankrupt because these governments have wide-ranging powers to levy rates, fees or taxes and so are able to adjust their revenues to meet their obligations. Nevertheless, in some cases governments may have substantial net liabilities relative to the size of the economy or their ability to levy rates, fees, or taxes, or may be substantially dependent upon assistance from other governments. Such governments can become 'insolvent' in the sense of not being able to meet their obligations when they become due when, for example, the rescheduling of obligations is not possible. *(ISSAI 1570 P3)*

The appropriateness of the use of the going concern assumption in the preparation of the financial statements is also important for public sector entities with no funding arrangements backed by a central government. When such arrangements do not exist, or where central government funding of the entity may be withdrawn, the existence of the entity may be at risk. As governments privatise government entities or wind up and dissolve specific entities going concern issues will become increasingly relevant to the public sector. In some cases auditors may have a specific mandate to report on the auditee's arrangements to maintain its general financial standing. *(ISSAI 1570 P5; P7)*

When looking at going concern in public sector, entities lacking appropriate funding or spending more than their resources cover are affected differently to their private sector counterparts. A public sector entity will not necessarily go 'out of business' but rather it will not be able to continue operations and deliver the required services to the public or to other public sector entities. This may manifest differently in practice:

- Lack of delivering on primary mandate of the entity (such as lack of health services provided, closing of schools)
- The lack of ability to attract the right level of skills as a result of lack of funding (nurses are appointed instead of doctors),
- Lack of ability to pay creditors including consultants who perform work on behalf of the entity which has a negative impact on economics of the country on an overall level. *(ISSAI 1570 P6)*

Factors which may influence the auditor's assessment of risk:

- Risk of changes in government policy
- Operational risk such as insufficient working capital to continue operations. *(ISSAI 1570 P8)*

Auditors should be aware that changes in government policies may have a significant impact on the status and functions of the auditee. Indicators relating to the existence of material uncertainties - such as cash flow problems and lack of funding usual relationships identified in the financial statements (e.g. liabilities exceeding assets) should be evaluated during the strategic planning stage of the audit. The auditor should consider the period under audit for this assessment *(Refer to SP 10. Sustainability of services checklist)*. *(ISSAI 1570.13) (ISSAI 1570 P10)*

In obtaining an understanding of the entity, the auditor should consider and obtain sufficient and appropriate audit evidence whether there are events or conditions and related risks which may cast significant doubt on the entity's ability to continue delivering services as required. When material uncertainties are found the implication for the auditor's report should be considered. *(ISSAI 1570.6;9;10)*

The auditor should remain alert for audit evidence of such events or conditions in performing audit procedures throughout the audit. *(ISSAI 1570.11)*

Risk assessment procedures

When performing risk assessment procedures the auditor should consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue delivering services as a going concern. To identify such events or conditions the auditor should perform the following audit procedures:

- Ascertain whether government has declared its intention to review an area of policy affecting the audited entity and whether a review has been undertaken or in progress and whether any announcements have been made as to the entity's future. *(ISSAI 1570 P9)*
- Review management's assessment of the risk for the financial year of the entity's ability to continue delivering services as planned. This would usually be done through a risk assessment covering the entire year. Consider whether management's assessment is in line with the auditor's understanding of the entity. *(ISSAI 1570.12; 13; 14)*
- If such an assessment has not yet been performed, the auditor should inquire of management whether they are aware of any events or conditions which may cast significant doubt on the entity's ability to continue as a going concern in delivering services. *(ISSAI 1570.10)*
- Inquire from management about events or conditions and related risks existing beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue service delivery. *(ISSAI 1570.15)*
- Obtain management representations to confirm management's views relating to going concern.

- Gather evidence on the specific indicators of service delivery problems and determine if a material uncertainty exists relating to events or conditions that alone or in aggregate, may cast significant doubt on the entity's ability to deliver services. *(Refer to working paper SP 10. Sustainability of services checklist)*

Additional procedures when events or conditions are identified

When events or conditions have been identified which may cast significant doubt on the entity's ability to continue delivering services the auditor should:

- Direct management's assessments to the area of risk if such assessment has not been done.
- Review management's plans for future actions, records of changes of policy and relevant proceedings of the legislature. *(ISSAI 1570 P12)*
- Gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered necessary, including considering the effect of any plans of management and other mitigating factors.
- Consider any additional information which became available since the date on which management made its assessment.
- Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action:
  - Evaluating the reliability of the underlying data generated to prepare the forecast;
  - Determining whether there is adequate support for the assumptions underlying the forecast;
- Obtain written representations from management regarding its plans for future action. However, management of the entity may not be fully knowledgeable regarding the future financing of the auditee. Auditors may consider a direct confirmation from the department or executive responsible for providing financial backing or future funding to the entity. *(ISSAI 1570.16) (ISSAI 1570 P11)*

If based on the above procedures it is concluded that a material uncertainty exists which casts significant doubt on the entity's ability to continue as a going concern, management should provide appropriate disclosures in the financial statements on the nature and implications of the uncertainty. This is important to achieve fair presentation of the financial statements, or in the case of a compliance framework for the financial statements not to be misleading. Auditors should consider whether the disclosures:

- Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal operations. *(ISSAI 1570.17; 18)*

If adequate disclosure was made in the financial statements regarding the material uncertainty which is required by the financial reporting framework, the auditor should express an unqualified opinion with an emphasis of matter paragraph highlighting the material uncertainty drawing attention to the disclosure note in the financial statements. *(ISSAI 1570.18;19;P13;P14)*

If adequate disclosure is not made in the financial statements in line with the requirements of the financial reporting framework, or management is unwilling to make or extend its assessment when requested to do so by the auditor, a qualified or adverse opinion should be expressed, as appropriate. The auditor would also express an adverse opinion if in the auditor's judgment the entity will not be able to continue as a going concern. *(ISSAI 1570.20;21;22;P15;P16)*

The auditor should communicate with those charged with governance any events or conditions identified that may cast significant doubt on the entity's ability to continue delivering services as planned. Such communication with those charged with governance shall include the following:

- Whether the events or conditions constitute a material uncertainty;
- The adequacy of required disclosures. *(ISSAI 1570.23)*

If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor should consider the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the additional audit procedures described above should be performed to consider the existence of a material uncertainty. *(ISSAI 1570.24)*

In addition to the above responsibilities, where there is a significant uncertainty affecting continued service delivery of an entity regularity auditor may obtain advice from the performance audit unit of OAG.

3.3.14 Assessing the risks of material misstatement

Risk of material misstatement refers to the fact that the financial statements maybe materially misstated prior to audit. The risk of material misstatement consists of two components, namely:

- Inherent risk – The susceptibility of a class of transaction, account balance or disclosure to a misstatement that could be material.
- Control risk – The risk that a material misstatement could occur and go undetected by the entity's internal control. *(ISSAI 1200.13m)*

Throughout the strategic planning process and the whole audit the auditor should identify risks of material misstatement. The risks of material misstatement should be assessed at the financial statement and assertion levels. For this purpose the auditor:

- Identifies risks by considering the entity and its environment, including relevant controls, and by considering the classes of transactions, account balances, and disclosures in the financial statements;
- Relates the identified risks to what can go wrong at the assertion level; and
- Considers the significance and likelihood of the risks. Significant risks require special audit consideration or risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. The auditor is required to evaluate the design of the entity's controls, including relevant control activities, over such risks and determine whether they have been implemented. *(ISSAI 1315.25-26)*

When identifying and assessing the risks of material misstatement auditors may take into account additional matters such as:

- The fact that the identification and assessment of risks at the financial statement level and the assertion level may include issues related to the political climate, public interest and program sensitivity.
- The fact that the assertions for classes of transactions, account balances and disclosures may be expanded to include assertions that transactions and events have been carried out in accordance with legislation or proper authority. (ISSAI 1315 P17)

Significant risks that require special audit consideration

As part of the risk assessment, the auditor should determine which of the risks identified are, in the auditor's judgment, risks that require special audit consideration (such risks are defined as "significant risks"). *(ISSAI 1315.27)*

The application of the following criteria can be used to determine whether the identified risk is significant:

- Risk of fraud (e.g. susceptibility of assets to misappropriation);
- Motivation to misstate results;
- Relation to recent significant economic, accounting or other developments;
- Non-routine or unusual transactions, outside normal course or operations;
- Transactions involving related parties;

- Complex transactions;
- Significant estimations with high degree of subjectivity; and
- Audit adjustments or differences in prior year's audit. *(ISSAI 1315.28)*

In deciding on the significance of a risk, the auditor should exclude the effects of identified controls related to the risk.

The following may also influence the fact as to which risks are significant risks:
- Complexity and inconsistency in regulations and directives;
- Non-compliance with authorities;
- The budget process and the execution of the budget;
- The budget in the public sector is an authoritative tool determined by the legislature. Public sector auditors therefore normally include the budget process as an essential part of their understanding of the entity and its environment, and of the risk assessment, rather than only as a management procedure. (ISSAI 1315 P18)

For significant risks, to the extent the auditor has not already done so, the auditor should evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented. This is done during the compilation of system descriptions during detailed planning. *(ISSAI 1315.29)*

Risks for which substantive procedures alone does not provide sufficient appropriate audit evidence

For certain risks the auditor may find that performing substantive procedures alone will not reduce the risks of material misstatement at the assertion level to an acceptably low level. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them. *(ISSAI 1315.30)*

An example for the type of transactions that would require control assessment and substantive audit work is as follows:

An entity that provides services to customers via electronic media (for example, an Internet service provider or a telecommunications company) and uses IT to create a log of the services provided to its customers, initiate and process its billings for the services and automatically record such amounts in electronic accounting records that are part of the system used to produce the entity's financial statements. In this case there is a highly automated processing of routine but significant classes of transactions with little or no manual intervention. In such cases, completeness of income billed need to be identified as a significant risk and controls around the processing should be understood by the auditor.

Revision of risk assessment

The assessment of risks for each assertion and the control reliance per assertion may change during the audit. If, for example, there was control reliance placed on the transactions and controls were tested satisfactorily. During substantive testing however, the auditor detects misstatements in amounts or frequency greater than is consistent with the auditor's previous risk assessments. In such case the auditor would revise the high control reliance to no reliance and perform more extensive substantive tests. *(ISSAI 1315.31)*

3.3.15 Discussion among the engagement team

The members of the engagement team should discuss the overall objectives of the audit and the susceptibility of the entity's financial statements to material misstatements. (ISSAI 1315 P11)

The objective of this discussion is for members of the engagement team to gain a better understanding of the potential for material misstatements of the financial statements, resulting from fraud or error in the specific areas assigned to them, and to understand how the results of the audit procedures that they perform may affect other aspects of the audit including the decisions about the nature, timing and extent of further audit procedures. Auditors with prior experience on the audit should share any significant aspects of these experiences. The discussion among the engagement team members emphasizes the need to maintain professional scepticism throughout the engagement, to be alert for information or other conditions that indicate that a material misstatement due to fraud or error may have occurred, and to be rigorous in following up on such indications.

The person responsible for the audit (in senior/top management position of the OAG) and other key engagement team members should participate in the discussion and determine which matters are to be communicated to engagement team members not involved in the discussion. *(Refer to working paper SP 15. Engagement team discussion document)*

The extent of the discussion is influenced by the roles, experience and information needs of the engagement team members. Professional judgment is used to determine which members of the engagement team are included in the discussion, how and when it occurs, and the extent of the discussion. The key members of the engagement team are ordinarily involved in the discussion including the person responsible for the audit; however, it is not necessary for all team members to have a comprehensive knowledge of all aspects of the audit. In a multi-location audit, for example, there may be multiple discussions that involve the key members of the engagement team in each significant location. Another factor to consider in planning the discussions is whether to include experts assigned to the engagement team. For example, the auditor may determine the need for a professional technology (IT) specialist or any other skills needed on the engagement team and therefore would include that individual in the discussion. Discussions around potential risks relating to fraud may include consideration of the susceptibility of the entity's procurement process to fraud carried out through related parties. Team members from other for example performance audits conducted may also be invited to participate. *(ISSAI 1315.10; P11) (ISSAI 1240 P10) (ISSAI 1550 P9; P10)*

Documentation

The auditor should document:

- The discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to error or fraud, and the significant decisions reached;
- Key elements of the understanding obtained regarding each of the aspects of the entity and its environment, including each of the internal control components, to assess the risks of material misstatement of the financial statements; the sources of information from which the understanding was obtained, and the risk assessment procedures;
- The identified and assessed risks of material misstatement at the financial statement and assertion level; and
- The risks identified and related controls evaluated as a result of the requirements. *(ISSAI 1315.32)*

The auditor should document the overall audit strategy and the detailed audit plan, as well as significant changes to those documents made during the audit and the reasons for such changes. In the public sector, audit documentation may be subject to third party access. As a result, public sector auditors familiarize themselves with relevant legislation and determine the implications on their audit documentation. *(ISSAI 1300 P9)*

3.4 USING THE WORK OF OTHERS

WHAT IS THE OUTPUT FROM THIS?
Evaluate the work performed by:

- Another auditor *(Refer to SP 11. Using the work of another auditor working paper)*;
- Considering the work of internal audit *(Refer to SP 5. Review of internal audit)*
- Using the work of an auditor's expert *and*
- Using the work of management's expert *(Refer to SP 12. Using the work of an expert working paper).*

This part of the manual will provide guidance on:

- ***Assessment of the work performed by internal audit; and***
- ***Using the work performed by another auditor;***
- ***The use of the work performed by an expert.***

3.4.1 Considering the work of internal audit

The external auditor should consider the activities of internal auditing and their relevance, if any, on external audit procedures. It does not deal with individual instances when internal auditors provide direct assistance to external auditors. *(ISSAI 1610.1;2)*

While the external auditor has sole responsibility for the audit opinion expressed and for determining the nature, timing and extent of external audit procedures, certain parts of internal audit's work may be useful to the external auditor.

"Internal auditing" means an appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, monitoring adequacy and effectiveness of internal control. *(ISSAI 1610.7)*

Internal auditing versus external auditing
Internal auditors are employees, therefore form part of the audited entity. Irrespective of the degree of autonomy and objectivity of internal audit, it cannot achieve the same degree of independence as required of the external auditor. The role of internal audit is to monitor and evaluate the internal controls management of the entity put in place. It is the sole responsibility of external audit to express the audit opinion, and that responsibility remains even if internal audit was used. All judgments relating to the audit of the financial statements are those of the external auditor. *(ISSAI 1610.3;4)*

In spite of the differences between internal and external audit, there is a common link between the responsibilities relating to internal controls. The same internal controls that internal auditors evaluate and monitor also form part of the work of external auditors. External auditors should obtain an understanding of these internal controls that were put in place in response to the risks of the audited entity. These controls are documented, and their design and implementation are evaluated and tested. Effective internal audit will often allow external auditors to reduce the extent of external audit work performed.

In addition to the above the external auditors should obtain a sufficient understanding of internal audit activities. This is in order to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures. The external auditor should also perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment. (ISSAI 1610.9;11)

External auditors may also have an extended mandate to audit budgets, compliance with legislation or internal controls. Audits carried out by the internal audit in these areas maybe relevant for external audit. In such cases the public sector auditor may use the work of the internal auditor to supplement the external audit work. *(ISSAI 1610 P3)*

Where the auditee has an internal audit function the external auditor should:

- Determine whether, and to what extent, to use specific work of the internal auditors; and
- If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit. *(ISSAI 1610.6)* *(Refer to SP 5. Review of internal audit working paper)*

When assessing the internal audit function the following is looked at:

- Organisational status and independence from management functions regarding the areas of audit;
- Reporting lines and direct access to those charged with governance;
- Technical competence;
- Scope, nature and extent of audits performed and whether it is adequate for the purposes of the external audit;
- The level of political pressure to conduct audits and report findings;
- Risks of material misstatements for the audited component and specific assertion and the level of subjectivity in evaluating audit evidence;
- Due professional care including planning, supervision, review and documentation of the audits;
- Effective communication between external and internal auditors. *(ISSAI 1610 P4)*

The auditor should conclude whether reliance can be placed on the work of internal audit and determine the nature, timing and extent of reliance. *(ISSAI 1610.8;9;10)*

When planning to use the work of internal auditing, the external auditor will need to consider internal auditor's tentative plan for the period and discuss it at as early a stage as possible. Agreement may be reached relating to the scope, nature and extent of the work to be performed by internal audit.

The evaluation of the specific work performed by internal audit
When the external auditor intends to use specific work of internal audit, the external auditor should evaluate and perform audit procedures on that work to confirm its adequacy for the external auditor's purposes. *(ISSAI 1610.11)*

This evaluation includes the following considerations:

- Professional competence of work performed;
- Whether the work was properly supervised;
- Sufficient appropriate audit evidence obtained;
- Adequate conclusions reached; and
- Whether any exceptions or unusual matters were properly resolved. *(ISSAI 1610.12)*

The external auditor would record conclusions regarding the specific internal auditing work that has been evaluated and the audit procedures performed on the internal auditor's work.

3.4.2 Using the work of the auditor's expert

"Expert" means a person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing and whose work is used by the auditor to obtain sufficient appropriate audit evidence. *(ISSAI 1620.6;7)*

In obtaining an understanding of the entity and performing further procedures in response to assessed risks, the auditor may need to obtain audit evidence in the form of reports, opinions, valuations and statements of an expert. The auditor's education and experience enables him to be knowledgeable about matters in general, but the auditor is not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation, such as an actuary or engineer. The overall responsibility of the auditor to express an opinion on the financial statements of the auditee is not reduced when using the work of an expert. *(ISSAI 1620.3)*

When to use an expert?

Examples of when to use an expert include the following:

- Valuations of certain types of assets, for example land and buildings;
- Determination of amounts using specialized techniques or methods, for example, an actuarial valuation; and
- Legal opinions concerning interpretations of agreements, statutes and regulations. *(ISSAI 1620.8)*

The following may influence the decision whether to use the work of an expert:

- The engagement team's knowledge and previous experience of the matter being considered;
- Additional reporting responsibilities for example on fraud;
- The risk of material misstatement based on the nature, complexity and materiality of the matter being considered;
- The quantity and quality of other audit evidence expected to be obtained; and
- Confidentiality of the entity's information. *(ISSAI 1620 P4)*

The objectives of the auditor are:

- To determine whether to use the work of an auditor's expert; and
- If using the work of an auditor's expert, to determine whether that work is adequate for the auditor's purposes. *(ISSAI 1620.5)*

The nature, timing and extent of the auditor's procedures with respect to the expert's work will be influenced by the following considerations:

- The nature of the matter to which that expert's work relates;
- The risks of material misstatement in the matter to which that expert's work relates;
- The significance of that expert's work in the context of the audit;
- The auditor's knowledge of and experience with previous work performed by that expert; and
- Whether that expert is from within OAG and subject to the quality control processes of OAG. *(ISSAI 1620.8)*

The auditor should evaluate the following:

- Competence, in terms of professional qualification, experience and reputation of the expert in the relevant field;
- Objectivity of the expert including political neutrality; *(ISSAI 1620.9) (ISSAI 1610 P5)*
- The nature, scope and objectives of the work performed for the purposes of the audit; and
- The adequacy of audit evidence; *(ISSAI 1620.10)*
- Significant assumptions and methods applied;
- Reliability of source data used by expert;
- The relevance and reasonableness of the conclusions drawn. *(ISSAI 1620.12) (Refer to SP 12. Using the work of an expert)*

The auditor should include the following information in the terms of reference document:

- The nature, scope and objectives of that expert's work;
- The respective roles and responsibilities of the auditor and that expert;
- The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and

- The need for the auditor's expert to observe confidentiality requirements of the public service and the entity audited and the possible requirement to sign a confidentiality term; *(ISSAI 1620.11;P6;P8;P9)*
- The fact that the expert's report maybe requested from outside OAG to be used for example in investigations. *(ISSAI 1610 P7)*

If the results of the expert's work do not provide sufficient appropriate audit evidence or if the results are not consistent with other audit evidence, the auditor should agree with the expert on further work to be conducted either by the expert or by the auditor. *(ISSAI 1620.13)*

When issuing an unmodified auditor's report, the auditor should not refer to the work of an expert, unless it is required by legislation. *(ISSAI 1620.14)*

If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion. *(ISSAI 1620.15)*

3.4.3 Using the work of management's expert

If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:

- Evaluate the competence, capabilities and objectivity of that expert;
- Obtain an understanding of the work of that expert; and
- Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. *(ISSAI 1500.8)* *(Refer to SP 13. Using the work of an expert)*

3.5 AUDIT CONSIDERATIONS RELATING TO ENTITIES USING SERVICE ORGANIZATIONS

WHAT IS THE OUTPUT FROM THIS?

- To establish guidance to an auditor where the entity uses a service organization;
- Identify the use of service organisations by the audited entity; and
- Consider the use of the auditor's report of the service organisation.

3.5.1 Identification of service level organizations

This section maybe considered when the audited entity outsources some of its functions (such as IT or payroll) to another organisation. Not all of these outsourced functions would be relevant for the regularity auditor. The services provided and the controls over them are relevant to the auditor when they influence the entity information systems linked to financial reporting, compliance with legislative requirements, the maintenance of appropriate internal controls as applicable or the delivery of services. This section does not apply to services provided relating purely to processing of transactions - for example processing transactions by financial institutions or banks. *(ISSAI 1402.2; 5; P5; P7)*

The auditor should consider how an entity's use of a service organization affects the entity's internal control so as to identify and assess the risk of material misstatement and to design and perform further audit procedures. A service organization's services relevant to financial reporting if these services affect any of the following:

- Transactions which materially impact the auditee's financial statements (for example outsourcing of the payroll function impact on the disclosed amounts of salaries and wages);

- The nature and materiality of transactions processed, as well as the nature of the relationship between the user entity and the service organization, public sector auditors may also consider the service organization's role related to the user entity's compliance with authorities, achievement of program objectives and effectiveness of internal control.
- Procedures to initiate, record, process or correct transactions as necessary, transferred to the general ledger and reported in the financial statements;
- Governance and accountability structures between the entities. The degree of accountability of the flow of funds between the two entities which may (or may not) include reporting on whether or not transactions carried out by the service organization are in compliance with the authorities which govern them, and that relevant program objectives have been achieved.
- Related accounting records, either in electronic or manual form, supporting information and specific accounts in the user entity's financial statements that are used to initiate, record, process and report the user entity's transactions; this includes the correction of incorrect information and how information is transferred to the general ledger;
- How the user entity's information system captures events and conditions, other than transactions, that are significant to the financial statements;
- The financial reporting process used to prepare the user entity's financial statements, including significant accounting estimates and disclosures; and
- Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. *(ISSAI 1402.3; P8; P9; P10)*

3.5.2 Considering service level organizations during the audit

The nature and extent of work to be performed by the auditor regarding the services provided by a service organization depend on the nature and significance of those services to the auditee and the relevance of those services to the audit. *(ISSAI 1402.4)*

This part describes:

- ***Objectives of the auditor;***
- ***Considerations of the auditor; and***
- ***Service organisation's auditor's report.***
- ***Responding to the risk of material misstatement***
- ***Reporting***

The objectives of the auditor are:

- To obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and
- To design and perform audit procedures responsive to those risks. *(ISSAI 1402.7)*

The auditor needs to understand how the auditee uses the services of a service organization, including:

- The nature of the services provided and the significance of those services to the auditee, including the effect thereof on the user entity's internal control;
- The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organization;
- The degree of interaction between the activities of the service organization and those of the user entity; and
- The nature of the relationship between the user entity and the service organization, including the relevant contractual terms for the activities undertaken by the service organization. *(ISSAI 1402.9)*

The auditor should understand the internal control relevant to the audit to evaluate the design and implementation of relevant controls at the auditee that relate to the services provided by the service organization. The controls include those that are applied to the transactions processed by the service organization. Understanding gained by the auditor should be sufficient to provide a basis for the identification and assessment of risks of material misstatement. *(ISSAI 1402.10;11)*

If the auditor is unable to obtain a sufficient understanding from the user entity the following procedures may be performed:

- Obtaining a report by the auditor of the service organization conveying reasonable assurance on the controls of the service organization, if available;
- Contacting the service organization, through the auditee, to obtain specific information;
- Visiting the service organization and performing procedures that will provide the necessary information about the relevant controls at the service organization; or
- Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organization. *(ISSAI 1402.12)*

Service organisation auditor's report
When using a service organization auditor's report to understand the internal controls relevant for the audit, the auditor should consider the other auditor's professional competence and the nature of and content of that report. The auditor should be satisfied as to the professional competence and independence of the service organization's auditor from the service organization and the adequacy of the standards under which the report was issued. *(ISSAI 1402.13)*

The report of the service organization auditor will ordinarily be one of two types:

1. Type 1 - Report on the Design and Implementation of Internal Control
    - A description of the service organization's internal control, ordinarily prepared by the management of the service organization; and
    - An opinion by the service organization auditor that:
        - The above description is accurate;
        - The internal control is suitably designed to achieve their stated objectives; and
        - The internal controls have been implemented.

    While Type 1 reports may be useful to the auditor in obtaining an understanding of the internal control, an auditor would not use such reports as audit evidence to the operating effectiveness of controls.

2. Type 2 - Report on the Design, Implementation and Operating Effectiveness of Internal Control
    - A description of the service organization's internal control, ordinarily prepared by the management of the service organization; and
    - An opinion by the service organization auditor that:
        - The above description is accurate;
        - The internal controls is suitably designed to achieve their stated objectives;
        - The internal controls have been implemented; and
        - The internal controls are operating effectively based on the results from the tests of controls. In addition to the opinion on operating effectiveness, the service organization auditor would identify the tests of controls performed and related results.

    Type 2 reports may provide such audit evidence since tests of control have been performed. When the auditors use this report as audit evidence to operating effectiveness of controls, the auditor would consider the relevance of the controls tested to the entity's transactions, account balances, disclosures, related assertions, and whether the service organization auditor's tests of control and the results are adequate. With respect to the latter, the following aspects need to be considered:
    - The period covered by the control tests;

- The time lapsed since the performance of thereof;
- The scope of the work performed, the nature, timing and extent of such tests and whether they provide sufficient appropriate audit evidence for the understanding of the auditee's internal controls relevant to the audit; and
- Determine whether the controls identified are complementary or relevant for the auditee and, if so, obtain an understanding of whether the user entity has designed and implemented such controls. *(ISSAI 1402.14)*

One level of government may provide services to other levels of government. When OAG is responsible for the audit of both the user organization and the service organization, the communication between the service auditor and user auditor may not be subject to confidentiality requirements. This fact may also influence the way the auditor evaluates the work of another auditor. The reporting requirements in this case should be considered during the planning of the audit. *(ISSAI 1402 P11; P12; P13)*

Responding to the risk of material misstatement
The auditor should obtain sufficient appropriate audit evidence concerning the relevant financial statement assertions from records held at the auditee or perform further procedures at the service organization to obtain such evidence. *(ISSAI 1402.15)*

When the auditor's risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures:
Obtaining a type 2 report, if available;

- Performing appropriate tests of controls at the service organization; or
- Using another auditor to perform tests of controls at the service organization to perform tests on behalf of the auditor. *(ISSAI 1402.16)*

If, the auditor plans to use a type 2 report as audit evidence that controls at the service organization are
operating effectively, the user auditor should:

- Evaluating whether the description, design and operating effectiveness of controls at the service organization is covering the correct period appropriate for the auditor's purposes;
- Determining whether complementary controls identified by the service organization which are relevant to the auditee and, if so, obtaining an understanding of whether the user entity has designed and implemented such controls and, if so, testing their operating effectiveness;
- Evaluating the adequacy of the time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; and
- Evaluating whether the tests of controls performed by the auditor of the service organisation and the results thereof, as described in the report, are relevant to the assertions in the user entity's financial statements and provide sufficient appropriate audit evidence to support the user auditor's risk assessment. *(ISSAI 1402.17)*

The auditor should inquire to management whether service organization has reported to the auditee, or whether they are otherwise aware of, any fraud, non-compliance with laws and regulations or uncorrected misstatements affecting the audited financial statements. The auditor shall evaluate how such matters affect the nature, timing and extent of the user auditor's further audit procedures, including the effect on the auditor's report. *(ISSAI 1402.19)*

The auditor should apply consider the same principles to each applicable service organization providing services which are relevant to the audit of the auditee's financial statements. *(ISSAI 1402.18)*

Reporting

The user auditor shall modify the opinion in the user auditor's report when not unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organization relevant to the audit of the user entity's financial statements. *(ISSAI 1402.20)*

The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. Such reference however does not diminish the user auditor's responsibility for the audit opinion which should be specifically stated in the auditor's report. *(ISSAI 1402.21)*

OAGs with judicial role

Public sector auditors in some environments, such as Court of Account, in relation to their judicial obligations, there may be additional considerations for auditors. These considerations may include:

- Assessing the risks of potential non-compliance or misconduct, at either the user entity or the service organization, that may have a material impact on public finances.
- Following stricter rules of evidence when potential irregularities or instances of misconduct are identified, such that relevant requirements for proceeding with a formal judgment are met.
- Providing evidence of such potential irregularities and instances of misconduct to the judicial department of OAG, and cooperating with the judicial department as necessary. Such information is normally provided in the form of a separate report on the audit work performed and the related findings. *(ISSAI 1402 P14)*

SELF CHECKLIST

PART 3: PLANNING

For your purpose:

- ***Have you considered the overall audit strategy such as the scope, timing and direction of the audit?***
- ***Has there been any change to the planning decisions throughout the course of the audit? If so, has it been properly directed, supervised and reviewed?***
- ***Have you gathered sufficient sources of information about the entity and its environment?***
- ***Have you considered audit procedures to assess the risk of material misstatement at a financial statement level?***
- ***Have you also considered audit procedures responsive to risks of material misstatements at the assertion level?***
- ***Have you considered the sufficiency and appropriateness of audit evidence to be obtained?***
- ***Have you set a reasonable level of materiality?***
- ***Did you identify any material misstatement? If so, did you determine the overall conclusion on the financial statements?***
- ***Have you considered audit risk when assessing the level of materiality?***

WORKING PAPERS

SP 1. PLANNING MATERIALITY

Auditee:		Reviewed by	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

Basis for overall materiality

[For example: 1% of gross expenditure is used to calculate overall materiality after transfer payments are deducted in line with SAI policy. Transfer payments are deducted when calculating materiality as these amounts will be audited separately as part of the receiving entity.]

Calculation of overall materiality

Guideline on percentages used for different benchmarks

Gross revenue / receipts	1-3
Gross expenditure	1-3
Total assets	1-3
Equity	3-5

Selected overall materiality basis	% used	Amount from financial statements	Overall materiality
Gross revenue / receipts	*1-3*		0

Clearly trivial misstatement

[calculate the amount under which errors and misstatements are deemed to be clearly trivial]

Overall materiality ($)	% used	Clearly trivial cutoff
	1	

Performance materiality

Risk of material misstatatment on a FS level	% used	Performance materiality
RMM is low	75%	
RMM is medium	50%	
RMM is high	25%	

Reconciliation to the Lead schedule (where necessary)

	$
Basis used for overall materiality *i.e. Gross expenditure*	
Adjustments *i.e. Less Transfer payments*	
Amount used to calculate overall materiality	

Financial statement items which require smaller overall materiliaty than identified above:	Provide reasons for the specific materiality	Specific materiality ($)

Qualitative materiality factors

[I.e. non-compliance with legislative or regulatory requirements, fraud identified or matters in the public interest]

SP 2. LEAD SCHEDULE

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

ITEMS FROM FINANCIAL STATEMENTS / BUDGET	ACCOUNT VALUE (ERN)	WILL ITEM BE INCLUDED AS A SEPARATE AUDIT COMPONENT? (YES / NO)	IF NOT AUDITED EXPLAIN REASONS
Revenue			
Funds received from government			
Other income			
Expenditure			
Goods and services			
Subsistence and travelling			
Administrative expenditure			
Compensation for employees			
Salary payments			
Overtime			
Allowances			
Appointments			
Resignations / terminations			
Inventory			
Asset management			
Equipment and machinery			
Furniture and fittings			
Computer equipment			
Other fixed structures (e.g. roads, etc.)			
Land and buildings			
Transfer payments			
Contracts			
Liabilities			

[Insert all further components, for example those identified by transversal theme i.e. budgets, HIV / AIDS etc.]			

SP 3. PRIOR YEAR'S AUDIT MATTERS

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

No.	Source of the finding *[Management letter, Auditor's report, PAC reports. Also indicate whether it was a qualification issue]*	Particulars of paragraph *[Insert paragraph – summarise where applicable]*

The following risk areas carry a higher risk due to previous audit findings:

[All risks identified will be taken to the Risk of material misstatement on financial statement level working paper. The implementation of recommendations relating to these areas need to be followed during detailed planning and fieldwork]

Issues raised by previous auditors

[*Document issues raised by previous auditors from* ***discussions*** *and / or Matters for attention* ***during*** *next year's audit working paper from previous file****]***

SP 4. PRELIMINARY ANALYTICAL REVIEW

[This working paper is to be completed on excel spreadsheet]

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

AUDIT COMPONENTS *[As per Lead schedule]*	Current year figures	Current year budget	Difference between actual and budget *[Actual less Budgeted amount]*	% difference *[(Actual less budgeted amount) / budgeted amount]*	Prior year	Difference current vs prior *[Actual less prior year amount]*	% difference *[(Current year actual less prior year) / prior year figure]*	Explanations of variances over 10%
	ERN '000	ERN '000	ERN '000		ERN '000	ERN '000		
REVENUE								
SALARIES AND WAGES								
Salary payments								
Overtime								
Bonus								
Allowances								
EXPENDITURE								
Goods and services								
Professional services								
Subsistence and travelling								
Administrative								

AUDIT COMPONENTS *[As per Lead schedule]*	**Current year figures**	**Current year budget**	**Difference between actual and budget** *[Actual less Budgeted amount]*	**% difference** *[(Actual less budgeted amount) / budgeted amount]*	**Prior year**	**Difference current vs prior** *[Actual less prior year amount]*	**% difference** *[(Current year actual less prior year) / prior year figure]*	**Explanations of variances over 10%**
	ERN '000	**ERN '000**	**ERN '000**		**ERN '000**	**ERN '000**		
expenditure								
TOTAL EXPENDITURE								
ASSET MANAGEMENT								
Equipment and machinery								
Furniture and fittings								
Cultivated assets								
Computer equipment								
Other fixed structures (e.g. roads etc)								
Land and buildings								
TOTAL ASSETS								
LIABILITIES								
DEVELOPMENT EXPENDITURE								

The following risk areas have been identified in this working paper:

[All risks identified will be taken to the of Risk of material misstatement on financial statement level working paper]

SP 5. REVIEW OF INTERNAL AUDIT

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

Assessment questions		Result Yes/No	Record of work done	Wp. Reference
Overall evaluation				
1.	Does the audited entity have an internal audit function?			
2.	Does the Internal Audit Unit (IA) contain an adequate proportion of competent, properly trained and experienced auditors as per minimum requirements set by the audited entity?			
3.	Is there adequate allocation of staff and other resources that correspond with the IA needs?			
4.	Does internal auditor’s report directly to the accounting officer or external oversight mechanisms (audit committee) where applicable?			
5.	Is the IA function separated from the operations of the audited entity?			
6.	Is there a written provision from the accounting officer providing IA unrestricted access to all records, assets etc. of the audited entity?			
7.	Does the IA carry out its functions in compliance with the public financial regulations?			
8.	Is there a formal document (charter) including the scope, responsibilities, purpose of IA?			
9.	Does the scope of IA include evaluating and reporting on internal controls applicable to identified high risk areas as identified by management?			
10.	Does the scope of IA include the consideration of the following for each audited area: • Compliance with applicable laws and regulations; • Reliability of reported information; and • Efficiency, economy and effectiveness of operations.			
11.	Does IA prepare annual plans for their audits?			

Assessment questions		**Result Yes/No**	**Record of work done**	**Wp. Reference**
12.	Does IA submit progress reports on a regular basis to the accounting officer and audit committee to you show progress against the plan?			
13.	Has IA performed and finalised all the planned audits for the financial year?			
14.	Is there a documented audit approach followed for the IA assignments?			
15.	Does IA have a documented audit approach that is in line with applicable standards for IA?			
Evaluation of specific audits performed				
16.	Has IA performed any audits relevant to the scope of this audit?			
17.	If yes, have relevant audit programmes and sample items for the audit been identified?			
18.	Are there files containing adequate and detailed documentation (including working papers) for the audit and evidence for findings in the auditor's report?			
19.	Are reasons for performing each test, the result and the conclusions documented?			
20.	Are conclusions supported with adequate and sufficient audit evidence?			
21.	Is there evidence that the work performed has been reviewed?			

Conclusion on overall functioning of internal audit:

Conclusion on specific work performed by internal audit

Audits performed by internal audit	Is this relevant to the audit? (Yes / No)	Can reliance be placed on the audit of this area by internal audit? (Yes / No)
[list all audits covering the period under audit]		

SP 6. AUDIT COMMITTEE CHECKLIST

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

AREAS FOR CONSIDERATION		Result Yes/No	Record of work done	Wp. Ref
	Note all applicable legislative requirements relating to audit committees.			
1.	Confirm whether the entity has an audit committee. *(If no audit committee has been or are in the process of being established, do not continue with the questionnaire. If the entity are in the process of establishing an audit committee, confirm that the aspects in the questions below have been considered)*			
2.	Confirm that the audit committee has a documented and approved terms of reference making provision for the: • Membership of the committee; • Attendance and frequency of meetings; • Roles and responsibilities; • Reporting procedures and responsibilities.			
3.	Inspect the terms of reference and confirm that the following roles and responsibilities are provided for:			
3.1	Understand and assess the overall risks the entity is facing.			
3.2	Review the adequacy of internal controls management has put in place regarding financial control, accounting systems and reporting.			
3.3	Review the entity's compliance with all relevant legislation and statutory requirements.			
3.4	Approving the internal audit charter.			
3.5	Review of the interim (half-year) and annual financial statements.			
3.6	Regular communication with the external auditors and the review of management letter and other reports.			
3.7	Review of any significant findings of internal investigations and management response thereto, including the reports of internal audit.			
3.8	Oversee the proper functioning of internal audit in terms of resources, standing within the entity; and adequacy of audit programs.			
3.9	Confirm whether there are mechanisms in place to hold the audit committee accountable to the oversight body for its performance.			
4.	Inspect the CVs or profiles for the audit committee members and confirm whether:			
4.1	Majority members, including the chairperson of			

AREAS FOR CONSIDERATION		Result Yes/No	Record of work done	Wp. Ref
	the committee are independent or non-executive members.			
4.2	Members have relevant qualifications and experience as required. (The majority of the members should have financial qualifications)			
5.	Confirm that the audit committee met regularly (at least twice a year).			
6.	Confirm whether the committee met with the external auditors at least once without the executive members from the entity present to ensure that there is no unresolved issue of concern.			
7.	Confirm that the committee has explicit authority to investigate any matters within its terms of reference, the resources needed to do so and full access to information.			
8.	Confirm that the committee is able to obtain external professional advice and invite outsiders with relevant experience to attend if necessary.			
9.	Confirm that the head of internal audit directly reports to the audit committee and attend the audit committee meetings.			
10.	For any termination of membership during the year inspect evidence that the board or executing authority concur with the termination and identify premature terminations.			
11.	By reviewing the minutes of the audit committee meetings, and other evidence confirm that the audit committee has effectively discharged its responsibilities in respect of the following **duties /functions**:			
	Adequacy and effectiveness of the systems of internal and financial control, accounting practices, and auditing processes			
11.1	Review the design and implementation of internal control procedures in the entity for major areas including asset, expenditure and revenue management.			
11.2	Review risk management and related policies (where applicable).			
11.3	Review financial statements in terms of compliance with prescribed accounting framework.			
11.4	Review the Overall Audit Strategy of the OAG to ensure that it is the audit will address any concerns of the councillors or accounting officer, as applicable.			
11.5	Review the external auditors' management letter including management responses.			
11.6	Review and approve the scope and the implementation of the internal audit plan.			
11.7	Assess the effectiveness of internal audit.			
	Communication between the council / board, management, internal and external auditors			

AREAS FOR CONSIDERATION		Result Yes/No	Record of work done	Wp. Ref
11.8	Met regularly with internal and external auditors.			
11.9	Discussed the extent and timing of the external auditors' proposed audit coverage.			
11.10	Advised the council / board on any significant accounting and auditing problems identified by the external auditors.			
11.11	Reviewed the extent of the external auditors' planned reliance on the work of internal auditors.			
11.12	Reviewed and approved management requests for extra work to be carried out by the internal auditors in particular areas of the accounting and control systems.			
11.13	Evaluated whether management appropriately addressed material weaknesses in internal control, identified during the year, by internal and external audit.			
11.14	Discussed any communication from management regarding their processes for identifying and responding to the risks of fraud in the entity.			
11.15	Communicated to the external auditor, any fraud, suspected fraud or fraud investigation currently being conducted.			
11.16	Discussed any concerns about the nature, extent and frequency of management's assessment of the accounting and control systems in place to prevent and detect fraud, with the external auditor.			
11.17	Discussed any concerns that a risk that the financial statement may be materially misstated may exist.			
11.18	Notified the relevant oversight (e.g. council /executing authority) when the accounting officer has been implicated in fraud, corruption or gross negligence.			
11.19	Submitted minutes of the audit committee to the oversight body.			
	Inspect proof that the audit committee has reviewed the financial statements and reports with regards to:			
11.20	Compliance with statutory requirements and the financial reporting framework.			
11.21	Resolution of significant or unusual accounting and auditing problems and adjustments highlighted by management and/or the internal or external auditors.			
11.22	Changes in accounting policies during the year.			
11.23	Reviewed unusual circumstances or events, significant commitments or contingent liabilities reflected in the financial statements or in the disclosure notes.			

The following risks have been identified:

[All risks identified will be taken to the of risk of material misstatement on financial statement level working paper]

SP 7. FRAUD CHECKLIST

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

#	Nature and extent of audit procedures	Record of work done	Risks identified	Wp Ref
1.	Identify and document the risk management processes for identifying and responding to the risks of fraud in the entity. These include risks assessment processes.			
2.	Review documentation of management's assessments (such as risk assessments, special/forensic reports etc) and determine whether management has identified any risks of material misstatement and / or is aware of any fraud, suspected fraud or fraud investigation currently being conducted.			
4.	Review management's risk assessment and identify whether any areas of the financial statements which were identified as high risk areas as a result of fraud. Obtain reasons from management and evaluate whether high risk is appropriate for the purposes of the audit.			
5.	Evaluate the evidence that management is assessing the internal controls and that adequate actions have been taken to address material weaknesses identified during the year.			
6.	By enquiry with relevant officials / other parties document any concerns about the nature, extent and frequency of management's assessment of the internal control systems in place to prevent and detect fraud. *[Is there evidence of management assessing the internal controls on a regular basis?* *Are actions taken to address any weaknesses identified in the internal controls?]*			
7.	By discussion with other non-management personnel, determine whether unusual pressure is being exerted by management with the intention of overriding any internal controls that may exist. *[For example management personnel often take payment advices from the finance section to authorise payments without*			

#	Nature and extent of audit procedures	Record of work done	Risks identified	Wp Ref
	validity checks by the payment clerk]			
8.	Scrutinise the general ledger to identify transactions that are unusual (e.g. outside normal operations, the account balances appear for the first time) or complex (e.g. the transaction(s) that involve multiple or related entities etc). Where such transactions have been identified:			
8.1	Inquire from management about the rationale for undertaking these unusual transactions and inspect related documentation.			
8.2	Evaluate reasonableness of the explanations provided for undertaking these unusual or complex transactions.			
8.3	Consider whether the transactions point to a risk area and document this where necessary.			
8.4	Enquire from those charged with governance whether they are aware of these transactions and the rationale behind undertaking them.			
9.	Inspect contracts of major customers / group of customer and where possible confirm these terms directly with major customers/group.			
10.	Enquire from the auditee's finance / procurement personnel whether there has been any major expenditure incurred or revenue received near to the financial year end and their knowledge of any unusual terms or conditions associated with these transactions.			
11.	Identify the following accounts or transactions from the financial statements as a separate audited component:			
11.1	Journal entries (especially when large number of entries passed around year end)			
11.2	Significant accounting estimates requiring management bias			
11.3	Bad debts written off			
11.4	Subsistence and travelling			
11.5	Payments for overtime worked			
12	Inspect previous audit documentation, documents of the auditee, interview previous auditors (where applicable) and consider whether any of the following indicators may be applicable or has been identified:			
12.1	Past irregularities or manipulations by management.			
12.2	Evidence of theft or misuse of assets by management (e.g. for private purposes).			

#	Nature and extent of audit procedures	Record of work done	Risks identified	Wp Ref
12.3	Management living beyond their means.			
12.4	Instances where management denied access to records, facilities, certain employees, customers, vendors, or third parties outside the entity from whom audit evidence might be sought.			
12.5	Complaints by management about the conduct of the audit, any intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.			
12.6	Unusual delays by the entity in providing requested information.			
12.7	An unwillingness to add or revise or correct financial statements.			
12.8	An unwillingness to address identified deficiencies in internal control on a timely basis (audit finding are repeated / remained outstanding).			
12.9	Unwillingness by management to permit the auditor to meet privately with those charged with governance.			
12.10	Frequent changes in accounting estimates that do not appear to result from changed circumstances.			
12.11	Tolerance of management towards violations of the code of conduct.			
	[Set out any additional audit procedures relating to identifying of fraud risks here]			

The following risk factors have been identified:

[All risks identified will be taken to the of Risk of material misstatement on financial statement level working paper]

SP 8. INTERNAL CONTROL CHECKLIST (Excluding IT internal controls)

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

	Control aspects	Yes	No	Record of work done	WP ref.
Control environment					
1	Are there related public sector entities which: • Fall under the control of the auditee. • Fall under the control of the same person (ie Minister) who is in charge of the auditee. If yes, list the related entities and their relationships to the auditee. Document the related parties in the Overall Audit Strategy working paper.			*[for example: meeting with Ms X Chief Finance Officer on 03-09-0x. Inspected annual report for list of disclosed related parties]*	*[B12 annu-al report]*
2	Has management identified, or aware of any significant transactions between the auditee and any of the identified related entities? *If yes, document the transactions identified and evaluate whether these transactions lead to risks. Include the reference of the working paper where the work is documented in the last column. If significant risk is been identified, related transactions should be subjected to further audit work.* If management has not identified any transactions even though related parties do exist, consider further work to be done on this aspect.				
3	Does the auditee prepare the following documents:				
	• Strategic plan				
	• Operational plans				
	• Detailed budgets				
4	Is the organisational structure of the auditee clearly defined by means of an approved and updated organisation chart? Note: organisational chart need to relate to the level of the entity on which the audit opinion is provided (e.g. for the entire Ministry, Local Authority)				
5	Are the responsibilities of different levels of management and their roles in decision-making, documented and communicated to all staff?				

	Control aspects	Yes	No	Record of work done	WP ref.
6	Is there a documented delegation of powers from the accounting officer detailing authority and responsibilities as well as reporting relationships and authorisation hierarchies?				
7	Are any main functions of the auditee outsourced to third parties? For example payroll, asset management or maintenance, internal audit etc. (Refer to par. 3.5 for more detail on identifying and auditing service level organisations)				
8	If important functions have been outsourced is there a valid service level agreement documented and signed by management and the third party?				
9	Has management promulgated a code of conduct for employees in the organisation during the period under review? Inquire to employees. The code of conduct should be emphasised by management to employees on a regular basis.				
10	Have the audited entity timely fulfilled all relevant external reporting requirements? For example, financial statements submitted for audit, specific reports required by oversight in form of expenditure reports, management accounts, forecasts, etc.				
11	Has management interpreted relevant regulations / instruction and included the requirements in its own documented and approved policies and procedures providing for the following: (a) Human resources, to regulate matters such as orientation, training, promotions, and compensation;				
	(b) Minimum qualification / experience criteria for recruiting skilled and competent staff;				
	(c) Training and continuous development of employees;				
	(d) Skills retention and monitoring of the competency of staff in place to ensure that skilled and competent staff is retained and assessed; and				
	(e) Disaster recovery plan or business continuity plans.				
12	Is there an annual performance evaluation process including:				
	a) Annually revised performance contracts for key personnel (including the accounting officer);				
	b) Employment contracts for key employees;				
	c) Job descriptions for each post or group of				

Control aspects		Yes	No	Record of work done	WP ref.
	posts;				
	d) Performance contracts for key employees; and				
	e) Regular (at least annual) performance reviews.				
13	Are instances of non-performances identified and dealt with?				
14	Is there a low vacancy rate for the auditee?				
15	Is the staff turnover generally perceived to be low and acceptable?				
16	Has management provided reliable responses in the past to requests by auditors for information and explanations?				
The auditee's risk assessment process					
17	Does the auditee has a documented and approved risk management policy?				
18	Have formal risk assessments been performed on a regular basis (e.g. at least twice a year depending on the size and nature of the audited entity)?				
19	Is there a direct correlation between the risks identified by management and those identified during the audit? *Reconcile risks identified during the current or prior year's audit.*				
20	Have the risk assessment identified and addressed at least the following areas: (a) Asset management;				
	(b) Revenue management (completeness of revenue);				
	(c) Expenditure management;				
	(d) Personnel management;				
	(e) Fraud; and				
	(f) Service delivery (e.g. failures in delivering services)?				
21	Does management estimate the significance and the likelihood of the risks?				
22	Are clearly documented and specific controls identified in response to the risks? *Note: specific controls should identify responsible persons, documentation and review requirements.*				
23	Does the audited entity have any legislated mandate with respect to environmental matters? *If yes, the auditor should consider using the environmental guideline of AFROSAI-E.*				
24	Does any of the auditee's activities have significant impact on environmental issues i.e. waste generation, water contamination etc. *If yes, the auditor should consider using the environmental guideline of AFROSAI-E.*				
Control activities					

Control aspects		Yes	No	Record of work done	WP ref.
25.	Has management interpreted relevant financial regulations or instructions and developed its own written policies and procedures to guide key processes and controls for the management including: *Note: regulations / instructions applicable to a number of entities in government should be interpreted in the circumstances of the auditee. It is usually not sufficient to use such generic guidance*				
	• Revenue;				
	• Expenditure;				
	• Employee cost / personnel expenditure;				
	• Inventory and assets;				
	• Financial liabilities; and				
	• Major areas of services delivered.				
26.	**Does the above policies and procedures include:**				
	Roles and responsibilities of personnel involved detailing documentation and reporting requirements;				
	Are roles and responsibilities identified to clearly provide for segregation of incompatible functions ie. different persons perform the following activities:				
	• Authorisation;				
	• Processing / recording				
	• Having custody of assets				
	Methods for resolving (correcting) incorrect processing;				
	How system overrides and bypasses should be processed and accounted for; and				
	Processes on how journal entries are passed.				
27.	Have legislative requirements been consulted by management when compiling these policies and procedures?				
28.	Are there processes in place to ensure that significant changes in legislation are reflected in the updated policies and procedures?				
29.	Have policies and procedures been clearly communicated to operational personnel it applies to? Inquire to personnel and identify proof of communication.				
30.	Is segregation of duties maintained during staff absence due to vacation, illness or vacancies?				
Monitoring of controls					
31.	Does management use the reports of internal audit to monitor controls?				
32.	Does management ensure that the following are				

	Control aspects	Yes	No	Record of work done	WP ref.
	performed periodically:				
	(a) Reconciliation between physical and theoretical stock;				
	(b) Reconciliation between the asset count and asset register;				
	(c) Reconciliation between computer systems (for example financial and personnel system); and				
	(d) Bank reconciliation.				
33.	Have major recommendations of internal audit, external audit / management consultants been implemented timely?				
34.	Has management identified key aspects of operations and the information needed (e.g. exception reports) to monitor the operations of the entity?				
35.	Has management been using these reports to monitor key aspects of operations?				
36.	Has management identified non-compliances and was there corresponding correction in the operation of internal control practices? *[Non-compliance include those with the code of ethics and other management policies and procedures]*				
37.	**Gender issues** When the auditee receives donor funding inspect the donor agreement to determine whether there are any requirements relating to managing and disclosing information on gender issues. When this is the case confirm that the auditee complies with the provisions included in the donor agreement.				

The following risks have been identified:

[All risks identified will be taken to the of Risk of material misstatement on financial statement level working paper]

SP 9. IT INTERNAL CONTROL CHECKLIST

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

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

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

List the risks and findings applicable to the auditee from centralised IT audits performed on any application in the table above

For identified application systems, complete the following questions.

Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What could go wrong if control have not been implemented?	Reference to evidence obtained	Comments
Information Technology governance					
1. Does the organization have an IT strategic committee?		Request and obtain ICT strategic committee meeting minutes	The non establishment of an IT strategy committee at the board level could result in IT governance , as part of enterprise governance, not being adequately		
2. Does the organization have an IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan?		Approved IT strategic plan	The non establishment of an IT strategic plan could result in IT goals not contributing to the departments strategic objectives and related costs and risks		
3. Does the organization have an active IT steering committee?		Minutes of meetings	IT governance which forms part of the organizational governance structure are not adhered to		
4. 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		
5. 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		
6. Does the entity make use of service providers? if so, are there service level agreements in place for all vendors to		Obtain a list of outsourced activities and obtain copies of signed service agreements with	The non-establishment of service level agreements could result in poor understanding of IT cost, benefits, strategy, policies, service levels and		

Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What could go wrong if control have not been implemented?	Reference to evidence obtained	Comments
whom IT services has been outsourced.		all service providers, cross check the list with the agreements	not ensuring satisfaction of end users with service.		
Security management					
7. 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 an security policy there is no clear direction to maintain information security across the organisation and to properly safeguard the organisations' assets.		
8. 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.		
9. Is there a process in place to ensure up-to-date security on all systems software (patch management process)		Patch management procedures and process (patches and updates regarding e.g. operating system, anti-virus, firewall, etc., frequency)	The system software could not function properly.		
Program change management					
10. 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.		
11. 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		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		

Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What could go wrong if control have not been implemented?	Reference to evidence obtained	Comments
financial systems?			user requirements.		
12. 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					
13. 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.		
14. 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.		
15. 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					
16. 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.		
17. Are the following environmental controls in place: • Fire suppression systems • Fire extinguishers • UPS, generators, • Air conditioning systems (especially in computer room) • Humidity, temperature control		Observation	If a organisation does not have proper controls in place, the organisation might not recover from an interruption at all or quickly enough.		

Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What could go wrong if control have not been implemented?	Reference to evidence obtained	Comments
systems					
18. 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					
19. Does the entity have a disaster recovery plan?		Approved disaster recovery plan	The auditee might not be able to recover from such disaster.		
20. 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.		
21. 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.		
22. 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		
23. 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					
24. 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 in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.		
25. 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.		
26. Does every user have a unique user name		Lists of active users on the system.	User IDs which are not linked to specific persons could result in a lack		

Focus area	Answer Yes / No	Examples of evidence to be obtained / verified	What could go wrong if control have not been implemented?	Reference to evidence obtained	Comments
			of accountability		

Conclusion

The following risks have been identified:

[All risks identified will be taken to the of Risk of material misstatement on financial statement level working paper]

SP 10. SUSTAINABILITY OF SERVICES CHECKLIST

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

	Through discussions with management and inspecting relevant documentation determine whether:	**Risk identified** **Yes / No**	**Record of work done**	**W.p. Ref.**
1.	All staff holding key positions or having capabilities key to the operations of the auditee have been retained, or when such employee has left the entity there has been appropriate replacement arranged during the financial year. *[Consider the impact of the resignations on the future of the entity, and determine through inquiry from knowledgeable persons whether the replacement personnel will be able to fulfil the requirements of their new positions]*			
2.	Key suppliers on which the auditee relies upon in the process of delivering services are likely to carry on supplying the auditee. If not, consider whether alternative sources have been identified by the auditee.			
3.	Press clipping and publications have indicated poor service delivery or (potential) misconduct at the auditee. *[Document instances of negative publicity and identify audited components affected]*			
4.	There have been labour difficulties/work stoppages during the financial year.			
5.	There have been excessive dismissals, or any abnormal wage reductions.			
6.	The auditee’s budget has remained reasonably the same compared with last year with adequate provisions for inflationary increases and new requirements?			
7.	All primary projects or programmes are to be continued in the foreseeable future and whether the scope thereof has been reduced significantly			
8.	Inspect government letters or statements detailing the amounts that the entity will receive in the following financial year			
9.	Consider the external economical environment and its potential impact on the auditee’s			

	Through discussions with management and inspecting relevant documentation determine whether:	**Risk identified** **Yes / No**	**Record of work done**	**W.p. Ref.**
	operations, including the following areas:			
9.1	Impact of recessions and potential lack of funding			
9.2	High inflation levels			
9.3	Economic and political changes with the intention to review decisions affecting the status and functions of the auditee			
9.4	Intention to privatise the entire or part of the functions of the auditee			
10.	Identify pending legal proceedings against the auditee that may, if successful, have significant financial impact on the operations of the auditee. *[For significant legal proceedings and relating contingent liabilities obtain external confirmation from external parties such as lawyers or attorneys]*			
11.	Consider whether the entity is experiencing increasing levels of bad debts and the impact this may have on the operations.			
12.	Inspect proof that management regularly assess cash flows and make proactive plans to maintain required liquidity.			
13.	Inspect the financial information of the auditee and determine whether the following scenarios have been applicable for the auditee:			
13.1	Expenditure exceeding revenue resulting in liabilities building up.			
13.2	Liabilities increasing			
13.3	Cash flow problems due to non-receipt / collection of revenue			

Conclusion

The following risks have been identified: *[All risks identified will be taken to the of Risk of material misstatement on financial statement level working paper]*

SP 11. USING THE WORK OF ANOTHER AUDITOR

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

STEP 1

Identify material component(s) of the financial statements audited by another auditor	Name of other auditor responsible for the audit of the above component(s)	Amount

STEP 2

Consider the professional competence of the other auditor

Through discussions with the other auditor and any relevant third parties, consider the following:

Aspects to consider	Yes / No	Source of information / working paper reference
The other auditor has common membership of a professional organisation		
The other auditor has affiliation with another reputable firm		
Has the auditor relevant qualifications and experience in the audit field		
Whether the other auditor uses ISAs to perform the audit		

When taking the above into consideration, is the professional competence of the other auditor adequate?

Yes	No

If answer is yes, continue to Step 3 and perform the following procedures to ensure that reliance can be placed on the work of the other auditor. If the answer is no, either insert conclusion (Step 4) that no reliance can be placed on the work of the other auditor and raise an exception on scope limitation or consider the performance of audit procedures, including the re-performing the work of the other auditor.

STEP 3

Consider the work performed by the other auditor

Nature and extent of audit procedures	Remarks	WP Ref.
1. During the planning phase of the audit inform the other auditor and obtain written representations relating to of the following: • Independence requirements relating to the component and to the audited entity; • Audit approach of the other auditor including significant risks identified and the coverage of all assertions; and • Legislative, accounting, auditing and reporting requirements.		
2. Inform the other auditor of the following: • The use that is to be made of the other auditor's work and report; • Areas requiring special consideration; • Procedures for identification of inter-company/inter-departmental transactions that require disclosure; and • Timetable for completion of the audit.		
3. Obtain and review a written summary, supporting schedules and working papers of the other auditor. Review work performed and determine whether the audit objectives have been achieved and the significant risks have been adequately covered.		
4. Review appropriateness of audit evidence for all significant findings.		
5. Where no reliance can be reasonably placed on the work performed partially or whole, document any (additional) tests of the records or financial information of the component audited by the other auditor.		

STEP 4

Conclusion

Provide a conclusion for the audit objective, based on procedures performed.

Document conclusion here: e.g. reliance on the work of the other auditor can be placed. However additional procedure(s) will be performed to cover the completeness assertion.

Or

Reliance on the work of the other auditor cannot be placed – This may result in a scope limitation, or the performance of additional procedures will be necessary.

Summary of significant findings of the other auditor

Significant finding	Is this finding significant to financial statements of entity as a whole? Yes / No	Refer to exceptions raised
Summarise any significant findings of the other auditor.		*Raise exceptions for findings relating to the component.*

SP 12. USING THE WORK OF AN EXPERT

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

STEP 1: Determine the need to use an expert

Identify areas requiring the work of an expert	Amount / Balance	Is amount / balance material? Yes / No	Is other audit evidence appropriately covering the audit objective? Yes / No	Is work of an expert necessary? Yes / No
E.g. actuarial valuations *Legal opinions* *Work completed on contract in progress*				*If the balance is material and no alternative procedures can be performed to get assurance the answer here will be Yes.*

Name(s) of expert(s)

[Enter expert(s) name(s) here]

Step 2 and 3 should be completed for the work performed by each expert.

STEP 2 and 3: Audit Procedures

Nature and extent of audit procedures	Record of work done	WP Ref.
Professional competence and objectivity of the expert		
Through discussions with the management of the audited entity, the expert and any relevant third parties, obtain proof or consider the following: • Professional certification or licensing by, or membership in, an appropriate professional body; • Experience and reputation in the field in which the auditor is seeking audit evidence.		
Through discussions with the management of the audited entity and the expert consider whether the independence of the expert have been compromised by any of the following:		

Nature and extent of audit procedures	Record of work done	WP Ref.
• Employment by the entity being audited. • Any relationship with the audited entity. E.g. financial dependency upon the entity or having an investment in the entity.		
Where concern is raised about the competence or objectivity of the expert: • Discuss any reservations with management • Consider any compensating measures instituted by management to ensure the reliability, integrity and appropriateness of the work of the expert.		
Scope of the expert's work		
Obtain sufficient appropriate audit evidence that the scope of the expert's work is adequate for the purposes of the audit by reviewing the written instructions given to the expert by the entity / auditors (if applicable) or through discussions with the expert. Consider and document the following: • the objectives and scope of the expert's work • the general outline as to the specific matters the auditor expects the expert's report to cover • the intended use by the auditor of the expert's work • the extent of the expert's access to appropriate records and files • clarification of the expert's relationship with the entity, if any • confidentiality of the entity's information • information regarding the assumptions and methods intended to be used by the expert and their consistency with those used in prior periods.		
Assessing the work of the expert		
Document the financial statement assertion for which the work of the expert may be used as audit evidence		
Assess the reliability of the source of the data used by the expert: • Enquire as to what procedures were undertaken by the expert to establish whether the source data is complete, relevant and reliable. • Review or test the data used by the expert.		
Obtain an understanding of the assumptions and methods used and consider and document whether or not they are appropriate and reasonable, based on the auditors knowledge of the business and the results of other audit procedures.		
Document any other audit procedures relating to using the work of an expert here.		

STEP 4: Conclude on the work of the expert

[Conclude whether the work of the expert provide sufficient and appropriate audit evidence *If not, insert additional procedures which need to be performed]*

Nature and extent of further audit procedures	Record of work done	WP Ref.
Where the expert's work **does not** provide sufficient appropriate audit evidence or the results are not consistent with other audit evidence: • Resolve the matter through discussions with management and the expert; or • Apply additional audit procedure, which may include engaging another expert • Raise an exception on the grounds of insufficient audit evidence and consider an appropriately modified audit opinion.		

STEP 5: Modifying the auditor's report

Where a modified auditor's report is issued and a reference is made to the work of the expert (e.g. identifying the expert and the extent of the expert's involvement) obtain permission from the expert for this disclosure.		
Where the expert does not wish to give permission for the disclosure consider seeking legal advice.		

SP 13. RISK OF MATERIAL MISSTATEMENT ON A FINANCIAL STATEMENT LEVEL

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1**			
Prepared by:		**Level 2**			
Rank:		**Level 3**			
Date:					

Working paper where the risk was identified	**Risk of material misstatement(s) identified** *[Include details on each risks identified for the working paper* ***Include each risk separately]***	**Audited component(s) on what the risk has an impact** *[Consider whether the risk impacts on an audited component. Include the audit component and transfer to the system description of the relevant component]*	**Is further work required to identify the impact of the risk on audited component? Yes / No** *[If yes, include working paper reference]*	**WP ref** *[refer to system description for the relevant component or wp where the further work is performed]*
Prior years' audit matters				
Preliminary analytical review				
Review of internal audit				
Audit committee checklist				
Fraud checklist				
Internal Control Questionnaire				
IT Internal Control Questionnaire				
Sustainability of services checklist				

Conclusion

Risk of material misstatement at financial statement level is:
[Select appropriate option e.g. High; Medium or Low risk]

Confirm whether the RMM identified here is the same as the risk score which was included in the Annual Overall Audit Plan. Refer to Module 1 Part 3 for more detail.

When RMM is concluded to be high indicate which of the following overall responses will be applied:

Overall responses	**Yes**	**No**	**Wp references**
Apply increased the level of professional scepticism during			

Overall responses	**Yes**	**No**	**Wp references**
the audit. Remind audit staff about this principle.			
Assign higher level / better qualified / experienced audit staff to specific tasks or consider the use of experts			
Increased level / frequency of staff supervision and review			
Increase the unpredictability of timing of audit programs performed			
Vary the timing of audit programs performance (interim date or after financial year-end)			
Obtain more persuasive audit evidence i.e. use external rather than internal confirmations			
Perform additional audit programs			

SP 14. OVERALL AUDIT STRATEGY

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

1. INTRODUCTION

1.1 The objective of the Overall Audit Strategy is to ensure that an effective and efficient audit is performed, including the timeous identification of the need and role of specialists. The Overall Audit Strategy is compiled based on cumulative audit knowledge and experience, as well as important matters, which has come to the attention of the auditors.

This document is considered to be valuable, as it should ensure that all expectations are met and that the strategy takes full cognisance of significant management concerns.

1.2 During the planning phase of our audit we will address the following important matters:

- Terms of reference
- Audit risk
- Materiality
- Information systems environment
- Control environment
- Reliance on internal control
- The accounting policies and laws and regulations
- Identification of components which should be audited.
- Identification of risk per component
- Identification of audit approach
- Project management

2. TERMS OF REFERENCE

2.1 Primary reporting responsibility

The annual financial statements for the year ended *[insert the applicable date]* and the notes to thereto will be audited in terms of *[insert applicable legislative reference]*. The preparation of financial statements in line with the *[insert the applicable reporting framework]* of the *[name of audited entity]* and the maintenance of the effective internal control measure are the responsibility of the *[Insert relevant title e.g. Accounting Officer / Council]*.

OAG is responsible for the audit and report on the financial statements in accordance with the audit approach of the Auditor-General that complies with the International Standards of Supreme Audit Institutions (ISSAIs).

2.2 Extent of report

In terms of the ISSAIs the *[Name of the SAI]* is required to report and express an opinion on the annual financial statements of the *[name of audited entity]*. All matters raised in the previous year's financial statements must be followed-up and reported on.

A regulatory audit will be carried out and will consist mainly of the following:

- The extent to which the financial statements fairly present the *[name of audited entity]*'s activities for the year.
- The accuracy, quality and completeness of the accounting records kept
- That authorised expenditure is substantiated by sufficient and acceptable documentation.
- Sufficient and applicable internal control procedures are in place and maintained.
- Compliance with regulations, policies, acts and other directives.
- Compliance with the budget control procedures.

2.3 Compliance Audit

[include detail only if a compliance audit is planned]

A compliance audit includes an examination on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations that are applicable to the *[name of audited entity]*.

2.4 Report to management

Weekly or monthly feedback will be given to management on the progress of the audit and weaknesses identified during the audit. The scheduled meetings are as follows:
[Indicate planned dates if applicable]
a:
b:
c:
d:

A management letter will be issued on weaknesses noted during the course of the audit. After the interim audit an interim management letter will be issued and be discussed with management on *[Indicate planned dates if applicable]*. A final management letter will be issued on *[Indicate planned dates if applicable]*.

The draft report will be discussed on the *[Indicate planned dates if applicable]*.

2.5 Audited entity's expectations

The management of the *[name of audited entity]* will be informed of any internal control weaknesses noted during the conduct of the audit, the effect thereof and any deviations from the prescribed accounting procedures. All queries will be discussed with the *[include title of the designated officer e.g. Treasurer/CFO]* at the scheduled meetings. Audit queries should be followed up by management to ensure prompt feedback to the audit team including necessary actions to be taken.

2.6 Specialised audits

Performance auditing *[Indicate if a performance audit will be done at the entity]*

IT Audit *[Indicate if an IT audit will be done at the entity]*

3. KNOWLEDGE OF THE ENTITY

3.1 General Background

Postal address of audited entity: Physical address of audited entity

General telephone:

Fax numbers:

Banking details:
Bank name: Type of account: Bank account number:

Attorney details:
Name: Address:

3.2 Mandate and purpose of the entity

3.3 Appropriate legislation

[List key acts and regulations, government policies and requirements of the audited entity that will affect the audit]

Laws and Regulations:

Other applicable instructions, circulars etc.:

Accounting framework:
[also document any changes in legislated requirements from prior period]

3.4 Management structure

[List the details of the accounting officer/council, key financial personnel, directors, head of internal audit etc.]

Name	**Rank**	**Telephone number**	**Fax number**	**e-mail address**

3.5 Organisational structure

[Include details / organogram of the organizational structure]

3.6 Size of entity

Total staff composition:

Total expenditure budget: Total income budget: Sites, regional offices:

3.7 Operations of the audited entity

Nature of the entity's operations: Major suppliers of products and services (outsourced to third parties or service level organisations): Allocation of activities to business units and regional offices:

3.8 Related parties

Related entities	Nature of relationship	Nature of significant transactions	Significant risk areas identified
	[for example entities under the control of the same Minister]	*[for example transfer payments]*	

3.9 Reporting environment

Annual report presented by the audited entity to be published together with the financial statements: Monthly reports as required by act *(if applicable)*:

3.10 Prior year's auditor's reports

Risks identified from the management letter(s) of previous year(s): Risks identified from the auditor's report(s) of previous year(s):

3.11 Control environment

[Overall conclusion from the internal control checklist - include details of risks identified]

3.12 Controls around Information Technology

[Include the overall conclusion on IT internal control checklist including details of risks identified. Indicate whether CAATs are going to be used during the audit]

3.13 Overall evaluation of Internal Audit

[Conclusion on Internal Audit]

3.14 Overall conclusion on performance of Audit Committees

[Conclusion on the Audit Committees where applicable]

3.16 Conclusion on sustainability or services delivered

4. PLANNED AUDIT APPROACH

4.1 Nature and extent of audit

Based on the assessment of the risk of material misstatement on a financial statements level to be *[insert results of risk assessment: high, medium or low]*. This assessment of such risks will have an impact on the sample sizes drawn during detailed testing.

As far as possible the risks identified on the financial statement level will be transferred to the audit individual components. These risks will impact the assessment of risk for the audited component and the planned audit approach for the component.

4.3 Timing of audit

[Include whether an interim and / or final audit will be performed and the timing of them]

4.4 Audit components

The following components were identified:
(List components identified e.g.:
Revenue
Expenditure
Transfer payments
Personnel expenditure
Assets]

4.5 Materiality

Any error and misstatement which by itself of aggregated with similar errors and misstatements exceeds *[insert amount of materiality]* will be considered material for the purposes of this audit. This figure was calculated based on *[insert what item was the materiality calculated on].*

Due to our other audit responsibilities findings relating to non-compliance of legislation, fraud or control deficiencies will be evaluated by considering the nature of the finding.

4.6 Planned regional visits

[If applicable, indicate the planned regional visits and how the relevant locations were selected.]

4.7 Use of specialist and/or experts

[If applicable, list the external experts that will be involved during the audit, stating the extent and necessity of their involvement, e.g. tax experts etc.]

[Indicate whether the IS auditors will be used and the extent of involvement required]

4.8 Involvement of other auditors

[If applicable, list other auditors that will be involved e.g. work done by regional offices of the SAI, auditors of subsidiaries or divisions]

5. ADMINISTRATION

5.1 Meetings and communication with management of the audited entity

Formal communication is established between the OAG and the management of the audited entity, in order to accomplish a sound co-operation between these parties. The following persons are invited to participate in the meetings:

Name	***Position***	***Contact details***
<u>Audited entity:</u>		
	e.g. Accounting officer	
	Chief Financial Officer etc	
<u>Audit Office:</u>		
	Audit director	
	Audit Manager	
[List all other persons as needed]		

5.2 Target dates

[The table below should contain the relevant dates for the communications with the management of the audited entity and dates for the key deliverables on both sides. Dates included here should be the same as communicated in the Audit engagement letter. Include all commitments made. See inserted examples]

No.	Activity	Responsibility	Target date
1.	Commence with audit planning	Team Leader	
2.	Meeting between OAG and management of the audited entity to discuss the Overall Audit Strategy	*Management of the audit team and the audited entity at relevant levels*	
3.	Request information from audited entity	Team Leader	

No.	Activity	Responsibility	Target date
4.	Commence with interim audit *[if applicable]*	Audit director	
5.	Submit information requested for audit	Management of the audited entity	
6.	Issue interim management letter to audited entity *[if applicable]*	Audit director	
7.	Submit written response to interim management letter to OAG *[if applicable]*	Accounting Officer	
8.	Meeting between the OAG and management of the audited entity to discuss the management letter findings	*Management of the audit team and the audited entity at relevant levels*	
9.	Send requests for third party confirmations	Audit Manager	
10.	Commence with final audit	Audit Manager	
11.	Submit financial statements and supporting file (incl. Trial balance, lead schedules) to auditors.	Management of the audited entity	
12.	Issue management representation letter	Accounting Officer	
13.	Issue final management letter	Manager	
14.	Submit written response to management letter to OAG	Accounting Officer	
15.	Meeting between the OAG and management of the audited entity to discuss the management letter findings	*Management of the audit team and the audited entity at relevant levels*	
16.	Issue approved auditor's report to audited entity	Manager	

5.3 Administrative Matters

[For internal information only]

PROJECT ID

BUDGETED AUDIT HOURS

Activity	Hours
Pre-engagement activities	
Planning	
Execution	
Conclude and Report	
Project Management	

BUDGETED AUDIT COST

AUDIT TEAM

Name	Rank	Telephone number	Fax number	e-mail address

SP 15. ENGAGEMENT TEAM DISCUSSION DOCUMENT

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

Date of discussion: *[Insert date]*

List of team members participating in the discussion:

Name	Rank

Discussion Aspect	Resolution / notes
Characteristics of the engagement (i.e. Legislative and financial eporting framework; locations of the auditee).	
Reporting objectives (i.e. Deadlines; Key Dates: Final Reporting; Discussions with Management).	
Important factors that will determine the focus of the engagement team's efforts (i.e. materiality; the control environment assessment particular risk areas of material misstatement and other developments).	
Implications to modify the overall audit strategy.	
Nature, timing and extent of the direction and supervision of engagement team members and review thereof including the level of IT utilisation by audit staff.	
FRAUD	
How and why financial statements may be susceptible for fraud including the identification of: • Areas or audited components of the financial statements may be susceptible to fraud. • How management could perpetrate and conceal fraudulent financial reporting. • How assets of the entity could be misappropriated. • The circumstances that might be indicative of earnings management and the practices that if encountered, might indicate the possibility of fraud.	
A consideration of the known factors which: • Create an incentive or pressure for management or others to commit fraud • Provide the opportunity for fraud to be perpetrated. and • Indicate a culture or environment that enables management or others to rationalize committing fraud.	
A consideration of management's involvement in overseeing employees with access to cash or other assets susceptible to	

Discussion Aspect	Resolution / notes
misappropriation.	
A consideration of any unusual or unexplained changes in behavior or lifestyle of management or employees which have come to the attention of the engagement team.	
Audit considerations such as: • Maintaining a proper state of mind throughout the audit regarding the potential for material misstatement due to fraud. • How an element of unpredictability will be incorporated into performing audit procedures • Which types of audit procedures are more effective than others to detect fraud. • Allegations of fraud that have come to the auditor's attention. • The risk of management override of controls.	
Insert any other matters discussed and resolutions reached	

SP 16. QUALITY CONTROL QUESTIONNAIRE FOR STRATEGIC PLANNING

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

Questions		ISSAI Ref.	*1st level reviewer*				*2nd level reviewer*				*3rd level reviewer*			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
1.	Have all material balances in the financial statements been identified for audit coverage and cross referenced to the final audited financial statement? *(Refer to working paper SP 2. Lead schedule working paper)*	ISSAI 1315												
2.	Have prior year's issues been identified as risk areas? *(Refer to working paper SP 3. Prior year's audit matters working paper)*	ISSAI 1315												
3.	Was an acceptable materiality level set for the audit in accordance with OAG policy? *(Refer to working paper SP 1. Planning materiality working paper)*	ISSAI 1320												
4.	Were qualitative materiality factors appropriately identified and documented? *(Refer to working paper SP 1. Planning materiality working paper)*	ISSAI 1320												
5.	Was the internal audit department and their work adequately evaluated and concluded on? *(Refer to working*	ISSAI 1610												

	Questions	ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
	paper SP 5. Review of internal audit working paper)													
6.	If it was intended to rely on the work performed by internal audit, was the work evaluated and tested to confirm its adequacy? *(Refer to working paper SP 5. Review of internal audit working paper)*	ISSAI 1610												
7.	When use was made of the experts work did the auditor obtain sufficient, appropriate audit evidence that such work is adequate for the purposes of the audit? *(Refer to working paper SP 12. Using the work of an expert working paper)*	ISSAI 1620												
8.	Were fraud risk factors considered and identified? *(Refer to working paper SP 7. Fraud checklist)*	ISSAI 1240												
9.	Were preliminary analytical procedures performed and were conclusions on risks adequately drawn? *(Refer to working paper SP 4. Preliminary analytical review working paper)*	ISSAI 1315												
10.	Were the IT internal controls evaluated? *(Refer to working paper SP 9. IT Internal Control Checklist)*	ISSAI 1315 ISSAI 1230												
11.	Were appropriate considerations given to the sustainability of services or going-concern? *(Refer to working paper SP 10. Sustainability of Services working paper)*	ISSAI 1570 ISSAI 1230												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
12.	Did the audit team obtain knowledge of the entity, including laws and regulations?	ISSAI 1250												
13.	Was a meeting held with the engagement team to discuss the susceptibility of the financial statements to material misstatement due to fraud or error? *(Refer to working paper SP 15. Engagement team discussion document)*	ISSAI 1240												
14.	Were all the risks identified in strategic planning working papers, including risk of material misstatements, assessed and proposed response indicated (linked with audit components)? *(Refer to working paper SP 13. Risk of material misstatement on a financial statement level working paper)*	ISSAI 1315												
15.	Was an appropriate conclusion documented regarding the risk of material misstatement on a financial statement level and was the possible change to the engagement risk adequately mitigated? *(Refer to working paper SP 13. Risk of material misstatement on a financial statement level working paper)*	ISSAI 1220 ISSAI 1230												
16.	Was overall audit strategy document • prepared • approved • communicated to the audit team and • discussed with the auditee's	ISSAI 1300 ISSAI 1220 ISSAI 1315												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
	management? *(Refer to working paper SP 14. Overall Audit Strategy)*	ISSAI 1240												

PART 4 – DETAILED PLANNING AND FIELDWORK

4.1 DETAILED PLANNING

WHAT IS THE OUTPUT FROM THIS?

- Identify the processes to be audited;
- Identify the key risks and controls relevant to each component *(Refer to working paper DPF.1. System description for components)*; and
- Decision on the most suitable audit approach to obtain audit assurance e.g. whether the controls will be tested or substantive tests will be performed *(Refer to working paper DPF 2. Reliance on key controls for components and DPF 3. Audit programs).*

4.1.1 Detailed audit plan

The detailed audit plan does not consist of a single document. It includes the documentation of the nature, timing and extent of audit procedures to be performed and documents the following for each audited component:

- Procedures as necessary to obtain the relevant audit assurance covering all relevant assertions and requirements of the mandate of the audit (For example reporting non-compliance with certain laws or regulation relating to budget or procurement); (ISSAI 1330 P6) and
- The extent of testing based on the assessed inherent and control risks.

The auditor is responsibility to design and perform audit procedures in response to the risks of material misstatement identified and assessed during strategic and detailed planning. The purpose of the detailed plan is to reduce the risk of material misstatement to an acceptable level. *(ISSAI 1330.1;3)*

Although the auditor ordinarily establishes the overall audit strategy before developing the detailed audit plan, the two planning activities are not necessarily discrete or sequential processes but are closely inter-related since changes in one may result in consequential changes to the other. For example, planning of the auditor's risk assessment procedures ordinarily occurs early in the audit process. However, planning of the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures.

Performance of audit procedures identified in the detailed plan should only begin once the procedures and coverage have been reviewed and approved. However, the auditor may begin performing the audit procedures for certain audit components if these procedures were reviewed and found to be adequate even if not all of the other components have been approved.

The auditor's procedures in response to assessed risks (extent of audit testing)
The purpose of this part in the manual is to provide guidance on determining overall responses and designing and performing further audit procedures. In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level. In addition, the auditor should design and perform further audit procedures to respond to assessed risks at the assertion level. *(ISSAI 1330.5;6)*

When considering the nature, extent and timing of audit procedures to be performed auditors should refer to Annexure E – Fraud risks and suggested controls for selected audit areas.

This part of the manual will provide guidance on:

- ***Understanding the importance and reasons for Systems descriptions and the results from the process;***
- ***Determine overall responses to address risks of material misstatement at the financial statement level and provides guidance on the nature of those responses;***
- ***Determining audit procedures responsive to risks of material misstatements at the assertion level;***
- ***Evaluating the sufficiency and appropriateness of audit evidence obtained; and***
- ***Documentation of considerations and conclusions.***

4.1.2 Systems description

The auditor's responsibility at this stage is to document the operations of the organisation for each audited component. This is critical to the remainder of the audit and determines, amongst others, the type of audit tests e.g. test of controls as well as the nature of such procedures. The systems descriptions after completion should inform anyone who reads it as to the risks and controls, as well as an assessment of those risks and controls. The risks and controls relate to the point of transaction within its life cycle. For example, the risks relating to the procurement of an asset are specific and different to those surrounding the usage of the same asset.

The system description is one of the most crucial tools providing auditors with understanding of the key processes followed giving rise to the audited components. The processes should be looked at from a risk perspective in order to evaluate the adequacy of internal controls. As internal controls are normally prescribed by regulation, auditors are able to identify potential non-compliances with prescribed processes.

The system description is the first step to detailed planning and should be completed for all components. It starts with the identification of key activities in the transaction life cycle. After this risks and management controls that should be instituted for the risks are documented. This working paper requires a lot of insight and knowledge and therefore should have the involvement of audit personnel at least on an audit manager level. This working paper also forms the basis for reporting issues by providing recommendations for substantive findings and contains relevant information to inform the right decisions throughout the audit. Therefore more detailed guidance is provided in this manual on the completion of this working paper.

Legislation & internal policies of the auditee

The first requirement before completing the System description working paper is for the auditors to identify the legislative requirements applicable for the relevant component. Commonly the requirements relating to any audit component (such as fixed assets) are determined as follows:

- Legislation or policy issued by government relating to the audited component; and
- Internal policy or procedures of the audited entity.

Normally, legislation is a high level instruction whilst the internal policy will be more detailed including operational aspects. Legislation and internal policy should always be complimentary and not contain any contradictory instructions. Legislative requirements are normally straight forward and easy to obtain. Internal documents of the entity may take different forms such as policies and procedures or instructions. Auditors should evaluate the actual practices of the audited entity to both the legislation and the internally generated instructions.

The following scenario may apply to the audit:

No.	Levels of instructions	Auditor’s actions
1.	There are both legislative and internally prescribed processes and/or instructions applicable to the component or activity.	Assess whether the internally prescribed processes is in line with the legislation. Assess whether the actual processes followed are in line with the internally prescribed processes.
2.	No applicable legislation for the activity or component, only internally prescribed processes and/or instructions.	Take the internally prescribed processes and assess actual processes followed against this framework.
3.	No applicable legislation or internally prescribed processes and/or instructions for the activity or component.	Establish a ‘best practice’ (what should be done) against which the actual practices are assessed.

Transaction life cycle, risks and controls

The auditor would obtain and study the above legislation and internally prescribed processes which would help to understand the activities comprising the transaction life cycle. The transaction life cycle should document the processes relating to the audited component (e.g. fixed assets). This includes what should be done (or the ‘best practice’). The prescribed activities should form the basis for the completion of this column.

For each documented activity in the transaction life cycle key risks should be identified. Here the question is asked: What can go wrong?

For example, where the activity is identified as ‘Receiving goods’ the risk associated with this may be ‘Loss of goods through theft’. Completing this column is still theoretical and requires an understanding of possible risks the audited entity may face. Since this working paper is completed for each component it is important to keep in mind that only key risks should be identified.

Any of the risks identified in the Inherent risk on a financial statement level working paper that links to the audited component should be included in the system description of the component.

For each identified risk key controls are identified. Management controls include controls that are aimed to prevent the misstatements or errors from happening, or detect them once they already happened. Preventative controls would include a routine procedure to check the condition and quantity of goods received on arrival to the information on the delivery documents. Detective controls would include the independent checks and monitoring of significant transactions (through for example exception reports) by management.

As a rule the preventative controls are the best controls in terms of cost effectiveness. The cost of detective controls includes corrections that need to be made after an error has occurred.

The key controls documented in this column will include both preventative and detective controls that exist in the audited entity. Any legislative requirements prescribing controls to be in place need to be kept in mind.

Annexure A and B of this manual include tables containing examples of transaction life cycles with potential risks and controls for the major components and a list of substantive audit programs. This guidance should be used by auditors as a basis for completing the working papers and will assist in identifying the type of management controls to look for.

Identification of assertions
The assertion that the relevant control addresses should be documented here.

Assertions are statements that the auditors use to focus their audit. Audit components have different risks that are material to the audit. Consequently, when looking at a specific component, the auditor has to be able to identify whether one assertion is more important than the other. For example, testing the existence of assets is more important than testing completeness. In turn completeness of revenue collected is normally more important than evaluating whether a transaction has occurred for the recorded revenue. This may vary on each audit considering the specific risks that may be relevant.

The auditor uses assertions in assessing risks by considering the different types of potential misstatements that may occur, and thereby designing audit procedures that are responsive to the assessed risks.

Assertions about classes of transactions and events for the period under audit:

- Occurrence - transactions and events that have been recorded have occurred and pertain to the entity;
- Completeness - all transactions and events that should have been recorded have been recorded;
- Accuracy - amounts and other data relating to recorded transactions and events have been recorded appropriately;
- Cut-off - transactions and events have been recorded in the correct accounting period;
- Classification - transactions and events have been recorded in the correct accounts; and
- Value for money - transaction or event relating to expenditure represents the economical acquisition as well efficient and effective use of resources.
- Compliance – Transactions and events have taken place in compliance with all relevant laws and regulations.

Assertions about account balances at the period end:

- Existence - assets, liabilities and equity interests exist;
- Rights and obligations - the entity holds or controls the rights to assets, and liabilities are the obligations of the entity;
- Completeness - all assets, liabilities and equity interests that should have been recorded have been recorded;
- Valuation and allocation - assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded; and
- Value for money - transaction or event relating to assets, inventory and liabilities represents the economical acquisition as well as efficient and effective use of resources.

Assertions about presentation and disclosure:

- Occurrence and rights and obligations - disclosed events, transactions, and other matters have occurred and pertain to the entity;
- Completeness - all disclosures that should have been included in the financial statements have been included;
- Classification and understandability - financial information is appropriately presented and described, and disclosures are clearly expressed; and
- Accuracy and valuation - financial and other information are disclosed fairly and at appropriate amounts.

The auditor may use the assertions as described above or may express them differently provided that all aspects described above have been covered.

The following are the control objectives for over the processing of data:

- Recorded-actual transactions are not excluded from the records (completeness).
- Real- fictitious or duplicative transactions are not included in the records (Occurrence).
- Valued- correct monetary amounts are assigned to transactions in the records (Measurement).
- Timely- transactions are reflected in the records in the proper accounting period (month, year etc.) (Completeness, Occurrence).
- Classified- transactions are recorded in the correct general ledger accounts and when applicable, subsidiary ledger accounts (Measurement).
- Summarised- all charges and credits in the underlying financial records are accumulated/ footed correctly (Measurement).
- Posted- accumulated totals are correctly transferred to the general, and where applicable, subsidiary ledgers (Measurement).

In addition to the seven control objectives above, the audit team should verify existence of controls to ensure:

- Compliance with relevant laws and regulations (including the manual for financial management procedures in central and local government entities) (Compliance); and
- Orderly and efficient conduct of the entity's business/ operations (Value for money).

Documentation and responsible personnel

Insert the documentation, screens and forms in the relevant column. This can help later to identify the population on which samples can be drawn. The person responsible for performing the control is also documented here. For each activity identify and document the following:

- Major input sources, documents and records used;
- Data files (e.g. inventory and const master files);
- Important output files, reports and records; and
- Persons responsible to perform the functions.

There are processes that may be cross cutting through the different components such as payments that might be affected in the same way for all expenditure (including payments for goods, salaries, stationary and assets). It will save substantial audit time to identify these processes at the beginning and only do the system description once. The information on payments then can be copied into the working papers for the relevant individual components or left separately in its own working paper.

Decisions made on the system description

1. Is the risk significant?

Once the auditor has documented the risk they will then go on to assess whether the risk is significant. The criteria for significance are:

- Risk of fraud or misappropriation (e.g. if it was found that assets can be lost due to employee theft and there were problems experienced in the past);
- Motivation to misstate results (large incentives for meeting performance targets will motivate non-recording of expenditure to stay within budget);
- Non-routine or unusual transactions with significant human error factor;
- Complex transactions and calculations which are effected manually;
- Significant estimations with a high degree of subjectivity as it would be in the case of a doubtful debt calculation; and
- Audit adjustments or differences in prior year's audit relating to a specific aspect of the relevant component (e.g. asset management).

All identified key risks have to be considered in light of the above list. The decision based on most of the above categories relies on the professional judgement of the auditor. However, due to fraud risk the following areas should be identified as significant risk areas:

- Occurrence of expenditure;
- Completeness of other revenue collected;
- Existence of assets.

If the risk falls into any of the above categories it is identified to be a significant risk. It will then be required that all controls related to the significant risk be assessed and tested.

Please note that identifying significant risk areas will only place **additional emphasis** on these areas. This does not mean that areas without significant risk should be left without auditing.

For example, all internal controls implemented for significant risk areas should be documented by the auditors and their implementation should be tested. It is a requirement for auditors to perform tests of controls for significant risk areas at all times.

2. Have management controls been implemented?

The assessment whether controls have been implemented is done by performing a **walkthrough**. This is done by selecting a transaction which is traced through the transaction life cycle activities with the purpose of identifying whether the key controls have been implemented. Supporting documents are obtained and inspected as proof that all controls have been performed and consequently implemented. The purpose of this exercise is to identify whether the controls documented are actually in place and functioning.

The walkthrough should include all identified controls. If the item selected is not covered by all the controls, another transaction should be selected. For example, it may be prescribed that an IT asset (laptop) should be received by the IT section and not through regular processes. In order to walk through the processes for receiving assets the auditor should select an IT asset in addition to the regular asset. For the activities where the processes are similar for all groups of assets it is sufficient to only use one asset for the walkthrough.

3. When to raise and audit query (exception)?

Audit queries should be raised in any of the following instances:

- Legislation is not translated into operational procedures (e.g. requirements are not operationalised through for example standard operating procedures);
- Processes are in place but not formulised and documented. Undocumented, ad-hoc processes - even if followed diligently by employees - do not facilitate accountability or sustainability;
- Any non-compliance with the legislation or internal policy of the audited entity; and
- Lack of implemented management controls for the identified risks.

Once a documentation of the transaction lifecycle with assessment of risks and controls is made the auditor is in a position to evaluate the controls and design audit tests. It is important that the auditor is aware of the standards required to complete the documentation, this is discussed below.

4.1.3 Reliance on key controls

To facilitate the decision whether to test controls or not, key controls identified in the system descriptions should be grouped together and evaluated for each assertion relevant to the audited component (Reliance on key controls working paper). The decision is whether these controls are designed adequately to prevent, mitigate or correct material misstatement in order to address the risks for each assertion.

Key controls that were identified and found to be implemented when performing the walkthrough should be transferred to the Reliance on key controls working paper, where they are grouped together per assertion. The controls for each assertion are evaluated and the auditor will decide whether the controls are implemented and designed adequately. If the auditor's assessment is that controls are adequate the controls will be tested to evaluate the operating effectiveness of these controls. If controls are found not to be adequate an audit query should be raised by the auditor. In this case the level of control reliance will not be considered.

If it is decided that the controls may be relied upon, the level of preliminary control reliance should be set at either high or medium. The following options are available:

- If the risk is significant the auditor may place **high reliance** on the controls and test controls or **no reliance** when no tests of control can be performed (ie. where controls do not exist);
- In addition, if the risk is not deemed significant then the auditor can place moderate assurance on the controls. The level of reliance (high, medium or none) is based on professional judgement of the auditor. However, if no reliance is stated there should be audit findings raised on the non-existence or non-functioning of the controls.

No reliance is placed on the controls when:

- Audit evidence indicates controls are ineffective, or
- After gaining an understanding of the accounting system the team believes that internal controls are likely to be ineffective, or
- Effective and efficient substantive audit procedures have been identified.

The final reliance on the controls should be documented after the tests of controls and substantive tests reveal that the preliminary control assessment was incorrect. In such instances the control reliance will be restated and the extent of substantive and control testing will be adjusted. Refer to paragraph 4.2 for further guidance on restating control reliance.

4.1.4 Audit programs

The auditor should design and perform further audit programs whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level. *(ISSAI 1330.6)*

The auditor should document the nature, timing and extent of planned audit procedures *(Refer to DPF 3. Audit programs working paper)*. The purpose is to provide a clear linkage between the nature, timing and extent of these audit procedures and the related risk assessment. In designing further audit programs, the auditor considers such matters as the following:

- The significance of the risk;
- The likelihood that a material misstatement will occur;
- The characteristics of the class of transactions, account balance, or disclosure involved;
- The nature of the specific controls used by the entity and in particular whether they are manual or automated; and
- Whether the auditor expects to obtain audit evidence to determine if the entity's controls are effective in preventing, or detecting and correcting, material misstatements. The nature of the audit procedures is of most importance in responding to the assessed risks.

The auditor's assessment of the identified risks at the assertion level provides a basis for considering the appropriate audit approach for designing and performing further audit programs. The higher the auditor's assessment of risk the persuasive audit evidence needs to be obtained. *(ISSAI 1330.7)*

Considering the nature, timing, and extent of further audit programs

Nature

There may be very different audit performed (i.e. tests of controls or substantive procedures) and their type, that is, inspection, observation, inquiry, confirmation, recalculation, re-performance, or analytical procedures. *(Refer to more detailed explanations under par 4.3 Audit fieldwork - obtaining audit evidence)*.

The auditor would have the following options:

- Perform a combination of tests of controls and substantive testing;
- If no reliance can be placed on the internal controls the auditor may get all the assurance required through substantive testing. In some cases though, the auditor may determine that only by performing tests of controls may the auditor achieve an effective response to the assessed risk of material misstatement for a particular assertion.

Certain audit procedures may be more appropriate for some assertions than others. For example, in relation to revenue, tests of controls may be most responsive to the assessed risk of misstatement of the completeness assertion, whereas substantive procedures may be most responsive to the assessed risk of misstatement of the occurrence assertion.

The auditor's selection of audit procedures is based on the assessment of risk. The higher the auditor's assessment of risk, the more reliable and relevant is the audit evidence sought by the auditor from substantive procedures. This may affect both the types of audit procedures to be performed and their combination. For example, the auditor may confirm the completeness of the terms of a contract with a third party, in addition to inspecting the document.

Timing

Timing refers to when audit procedures are performed or the period or date to which the audit evidence applies. Some kind of audit tests such as testing compliance with laws and regulations may be carried out during the year while others such as tests of budget execution normally are completed at year-end. *(ISSAI 1330 P5)*

The auditor may perform tests of controls or substantive procedures at an interim date or at period end. The higher the risk of material misstatement, the more likely it is that the auditor may decide it is more effective to perform substantive procedures nearer to, or at, the period end rather than at an earlier date, or to perform audit procedures unannounced or at unpredictable times (for example, performing audit procedures at selected locations on an unannounced basis). On the other hand, performing audit procedures before the period end may assist the auditor in identifying significant matters at an early stage of the audit, and consequently resolving them with the assistance of management or developing an effective audit approach to address such matters. If the auditor performs tests of controls or substantive procedures prior to period end, the additional evidence required for the remaining period should be considered.

Extent

Extent includes the quantity of a specific audit procedure to be performed, for example, a sample size or the number of observations of a control activity. The extent of an audit procedure is determined by the judgment of the auditor after considering the materiality, the assessed risk, and the degree of assurance the auditor plans to obtain. In particular, the auditor ordinarily increases the extent of audit procedures as the risk of material misstatement increases. However, increasing the extent of an audit procedure is effective only if the audit procedure itself is relevant to the specific risk; therefore, the nature of the audit procedure is the most important consideration.

Valid conclusions may ordinarily be drawn using sampling approaches. However, if the quantity of selections made from a population is too small, the sampling approach selected is not appropriate to achieve the specific audit objective, or if exceptions are not appropriately followed up, there will be an unacceptable risk (sampling risk) that the auditor's conclusion based on a sample may be different from the conclusion reached if the entire population was subjected to the same audit procedure. In determining the sample size, the auditor should consider whether sampling risk is reduced to an acceptably low level. Refer to more detail in the following paragraph on Audit sampling.

Using CAATs to perform the audit
The use of computer-assisted audit techniques (CAATs) such as IDEA or ACL may firstly enable more extensive testing of electronic transactions and account files. Such techniques can be used to select sample transactions from key electronic files, to sort transactions with specific characteristics, or to test an entire population instead of a sample.

Secondly, the use of CAATs may provide a more efficient and costly method of identifying sample sizes and selecting items to test. However, normally the use of CAATs will be limited only to transactions recorded in the ledger. When this is the case auditors should keep in mind that they still have to sample from other sources. For example, auditing completeness of revenue should be done through selecting samples from other sources than the ledger (for example receipts issued).

Even though samples are selected by using CAATs, the System description and the Reliance on key controls working papers should still be completed. The work performed by ACL or IDEA will replace the Sampling worksheet which will not have to be completed. The sample items selected should be included in the Substantive procedures performance working paper in where the performance of the audit program is also documented.

4.1.5 Auditing inventory and segment information

This section applies when auditing certain aspects of inventory and segment information in an audit of financial statements. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:

- Existence and condition of inventory;
- Completeness of litigation and claims involving the entity; and
- Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.
- Value for money in term of efficient and economic use of public resources including the effective management of inventory. *(ISSAI 1501.1;3) (ISSAI 1501 P3)*

Auditing Inventory
When inventory is a material balance in the financial statements, the auditor should attend the physical inventory counting, unless impracticable in order to:

- Evaluate management’s instructions and procedures for recording and controlling the results of the entity’s physical inventory counting;
- Observe the performance of management’s count procedures;
- Inspect the inventory; and perform test counts; and
- Performing audit procedures over the entity’s final inventory records to determine whether they accurately reflect actual inventory count results. *(ISSAI 1501.4) (ISSAI 1501 P4)*

Additional procedures need to be performed when the physical inventory counting is conducted at a date other than the date of the financial statements to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded. *(ISSAI 1501.5)*

In some public sector audit environments, such as a Court of Accounts, public sector auditors may have extended responsibilities for identifying who is responsible for the existence and condition of the inventory, including development and implementation of controls. This may include, where applicable, determining sanctions. *(ISSAI 1501 P6)*

If the auditor is unable to attend physical inventory counting, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions or perform alternative audit procedures regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report. The auditor's response maybe influenced by the fact whether the limitation was imposed by management rather than by for example legislation or regulation. *(ISSAI 1501.6;7) (ISSAI 1501 P5)*

When inventory under the custody and control of a third party is material to the financial statements, the auditor should obtain audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

- Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
- Perform inspection or other audit procedures appropriate in the circumstances. *(ISSAI 1501.8)*

Auditing segment information

When the auditee is required to disclose segment information in the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework. Examples of such segment information would be reporting incomes and expenditures by fund, appropriation, program or category which auditors maybe required to audit. Auditors may be required to issue an opinion on such information either as part of the overall audit opinion or separately. *(ISSAI 1501 P12)*

The auditor should:

- Obtain understanding of the methods used by management in determining segment information, and
  - Evaluate whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework (such as elimination of inter-segment amounts, sales, transfers, charges etc); and
  - Where appropriate, testing the application of such methods; and
- Perform analytical procedures or other audit procedures appropriate in the circumstances. *(ISSAI 1501.13)*

4.2 AUDIT SAMPLING

WHAT IS THE OUTPUT FROM THIS?
Sampling working paper *(refer to working paper DPF 4. Sampling)*

4.2.1 Definition of sampling

After designing tests of controls and substantive tests, the auditor should identify the items or transactions on which to perform the audit procedures, appropriate to the purpose. This should be done in order to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures including when the objective is to evaluate the compliance with laws and regulations. The objective is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected. *(ISSAI 1530.4;9)*

The means available to the auditor for selecting items for testing are:

(a) Selecting all items (100% examination). This may be appropriate when, for example:

- The population constitutes a small number of large value items;
- There is a significant risk and other means do not provide sufficient appropriate audit evidence; or

- The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

(b) Selecting specific items such as high value or abnormal items; and
(c) Audit sampling. *(ISSAI 1500.A52-54)*

Auditors are hardly ever able to test 100% of the items identified for testing. "Audit sampling" (sampling) involves the application of audit procedures to less than 100% of items within a population of audit relevance in such a way that all sampling units have an equal chance to be selected. It is in effect a process at the end of which items to be tested are identified. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Sampling can use either a statistical or a non-statistical approach with the main aim of reducing the audit risk to an acceptably low level. *(ISSAI 1530.1;6;7;8)*

This part of the manual specifically focuses on:

- ***The difference between statistical and non-statistical sampling;***
- ***Sampling process***

- Step 1. Identifying the population to be tested
- Step 2. Identification of high value and abnormal items
- Step 3: Determining the sample size
- Step 4: Selecting items from the population for testing.
- Step 5: Performing the audit procedures
- Step 6: Evaluating sample results

Statistical versus non – statistical sampling approaches
The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's judgment regarding the most efficient manner to obtain sufficient appropriate audit evidence in the particular circumstances.

When applying statistical sampling, the sample size can be determined using either probability theory or professional judgment. Many textbooks suggest that auditors should adopt a statistical approach to audit sampling as it provides the link between the sample size and the certainty of the conclusions. But statistical sampling is very complex and mathematical and only few auditors are really able to understand it.

Moreover, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches. With non-statistical sampling, an auditor uses professional judgment to select the items for a sample.

The methodology prescribed in this manual utilises the principles of non-statistical sampling.

4.2.2 The sampling process

The sampling process includes 6 steps which are discussed in detail below:

Step 1: Identifying the population to be tested
Step 2: Identification of high value and abnormal items
Step 3: Determining the sample size
Step 4: Selecting items for testing
Step 5: Performing the audit procedures

Step 6: Evaluation of sample results

STEP 1. IDENTIFYING THE POPULATION TO BE TESTED

The population to be tested is a class of transactions or transactions underlying an account balance. It is the entire set of data on which the auditor must obtain assurance for the audit opinion. If the audit procedure is not applicable to the selected item, the auditor should perform the procedure on a replacement item. For example when testing the payroll costs individual payments would constitute the population. It is vital that an appropriate and complete population is identified for each procedure. For example, when auditing service bonuses the auditor should exclude the employees without service bonuses from the sample. The population would only constitute employees with service bonuses. *(ISSAI 1530.10)*

Transactions constituting the population should cover the entire financial year. If sampling is done for an interim audit that includes only part of the financial year additional sampling will have to be done during the final audit.

Sometimes it is found that the auditor may sample from the same population to perform different kinds of audit tests. In other words auditors may decide not to draw separate audit samples for each tests but use the same samples already drawn from the relevant population to perform all applicable audit tests. For example, a sample of payments drawn to test controls maybe used to test compliance with authorities, as well as other substantive tests. This may be done as long as the sample sizes remain appropriate in relation to the risk and materiality. *(ISSAI 1530 P5)*

Auditors may need to sample non-financial information as a result of additional public sector audit objectives. For example, if the financial statements of a government hospital use number of patients treated to calculate key performance measures (such as cost per patient), public sector auditors might sample to test the accuracy and completeness of the number of patients reported. To draw a sample for such non-financial information auditors should use the judgmental sampling approach detailed below. *(ISSAI 1530 P6)*

STEP 2. IDENTIFICATION OF HIGH VALUE AND ABNORMAL ITEMS

Stratification is the process of dividing a population into sub-populations with similar characteristics, specifically for substantive testing. During this, for example, the high value transactions will be separated from the population and included in the sample to be tested. When auditing valuation of accounts receivable it can be stratified by aging whereby long outstanding debtors are separated from the population and tested.

When sampling for tests of control, items are selected regardless of their value, with a view to testing the effective functioning of the controls. Stratification may not be used in such cases.

When performing substantive tests the auditor uses sampling to test the amounts in the financial statements. For this purpose the sample frequently consists of items of a higher value. Stratification is a useful aid in that it allows testing of a high proportion in value of the population with relatively few items.

Sampling units are the individual items comprising the population. They may be defined as a document, an entry, a line item, a balance or a transaction. The decision will be based on the practicality of selecting the sampling units.

Detailed tests are performed for either overstatement or understatement. The nature of the assertion being tested generally determines whether one would test for overstatement or understatement. This is also commonly known as the direction of testing. Assertions that normally require the balance to be tested for overstatement include occurrence, accuracy, compliance with laws, rules and regulations as well as valuations. Assertions that normally require testing for understatement include completeness, cut off, value-for-money and disclosure.

When testing for overstatement, selections are made directly from the population being audited. This is because the population will already include the 'overstated' amounts, for example expenses in the general ledger.

For understatement tests, items are selected for examination from an independent population. For example, when testing revenue for understatement or transactions that were not recorded, receipts issued and invoices appearing on debtors' statements will be selected and it should be ensured that these were recorded in the general ledger.

STEP 3: DETERMINING THE SAMPLE SIZE

The auditor should select items for the sample with the expectation that all sampling units in the population have a chance of selection.

The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment objectively applied to the circumstances. This manual will only deal with judgemental sampling for reasons explained above.

Tests of controls
For tests of controls the following table can be used to determine the appropriate sample size:

Type of control	Moderate control reliance	High control reliance
Detailed controls Controls performed randomly – mostly more than once a day e.g. authorization of payment vouchers	30 selections	50 selections
Daily controls Performed once a day e.g. banking, counting cash received etc.	10 selections	20 selections
Monthly controls Controls performed monthly, e.g. bank reconciliations, approval of salary payments	2 selections	5 selections

The following factors affect the number of selections for testing controls:

- The lower the level of reliance placed on the controls tested, the lower the number of selections required
- Where a risk factor has been identified for a specific transaction type, the number of selections will increase

Control testing will only be performed when the auditor is confident that controls for the audit component are adequate. Reference should be made to the decisions in the Identification of key controls working paper.

It is clear that the lower the level of reliance placed on the controls tested, the lower the number of selections required for control testing. Low reliance on controls will require more assurance to be obtained through substantive procedures.

Substantive procedures
When the auditor is required to obtain substantive assurance on the account balance there is a process to be followed.

Firstly, auditors should look at the characteristics of the population and decide whether to use judgmental or systematic sampling to determine sample sizes.

JUDGMENTAL SAMPLING

Judgmental sampling would be applied when:

- Account balance tested has relatively few transactions (up to 150-200 transactions); for example when sampling from 70 asset acquisition transactions for the year.
- No financial amount can be clearly identified, for example, when testing cut-off for expenditure, appointments, resignations, etc.

Note: Auditors should not set their own sample sizes for judgmental sampling! Sample sizes are given in the table below.

The number of transactions to be tested are given, depending whether the transactions in the population are largely routine, daily or monthly generated. The following sample sizes are applicable when judgmental sampling is applied:

	Indication of the number of transactions to be tested		
	No reliance on controls	**Moderate reliance on controls**	**High reliance on controls**
Routine transactions	50	40	30
Daily transactions	20	15	10
Monthly reconciliations	5	3	2

When judgmental sampling is applied auditors do not have to complete working paper DPF 4. Sampling. The sample sizes and the fact that judgmental sampling is used should be documented on working paper 5.7.4 Substantive procedures performance.

SYSTEMATIC SAMPLING
Systematic sampling is normally applicable for large numbers of transactions in the population with similar characteristics. In this case it is most practical for the auditors to obtain the list of transactions in electronic format - excel, which will make sample selection (and also stratification) easier. This sampling method would be applied to expenditure and revenue transactions.
When systematic sampling is chosen the process defined here should be documented in the Sampling worksheet *(Refer to DPF 4. Sampling working paper)* It is as follows:

- Identify and document total account balances (this includes the completeness and integrity of the population) – *(Refer to SP 3. Lead schedule working paper)*;
- Stratify the population by identifying material and unusual items (such as credit balances in debtor accounts);
- Remove the identified material and unusual items (auditor should consider materiality as a guide); and

- Calculate and document the remainder of the account balance.

For the remainder of the account balance the following actions can be undertaken:

- No further tests to be performed (enough assurance is already obtained as per % coverage or number of transactions identified);
- Applying analytical procedures such as comparison of year on year expenditure, month on month, or budgeted to actual expenditure *(Refer to SP 4. Preliminary analytical review working paper*);
- Calculate the sample size to be tested (see further guidance below); and
- Test more significant items (further stratification of the next layer of high value transactions).

The calculation of the sample sizes require information on the control reliance relating to the account balance and the assertion tested. *(Refer to DPF 2. Reliance on key controls for components working paper)*

When the calculated sample size is less than 10 transactions for an account balance, it is advised that a minimum of 10 transactions are selected for testing. This is not applicable when the population consist of a number of items which is less than 10.

Often SAIs require a certain % value coverage on audited balances. If this is the case auditors may have to select additional transactions to obtain the value coverage desired. Auditors should try and ensure that when additional transactions selected for testing all items in the population have equal chance of being selected.

Whenever presenting information on sample sizes a summary should be provided on the account balance and if possible include the total value of the population and the number of items. The sample selected should then (if appropriate) relate back to the population total. The working paper provided assists the auditor in presenting the information.

The sample selection and size will be dependent on the type of account balance. The table below provides examples on identifying the population and considerations in determining the sample sizes for typical account balances.

Account balances (Lead schedule)	**Population**	**Pointers on assurance obtained**
Voted Funds / Revenue received from Government	Amounts received from Government.	Total amounts received and recorded can be agreed to amounts voted / appropriated.
Interest received	Interest received amounts for the year.	Amounts received to be agreed to bank statements Substantive analytical procedure: Reasonability check through recalculating interest on outstanding balances.
Other income	Supporting documents including contracts/agreements or receipts to test completeness;	Substantive analytical procedures, and analytical reviews may provide good (but not complete) assurance. Substantive analytical procedures may include the recalculation of income which should have been received and comparing to what was recorded and banked.
Expenditure	Two sample units:	Contracts/agreements if significant.

Account balances (Lead schedule)	Population	Pointers on assurance obtained
other than personnel costs	Recorded transactions in the ledger (occurrence).	Recorded transactions are compared to valid supporting documentation (occurrence). Usually systematic sampling if followed to sample from items recorded in the ledger.
Personnel costs	○ Employees (occurrence); and ○ Recorded monthly salary (Accuracy, measurement).	Most of the required assurance can be obtained through analytical procedures. E.g. number of staff multiplied by the salary band mid point per month should be compared to amount in financial statements (refer to par 3.3 for the evaluation of analytical procedures). Analytical procedures should be supported by independent testing for existence of staff. Systematic sampling may be applied to the payments in the general ledger. Certain elements of personnel expenditure may require additional assurance due to their specific risk. Judgemental sampling may be applied (when applicable) for the audit of the following: ○ Overtime – Occurrence, accuracy; ○ Service Bonuses – Occurrence, accuracy, existence; ○ Leave – Occurrence, accuracy; ○ Allowances – Occurrence, accuracy; and ○ Appointments/Terminations/Promotions – Occurrence, existence, accuracy.
Fixed assets	○ Line item on fixed asset / inventory register (Existence); and ○ Physical assets (Completeness). In the absence of a register, what are the primary risks? These could be safeguarding and inappropriate utilisation of assets. Sample unit of specific risky items such as laptops should be identified from invoices and checked for key risks.	Systematic sampling for line items in asset register. Focus should be on additions and disposals (judgemental sampling may be applicable) during the year especially if no reporting items on assets were raised in the previous year's audit. Physical inspection of assets back to the register is still essential. Re-performance of depreciation calculation to achieve assurance.

STEP 4: SELECTING ITEMS FOR TESTING

The next step is to identify the items of the population to be tested. Because the purpose of sampling is to draw conclusions about the entire population, the auditor endeavors to select a representative sample by choosing sample items which have characteristics typical of the population, and the sample needs to be selected so that bias is avoided. The following four methods may be used:

Random number sampling
Random numbers may be generated by a computer (CAATs) or may be drawn from a random number table. The use of random numbers gives every sampling unit in the population the same probability of being selected.

Interval sampling
Interval sampling is to select sampling units at uniform intervals throughout the population beginning randomly. The sizes of the population and the sample determine the uniform interval. The number of items in the population is divided by the required sample size to determine the interval. For example, a population of 10 000 items divided by a required sample of 100 items would give a sampling interval of 100. Systematic sampling also gives every sampling unit the same probability of being selected.

Haphazard (judgmental) sampling
In haphazard sampling the auditor selects sampling units with no particular reason for including or excluding particular items. The auditor is warned, however, against distorting the sample by selecting only unusual items, items having one physical characteristic or omitting items such as the first or the last. Normally some form of Judgmental sampling is applied when relatively large error rates are anticipated, or when the total population is not known.

Block sampling
A block sample consists of a group of contiguous sampling units. The auditor should question critically and evaluate carefully the use of block sampling. There are two potential weaknesses in block sampling:

- The improbability of each sampling unit having equal opportunity for selection; and
- Attaining reasonable assurance that the sample is representative of the population. While it may be possible to design a block sample to be representative of the population, it is very likely that it will be inefficient to do so. In summary, the auditor would probably be better off avoiding the use of block sampling.

STEP 5: PERFORMING THE AUDIT PROCEDURES

The auditor should perform audit procedures appropriate to the particular audit objective on each item selected. *(Refer to DPF 4. Sampling working paper)*

If a selected item is not appropriate for the application of the audit procedure, the audit procedure should be performed on a replacement item. For example, cancelled cheques may be selected when testing for evidence of payment authorization. If the auditor is satisfied that the cheques have been properly cancelled and they do not constitute an error, an appropriately chosen replacement is examined. *(ISSAI 1530.10)*

Sometimes however, the auditor is unable to apply the designed audit procedures to a selected item because, for instance, documentation relating to that item has been lost. If suitable alternative audit procedures cannot be performed on that item, the auditor ordinarily considers that item to be either a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of substantive tests. *(ISSAI 1530.11)*

STEP 6: EVALUATION OF SAMPLE RESULTS

The auditor should evaluate the sample results, the nature and cause of any deviations or misstatements identified, and their possible effect on the particular audit objective and other areas of the audit. At the end the auditors should evaluate whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. *(ISSAI 1530.12;15)*

When analyzing the deviations and misstatements identified, the auditor should look out for common features, for example, errors on one type of transaction, location, product line or period of time. In such circumstances, the auditor may decide to identify all items in the population that possess the common feature, and extend audit procedures to those items. In addition, such deviations or misstatements may be intentional, and may indicate the possibility of fraud when auditing significant fraud risk areas such as completeness of revenue, occurrence of expenditure and existence of assets. *(ISSAI 1530 P9)*

Auditors should also consider instances where for example management cannot provide adequate explanations for deviations and misstatements. In some environments such as a Court of accounts environment auditors may be obliged to investigate further the underlying reasons for the lack of information and determine who is responsible. Additional responsibilities may also include reporting on the effectiveness of internal controls and non-compliance with authorities. *(ISSAI 1530 P11; P12)*

In the case of tests of controls, an unexpectedly high sample error rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained. Auditors should re-assess the control reliance to a lower level (i.e. medium or none) for the specific assertion tested *(Refer to working paper DPF 2. Reliance on key controls for components).*

Additional guidance on re-assessing control reliance
When should auditors reassess control reliance?

When testing detailed or daily controls any deviation over 2 would cause an auditor to re-assess the control reliance to a lower level. When testing monthly controls a single deviation could necessitate reassessing control reliance on a lower level.

In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor should obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population. *(ISSAI 1530.13)*

Projecting misstatements
In the case of substantive testing, unexpectedly high rate of misstatements in a sample may cause the auditor to believe that an account balance may be materially misstated. This is the case for example when the total **accumulated errors and misstatements on the account balance projected to the total account balance exceed the tolerable misstatement**. The auditor should document the process of projecting errors and misstatements to the entire population or account balance in the second half of the Substantive audit procedures performance working paper. *(Refer to working paper DPF 8. Substantive audit procedures performance)*. This working paper provides a step by step approach in evaluating the audit

results. The projected error is calculated here, based on the test results documented in the working paper. When the projected errors/misstatements is less than the tolerable errors/misstatements auditors do not take any further action. This indicates that the audit coverage is acceptable. If, however, the projected errors/misstatements is more than the tolerable errors/misstatements auditors need to consider the impact this may have on the audit work. Below is an extract from the Substantive audit procedures performance working paper with relevant guidance for auditors in steps 1-4.

EVALUATION OF AUDIT TEST RESULTS

	ERN
Total account balance audited (**A)**	
Total value of transactions tested **(B)**	
Total value of actual errors and misstatements **(C)**	
Projected errors / misstatements for the population **D=(C/BxA)**	
Tolerable errors / misstatements **(E)**	
Projected - tolerable errors / misstatements **(F)**	
Minimum recommended additional sample items to be selected **(G)**:	

The steps which should be followed by auditors are explained in the working paper.

Step 6.1

The final control reliance should be set at 'No reliance'. Control reliance should be re-stated where any (medium or high) reliance has been previously stated. Recalculate sample sizes where applicable and document the results of the additional audit tests. If F above is now stated positive, you can stop here. If F is still stated as a negative amount, proceed to step 2.

Step 6.2

Extend sample sizes further to identify actual misstatements and errors in the population. G above indicates the minimum number recommended additional sample items for further tests. Note that this number is merely a guideline for the **minimum recommended** number of items to be tested based on the projected rate of misstatements regarding the items initially tested. It is important that decisions should be made by considering the specific circumstances of the audit.

Where extending sample sizes is not practical or preferred for whatever reason, the impact of the projected misstatement exceeding the tolerable misstatement should be considered in light of the auditor's report. OAG may choose to include projected misstatements and errors in the auditor's report. The OAG's policies should make clear provision for the possibility of including such projected amounts in the auditor's reports. Once this is identified as a preferred way to report, OAG should communicate it to the auditee and apply it consistently for all audits conducted by the OAG *(Refer to working paper PE 6. Audit engagement letter)*.

Step 6.3

Confirm whether after testing the additional sample items the projected misstatement is now below the tolerable misstatement (F>0). If this is not the case it means that there was a higher rate of errors / misstatements identified for the additional items than initially projected. The initial projection was based on the assumption that errors and misstatements should occur at the same rate for the entire population. However, additional tests may yield higher errors in which case there may be a need to do further tests. This may be due to the fact that the original sample items included significant items which were found to be misstated. Where the projected error / misstatement figure still significantly exceed the tolerable error / misstatement there may be a need to select transactions in addition to those stated in G above. Some minor (less than 5%) variations however, may be accepted by the auditors.

In certain cases this may even mean that auditors choose to audit all the transactions for an account balance. This may mean a lot of additional audit work which have to be substantiated – for example if it is likely that a qualification is secured by the extra work. Although over-auditing is not the biggest risk of auditors it normally places a lot of pressure on auditors impacting on the quality of audit work. Symptomatic reporting is also usually linked to such practices as auditors do not often evaluate internal controls when 100% substantive audit testing is planned.

Symptomatic reporting is when audit findings are merely stating the existence of an error or misstatement. This kind of reporting should be avoided or minimised since it is not informing the users of the report regarding the real causes of the finding or the internal control failure. Such control failure is the actual audit finding the extent of which is supported by an error or misstatement.

The amount of a projected misstatement does not represent an actual misstatement or error which has to be reported in an auditor's report. However, it projected misstatements may be reported when it is specifically required by law for some audit environments such as Court of Accounts, or where the OAG's policies and practices require such practice. *(ISSAI 1530.14) (ISSAI 1530 P10)*

4.3 AUDIT FIELDWORK – OBTAINING AUDIT EVIDENCE

WHAT IS THE OUTPUT FROM THIS?
Obtaining audit evidence through performing testing of controls, substantive testing and substantive analytical procedures. *(Refer to working paper DPF 5. Evidence tracking sheet working paper DPF 6. Lead schedule on component level working paper DPF 7. Test of controls working paper DPF 8. Substantive audit procedures performance working paper DPF 9. Substantive analytical procedures working paper DPF 10. Audit summary memorandum working paper and the OC 2. Audit query working paper)*

4.3.1 The concept of audit evidence

The purpose of this part is to establish the standards and to provide guidance on what constitutes audit evidence in an audit of financial statements, the quantity and quality of audit evidence to be obtained, and the audit procedures that auditors use for obtaining that audit evidence. *(ISSAI 1500.1)*

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 audit opinion. *(ISSAI 1500.2; 4)*

This part of the manual will provide guidance on:

- ***The concept of audit evidence;***
- ***Sufficient, appropriate audit evidence;***
- ***The use of assertions in obtaining audit evidence; and***
- ***Audit procedures for obtaining audit evidence.***

What is audit evidence?

"Audit evidence" is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based, and includes the information contained in the accounting records underlying the financial statements and other information. Audit evidence is usually external such as documentation obtained from the auditee or other parties independent of the auditee. Evidence is information which may corroborate assertions or contradicts them. *(ISSAI 1500.5) (ISSAI 1500 P3; P4)*

Audit evidence for the current audit may also include audit evidence obtained from other sources such as previous audits or performance audits. *(ISSAI 1500 P5)*

Sufficient, appropriate audit evidence

Audit evidence is necessary to support the auditor's opinion and report. Most of the auditor's work consists of obtaining and evaluating audit evidence. Reasonable assurance is obtained when the auditors design and perform appropriate audit procedures for the purpose of obtaining sufficient appropriate audit evidence. *(ISSAI 1500.6)*

Sufficiency is the measure of the quantity of audit evidence or how much audit evidence is needed to provide an opinion. The quantity of audit evidence needed is affected by the risk of misstatement (the greater the risk, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). *(ISSAI 1500.5)*

Appropriateness is the measure of the quality of audit evidence or evidence which is relevant and reliable to form an audit opinion on the financial statements. This is particularly important when the auditor uses evidence from prior year's audit or a performance performed. *(ISSAI 1500.5) (ISSAI 1500 P6)*

Accordingly, 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:

- Audit evidence from independent sources outside the entity is more reliable than that generated internally; this refers to evidence such as bank confirmations, etc;
- 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;
- 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);
- Audit evidence in the form of 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 minuted and confirmed through for example third party validation; and

- Audit evidence provided by original documents is more reliable than audit evidence provided by copies or facsimiles.

When the information is produced by the auditee the auditor should evaluate whether the information is sufficiently reliable including:

- Obtaining audit evidence about the accuracy and completeness of the information;
- Evaluating whether the information is sufficiently precise and detailed. *(ISSAI 1500.9)*

When designing and performing audit procedures, consideration should be given to:

- The relevance and reliability of the information to be used as audit evidence. Reliability of evidence may influence the type of audit procedures performed. The passage of time may also adversely impact the ability of performing certain procedures or the reliance of the effectiveness of controls; *(ISSAI 1500.7)(ISSAI 1500 P7)*
- Means of selecting items for testing that are effective in meeting the purpose of the audit procedure. *(ISSAI 1500.10)*

If auditors find that audit evidence obtained from one source is inconsistent with that obtained from another; or the reliability of information is doubtful the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter. The effect of this matter, if any, on other aspects of the audit should also be considered. *(ISSAI 1500.11)*

The auditor considers the relationship between the cost of obtaining audit evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an audit procedure for which there is no alternative.

The auditor’s judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

- Significance of the risk of the likelihood of a potential misstatement;
- Effectiveness of management’s responses and controls to address the risks;
- Experience gained during previous audits with respect to similar potential misstatements;
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error;
- Source and reliability of the available information;
- Persuasiveness of the audit evidence; and
- Understanding of the entity and its environment, including its internal control.

Sufficient, appropriate evidence to meet any audit objectives which are broader than expressing an opinion on the financial statements should also be obtained and evaluated by auditors. For example where the audited entity is responsible for giving grants or other financial assistance to other parties, it is often required that the auditee should evaluate whether other parties satisfying the criteria and meeting the terms for receiving assistance. Evidence might then be required on the entity's exercise of its responsibilities to satisfy itself about the transactions of these other parties. *(ISSAI 1330 P10) (ISSAI 1500 P8)*

If the auditor has not obtained sufficient appropriate audit evidence to a material financial statement assertion, the auditor should attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should express a qualified opinion or a disclaimer of opinion.

Auditors take into account data retention requirements for public sector entities when obtaining evidence as stipulated by relevant legislation. *(ISSAI 1500 P9)*

In some audit environments such as a Court of Accounts environment, the auditors’ report is often judged and used to determine personal legal implications of those responsible for financial acts, including significant matters, control deficiencies and instances of non-compliance with authorities. Therefore, auditors in these environments when evaluating the sufficiency and appropriateness of audit evidence, perform procedures to identify those responsible for financial acts and for compliance with legal requirements. The following matters may affect evidence collection and are considered by the auditor:

- Legislation imposing additional requirements on audit evidence.
- The scope of additional requirements (i.e., are they to be imposed on every document from the audit assignment or on specific documents relating to certain audit issues).
- Additional processing, formalities or requirements to which audit evidence is subject.
- The purpose of each additional requirement as regards due process of law in following the steps of the audit.
- Any restrictions that may be placed upon audit evidence due to specific ways it has been collected and/or produced. *(ISSAI 1330 P11) (ISSAI 1500 P10)*

4.3.2 Audit procedures for obtaining audit evidence

The auditor obtains audit evidence to draw reasonable conclusions on which to base the audit opinion.

The auditor always performs risk assessment procedures to provide a satisfactory basis for the assessment of risks at the financial statement and assertion levels. Risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion, but are supplemented by further audit procedures in the form of tests of controls, when necessary, and substantive procedures.

Audit procedure	Detail	Considerations
Inspection of records or documents	Inspection consists of examining records or documents, whether internal or external, in paper form, electronic form, or other media.	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 or documents for evidence of authorization.
Inspection of tangible assets	Inspection of tangible assets consists of the physical examination of assets.	Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items ordinarily accompanies the observation of inventory counting.
Observation	Observation consists of looking at a process or procedure being performed by others.	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.
Inquiry	Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.	Inquiries may range from formal written inquiries to informal oral inquiries. Verbal statements are usually reconfirmed in writing through management representations. Inquiries should be performed in

Audit procedure	Detail	Considerations
		conjunction with other audit procedures. Alone it does not provide sufficient audit evidence to detect misstatement.
Confirmation	Confirmation, which is a specific type of inquiry, is the process of obtaining a representation of information or of an existing condition directly from a third party.	Internal confirmations include management representations which need to be obtained for each audit. External confirmations usually provide relevant and reliable evidence.
Recalculation	Recalculation consists of checking the mathematical accuracy of documents or records.	Recalculation is a reliable method to obtain evidence relating to the accuracy or measurement assertion. Recalculation can be performed manually, or through the use of information technology. For example, an electronic file can be obtained from the entity and by using CAATs the accuracy of the summarization of the file can be checked.
Re-performance	Re-performance is the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control, either manually or through the use of CAATs.	Evidence from re-performance procedures provides reliable audit evidence. In many cases it can be a time consuming exercise in which instance costs should be weighed against benefits derived. Cost effective checks may be performed through the use of CAATs.
Analytical procedures	Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data and the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.	The use of analytical procedures is discussed in detail below.

Tests of controls

Test of controls are audit procedures designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting material misstatements at the assertion level *(ISSAI 1330.4)*

The auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. Tests of controls are performed when:

- There is an expectation of the operating effectiveness of controls or when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. This would be the case when significant risks have been identified for the assertion.
- The auditor expects that controls are operating effectively. This means that the controls are suitably designed for a specific assertion confirmed to be operational by performing a walkthrough *(refer to DPF 1. Systems description and DPF 2. Reliance on key controls working paper)*. *(ISSAI 1330.8)*

The auditor should perform more tests of controls in order to be able to place greater reliance on the effectiveness of a control. High reliance – more transactions will be tested. *(ISSAI 1330.9)*

In designing and performing tests of controls, the auditor should keep in mind that inquiry alone is not sufficient to obtain audit evidence about the operating effectiveness of the controls. The auditor needs to identify:

- How the controls were applied at relevant times during the period under audit;
- The consistency with which they were applied; and
- By whom or by what means they were applied.

Auditors should keep in mind that the tested controls may depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls. *(ISSAI 1330.10)*

Tests of controls should be performed to evaluate the operating effectiveness of controls throughout the period under audit. If controls are tested during an interim period, the auditor also should obtain evidence regarding the functioning of the controls after the interim period. *(ISSAI 1330.11;12)*

Auditors may decide to rely on results or evidence obtained from tests of controls performed during previous audits. When that is done the auditors should consider the following:

- Whether other elements of internal control confirm that reliance for example the control environment, the entity's monitoring of controls, and the entity's risk assessment process; The higher the risks identified the less likely auditors are able to use previous ears evidence on tests of controls.
- The risks arising from the characteristics of the control, for example an automated control is more constant in its application;
- The effectiveness of general IT-controls;
- The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control;
- Whether the lack of a change in a particular control poses a risk due to changing circumstances; and
- The risks of material misstatement and the extent of reliance on the control. *(ISSAI 1330.13)*

If the auditor wants to use audit evidence for tests of controls from previous year's audit, the auditor should still establish that no significant changes happened to those controls subsequent to the previous audit. This is done through a walk-through *(Refer to DPF 1. System description working paper)*

Even if evidence is used from prior year's work the auditor should still document the conclusions reached about relying on such controls that were tested in a previous audit. *(ISSAI 1330.29)*

If there have not been such changes to the controls, the auditor should still test the controls at least once in every third audit. Tests of controls this way should be spread over a 3 year period so that some controls are tested during each audit. *(ISSAI 1330.14)*

Auditors need to test controls for significant risks for example over sensitive payments, or of controls designed to prevent or detect fraud within the entity. Tests of controls over significant risks should be performed during each audit. In terms of fraud significant risk areas include occurrence of expenditure, completeness of income and existence of assets. *(ISSAI 1330.15)* (ISSAI 1330 P7)

When using audit evidence about the operating effectiveness of controls obtained in previous audits, auditors may use evidence obtained in performance audits or other audit activities relevant to the entity. When relying on evidence obtained in previous performance audits, auditors evaluate whether the assertions used and tests performed are adequate for the purpose of the financial statement audit. (ISSAI 1330 P9)

When the auditee is part of a larger government control environment controls may exist outside the entity. The auditor needs to determine how to obtain sufficient appropriate audit evidence about those controls. (ISSAI 1330 P8)

Substantive procedures

Substantive procedures are performed in order to detect material misstatements at the assertion level, Substantive procedures comprise:

- Tests of details of classes of transactions, account balances, and disclosures; and
- Substantive analytical procedures. *(ISSAI 1330.4)*

The auditor plans and performs substantive procedures to be responsive to the related assessment of the risk of material misstatement.

Irrespective of the assessed risk of material misstatement or whether controls have been tested or not, the auditor should design and perform substantive procedures for each material class of transactions, account balance and disclosure. This requirement reflects the fact that the auditor's assessment of risk is judgmental and may not be sufficiently precise to identify all risks of material misstatement. Further, there are inherent limitations to internal control including management override. *(ISSAI 1330.18)*

The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures. This would typically be done to confirm bank balances, loans, debtors and creditors. Since external confirmations are a very reliable source of evidence auditors should consider obtaining confirmation as much as possible and practical. *(ISSAI 1330.19)*

The auditor's substantive procedures should include the following audit procedures related to the financial statement closing process:

- Agreeing the financial statements to the underlying accounting records; and
- Examining material journal entries and other adjustments made during the course of preparing the financial statements. *(ISSAI 1330.20)*

For significant risks the auditor should design and perform substantive procedures that are specifically responsive to that risk *(ISSAI 1330.21)*.

When substantive procedures are performed at an interim date, the auditor should perform further substantive procedures or substantive procedures combined with tests of controls to cover the remaining period that provide a reasonable basis for extending the audit conclusions from the interim date to the period end *(ISSAI 1330.22)*.

Re-assessing preliminary control reliance

Tests of controls or substantive procedures (during interim or final audits) may indicate that the preliminary control reliance is not appropriate. This is the case when a lot of unexpected errors and misstatements are discovered, or when the controls tested are not always work as originally expected. This is important as it influences the extent of substantive testing. The following should be considered whether:

- Controls can be still relied upon? If not, reliance need to be re-assessed in the reliance on controls working paper.
- We should test controls more extensively or is extensive substantive testing will provide better evidence.
- The nature and timing of planned audit tests is still appropriate.

For example, when testing controls more than 2 deviations would indicate that a control is not functioning as intended. This may however differ depending on circumstances. On the other hand the absence of misstatements detected by substantive procedures does not provide audit evidence that controls related to the assertion being tested are effective. *(ISSAI 1330.16; 17; 23)*

Analytical procedures

Analytical procedures are used to evaluate financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also include any investigation relating to identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. *(ISSAI 1520.1;4)*

The auditor should design and perform analytical procedures:

- As risk assessment procedures to obtain an understanding of the entity (during strategic planning – *Refer to SP 4. Preliminary analytical review working paper*);
- As a form of substantive testing in order to obtain relevant and reliable audit evidence *(Refer to DPF 9. Substantive analytical procedures working paper)*
- To assist the auditor near to the end of the audit when forming an overall conclusion on the financial statements. This is mainly to determine whether the financial statements are consistent with the auditor's understanding of the entity *(Refer to AS 4. Final analytical review working paper). (ISSAI 1520.3)*

The relationships between individual items of the financial statements traditionally considered in the audit of business entities may not always be appropriate in the audit of government entities or other non-business public sector entities. For example, in many such public sector entities there is often little direct relationship between revenues and expenditures. In addition, because capital expenditure such as the acquisition of assets is usually expensed, there may be no relationship between expenditures on, for example, inventories and fixed assets and the amount of those assets reported in the financial statements. Other relationships which may be relevant, for example, variations in the cost per kilometre of road construction or the number of vehicles acquired compared with vehicles retired. *(ISSAI 1520 P5)*

Analytical procedures, however, do not normally provide evidence about certain additional objectives, such as compliance with authorities. They should be considered together with other audit tests and with the results of other audits such as performance audits. *(ISSAI 1520 P6; P7)*

Even though there are limitations, analytical procedures that can still give valuable and cost effective audit assurance. Examples of these are:

- Comparison between budgeted and actual figures will give evidence about overspending or under-performance of an entity;
- Month on month comparison for example on salaries and wages figures;
- Comparison between prior year and current year expenditure figures; and
- Comparing expected results to actual results – for example comparing actual revenue collected in schools with the expected amount (number of students multiplied by the annual

fees per student). In such case auditors would benefit the most of the evidence where the actual amount is near to the expected amount. Large variances between actual and expected amounts would indicate that further audit procedures need to be performed.

- Comparison of information between similar entities, programs or projects. *(ISSAI 1520 P9; P12)*

The following steps should be followed when performing a substantive analytical procedure:

1. Determine the suitability of the particular substantive analytical procedure. Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.
2. Identify the information requirements and determine whether the information is reliable; Reliability should be considered by looking at the source, comparability, nature, relevance and the controls over the preparation, review and maintenance of information. In some instances auditors may need to understand the design and test controls over non-financial information used in analytical procedures.
3. Develop an expectation (if applicable);
4. Identify a threshold or a tolerable limit;
5. Perform the comparison;
6. Identify variances where they exceed the pre-determined threshold (e.g. 10%) or are inconsistent with the expectation; and
7. Obtain explanations for material differences from the management of the audited entity through enquiries. If management cannot offer explanations the auditors may need to investigate further the underlying reasons for the lack of information and determine who is responsible;
8. Performing additional audit procedures as necessary in the circumstances. *(ISSAI 1520.5;6;7) (ISSAI 1520 P8; P10; P11)*

External confirmations

The auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level. In doing this the auditor should consider the assessed risk of material misstatement at the assertion level and how the audit evidence from other planned audit procedures will reduce the risk of material misstatement at the assertion level to an acceptably low level.

External confirmation maybe also used to fulfill an audit mandate or arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature. For example, external confirmations can be used to obtain evidence about:

- The presence or absence in agreements or arrangements with third parties of legislated or other terms and conditions such as guarantees of performance or funding;
- The commitment of expenditures that have not yet been authorized by the legislature;
- The continued eligibility of individuals in receipt of pensions, income assistance, annuities or other ongoing payments; or
- The presence of “side deals” with suppliers for the return of goods for credit in order to use funding that would have otherwise lapsed in a subsequent fiscal period. *(ISSAI 1505 P3)*

It is generally recognized that audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable or persuasive than evidence generated internally by the entity. However, auditors should keep in mind the objectivity and independence of the third party especially within government and in light of the relationship between the audited entity and the third party. *(ISSAI 1505.2) (ISSAI 1505 P4)*

External Confirmation Procedures

The auditor should design and perform confirmation procedures to obtain relevant and reliable audit evidence. The most common confirmations that are sent out by auditors are bank and debtors confirmations. *(ISSAI 1505.5)*

The auditor should maintain control over external confirmation requests, including:

- Determining what information needs to be confirmed
- Selecting the confirming party;
- Designing the confirmation requests, addressing the requests and including the auditor's address for return information
- Sending the requests, including follow-up requests when applicable, to the confirming party. *(ISSAI 1505.7)*

Management's Refusal to Send a Confirmation Request

If management refuses to allow the auditor to send a confirmation request, the auditor should:

- Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness of the reasons;
- Evaluate the implications of the refusal on the auditor's assessment of the relevant risks of material misstatement and on the nature, timing and extent of other audit procedures; and
- Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. *(ISSAI 1505.8)*

If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor should communicate with those charged with governance and any other relevant party (such as legislature or oversight body) and determine the implications for the audit and the auditor's opinion. *(ISSAI 1505.9) (ISSAI 1505 P5)*

Results of the External Confirmation Procedures

If the reliability of the response to a confirmation request is doubtful, the auditor shall obtain further audit evidence to resolve those doubts. *(ISSAI 1505.10)*

For unreliable responses, the auditor shall evaluate the implications on the assessment risks, including the risk of fraud, and on the related nature, timing and extent of other audit procedures. *(ISSAI 1505.11)*

If there is no response to a confirmation the auditor should perform alternative audit procedures to obtain relevant and reliable audit evidence. If alternative audit procedures do not provide the audit evidence the auditor requires the auditor shall determine the implications for the audit and the auditor's opinion. *(ISSAI 1505.12;13)*

If the confirmation indicates differences in the information the auditor shall investigate these exceptions to determine whether or not they are indicative of misstatements. *(ISSAI 1505.14)*

Positive confirmations request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information. Positive confirmations request the confirming party to reply to the auditor in all cases, either agreeing or disagreeing with the stated information. This generally should provide more reliable audit evidence.

Negative confirmations request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor should use negative confirmations as the sole substantive audit procedure if the following are present:

- The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;

- The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;
- A very low exception rate is expected; and
- The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests. *(ISSAI 1505.15)*

The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary. *(ISSAI 1505.16)*

Outstanding audit evidence

In the public sector it is common that the auditor does not receive the requested audit evidence timely or within a 'reasonable' time. What is 'reasonable' may be influenced by the circumstances of each audit. The question is, what to do when there is long outstanding evidence delaying the audit to be performed and finalised. What can be done?

1. Recording of evidence requested

Evidence requested should be recorded on the Evidence tracking sheet *(Refer to DPF 5. Evidence Tracking sheet working paper)*. The following information is included for all requested evidence:

- Unique identification of the evidence requested (for example payment advice number);
- Date requested and the person responsible for supplying the information;
- Any subsequent follow-ups;
- Date evidence was received; and
- Person to whom the evidence was handed back to (with signature).

2. Communication to management

Firstly, auditors should present management with the list of evidence required to perform the audit.

Secondly, management should be regularly informed of any long outstanding evidence. This can be done by issuing an audit query to management on long outstanding evidence. It can form part of the audit queries / management letter sent. This way management is informed and given a chance to address the inefficient processes to supply evidence. Long outstanding evidence should be regularly included in the communications sent to management.

When issuing a query with long outstanding evidence requirements management should also be informed of the consequences of not submitting the evidence timely. Possible consequences may include the affect of scope limitation on the auditor's report.

If evidence is still outstanding when the management letter is issued the lack of evidence should be included in the management letter.

3. Consider the affect of the scope limitation on the auditor's report

Any information that is not received for audit will be considered for reporting. The extent of the influence on the auditor's report depends on the materiality of the amounts in question. A material scope limitation may result in issuing a disclaimer of opinion when the scope limitation significantly affects the financial statements. When there is a material scope limitation but it can be isolated to certain disclosures in the financial statements a qualification may be issued. Even though these principles can be used as guidelines, the auditors still need to use their judgment to decide on the significance of the scope limitation on the financial statements.

4. Receiving evidence at a later stage

Evidence received late may substantially influence the audit in terms of time lost, resources standing idle, or unutilised, all of which may make the finalisation of the audit difficult. In any given circumstance auditors need to consider whether to accept the evidence for audit or to report on the scope limitation. This decision is influenced by the following factors:

- The time taken to receive the information;
- Appropriateness of reasons supplied by management of the auditee for the delay;
- Reporting timelines. If the reporting should take place within a certain timeframe for instance through legislation, this may affect the way auditors handle evidence received late in the audit process;
- Stage of the audit. Evidence received during the fieldwork stage of the audit will be more likely to be accepted and audited; and
- Discussions with management of the audit. Any decisions on evidence received late should be discussed with the person responsible for signing the auditor's report. This includes any decisions made that alter the initial dates agreed during pre-engagement or strategic planning. These alterations should also be communicated to the auditee.

If management supplies evidence at a later stage, when the audit already proceeded into the reporting stage, the auditor needs to consider the additional work that it will require to perform the procedures and how the timelines of the audit may be affected.

The decision to report or to test the supplied information should be taken by the person responsible for the audit.

Evaluating audit evidence

Auditor should evaluate and conclude on the following:

- Whether the risks of material misstatement at the assertion level and the control reliance based on it have been adequately determined.
- Whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. *(Refer to DPF 10. Audit summary memorandum working paper) (ISSAI 1330.25;26)*

Based on this evaluation of the auditor may have to obtain further audit evidence. If this is not possible than either qualified opinion or disclaimer of an opinion should be issued. *(ISSAI 1330.27)*

The results of the audit procedures, including the conclusions where these are not otherwise clear is documented in *(Refer to DPF 8. Substantive audit procedures performance working paper).*

Use of assertions in obtaining audit evidence

The auditor should use assertions for classes of transactions, account balances, and presentation and disclosures in sufficient detail to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures.

The auditor should take into account the legislative framework and any other relevant regulations, ordinances or ministerial directives that affect the audit mandate and any other special auditing requirements. In making assertions about the financial statements, management asserts that transactions and events have been in accordance with legislation or proper authority in addition to the assertions.

When performing the audit procedures the auditor should document the following:

- The nature, timing and extent of procedures performed
- The linkage of those procedures with the assessed risks at the assertion level
- The results of such tests and conclusions drawn. *(Refer to DPF 8. Substantive audit procedures performance working paper) (ISSAI 1330.28)*

4.4 INITIAL ENGAGEMENTS—OPENING BALANCES

This part of the manual focuses on:

- ***The audit procedures for opening balances; and***
- ***The audit conclusions and reporting on opening balances.***

4.4.1 Considering opening balances during the audit

This section of the manual should be considered in the event of the financial statements being audited for the first time by the auditor or when the prior period financial statements were audited by another auditor. This may occur when:

- The functions are nationalised without creating a new entity;
- Changes in the auditor's mandate relating to the audit;
- New entities are created with opening balanced due to the appropriation of all or some of the assets and liabilities from predecessor entities. These new entities may present prior year comparative financial statements or compile an opening balance sheet. *(ISSAI 1510.1) (ISSAI 1510 P4)*

In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:

- Opening balances or the account balances that exist at the beginning of the period contain misstatements that materially affect the current period's financial statements; and
- Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. *(ISSAI 1510.3)*

4.4.2 Audit procedures for opening balances

When applicable, the auditor should obtain and read the most recent financial statements and the predecessor auditor's report thereon for information relevant to opening balances, including disclosures. *(ISSAI 1510.5)*

The auditor should perform the following procedures to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements:

- Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;
- Determining whether the opening balances reflect the application of appropriate accounting policies; and
- Performing one or more of the following:
  - Reviewing the predecessor auditor's working papers to obtain evidence;
  - Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
  - Performing specific audit procedures to obtain evidence regarding the opening balances. *(ISSAI 1510.6)*

If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor should determine the effect on the current period's financial statements. If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor should communicate the finding as appropriate. *(ISSAI 1510.7)*

The auditor perform audit procedures to determine whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. *(ISSAI 1510.8)*

If in the prior period's the financial statements were audited and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements. *(ISSAI 1510.9)*

4.4.3 Audit conclusions and reporting relating to opening balances

The auditor's report would be affected and a qualified or adverse opinion considered in the following instances:

- If the opening balances contain misstatements which could materially affect the current period's financial statements and the effect of the misstatement is not properly accounted for and adequately presented and disclosed. In this case the auditor would inform management and, after having obtained management's authorization, the predecessor auditor, if any; *(ISSAI 1510.11)*
- If the current period's accounting policies have not been consistently applied in relation to opening balances or if the change has not been properly accounted for and adequately presented and disclosed the auditor should express a qualified opinion or an adverse opinion as appropriate; *(ISSAI 1510.12)* and

If, after performing audit procedures, including those set out above, the auditor is unable to obtain sufficient appropriate audit evidence concerning opening balances, the auditor's report should include:

(a) A qualified opinion;
(b) A disclaimer of opinion; or
(c) In those jurisdictions where it is permitted, an opinion which is qualified or disclaimed regarding the results of operations and unqualified regarding financial position. *(ISSAI 1510.10)*

If a modification regarding the prior period's financial statements remains relevant and material to the current period's financial statements, the auditor should modify the current auditor's report accordingly. *(ISSAI 1510.13)* Such modificaitons may also influence the auditors' responsibitlities for reporting on internal controls or non-compliance with legislation. *(ISSAI 1510 P6)*

4.5 ACCOUNTING ESTIMATES

Definition of accounting estimates

Management is responsible for making accounting estimates included in financial statements. These estimates are often made in conditions of uncertainty regarding the outcome of events that have occurred or are likely to occur and involve the use of judgment. The degree of estimation uncertainty affects, in turn, the risks of material misstatement of accounting estimates, including their susceptibility to unintentional or intentional management bias. The auditor should obtain sufficient appropriate audit evidence regarding accounting estimates. *(ISSAI 1540.2)*

"Accounting estimate" means an approximation of the amount of an item in the absence of a precise means of measurement. *(ISSAI 1540.7)*

"Estimation uncertainty" is the susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement. It is the risk of estimates being misstated due to elements of inherent uncertainty. In the public sector there is unusually high uncertainty relating certain estimations, such as guarantees provided on loan by entities under distress. *(ISSAI 1540.7) (ISSAI 1540 P5)*

This section is not intended to be applicable to the examination of prospective financial information, though many of the audit procedures outlined herein may be suitable for that purpose.

This section focuses on:

- ***The nature of an accounting estimation;***
- ***Audit procedures;***
- ***Estimates with significant risk***
- ***Concluding on accounting estimates.***

Nature of accounting estimation

The determination of an accounting estimate may be simple or complex depending upon the nature of the item.

Accounting estimates may be determined as part of the routine information system relevant to financial reporting operating on a continuing basis, or may be non-routine, operating only at period end. (Accounting estimates are usually made by using a formula based on experience. The formula needs to be reviewed regularly by management.)

The uncertainty associated with an item may make it incapable of reasonable estimation, in which case the auditor needs to consider whether the auditor's report needs modification.

Audit procedures

The auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence as to whether:

- The entity's accounting estimates are reasonable in the circumstances; and
- When required by the relevant reporting framework, appropriately recognised and/or disclosed. *(ISSAI 1540.6)*

The auditor should adopt one or a combination of the following approaches in the audit of an accounting estimate:

- Evaluate whether the degree of estimation and uncertainty relating to accurate estimation gives rise to a significant risk. If yes, there are further considerations in addition to the ones below. *(ISSAI 1540.10;11)*
- Review and test the process used by management to develop the estimate, including;
    - The requirements of the applicable financial reporting framework and whether management has appropriately identified and applied requirements of such framework. *(ISSAI 1540 P6; 12)*
    - How management identifies transactions, event and conditions which may give rise to the need for accounting estimates.
    - Review judgment and decision made by management and evaluate whether they indicate management bias.
    - Whether the method used in making the accounting estimate is appropriate and have been applied consistently and whether any changes from prior year(s) if any, are acceptable. *(ISSAI 1540.12)*
    - Test the operating effectiveness of controls to ensure the reliability of management's estimation process and perform substantive tests. *(ISSAI 1540.12)*
    - Whether management has used an expert and whether the auditor needs to use a person with specialised skills to audit management's estimate. *(ISSAI 1540 P10)*

  - Test how management made the accounting estimate and the data on which it is based. In doing so, the auditor shall evaluate whether:
    (i) The method of measurement used is appropriate in the circumstances; and
    (ii) The assumptions used by management are reasonable in light of the measurement objectives of the applicable financial reporting framework. *(ISSAI 1540.13)*
  - Consider whether management should be in a position to carry out the specific course of action on which the estimate is based. *(ISSAI 1540 P11)*
  - Whether any changes have been made to management's estimation process from prior year.
  - Whether management has assessed the effect estimation uncertainty and how.
  - Review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias. *(ISSAI 1540.8;13;21)*
- Develop an independent estimate for comparison with that prepared by management; *(ISSAI 1540.13)*
- Review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period. *(ISSAI 1540.9) (ISSAI 1540 P9)*
- Review subsequent events which may provide audit evidence of the reasonableness of the estimate made. However, this may not be possible on some liabilities such as social insurance liabilities which extend for many years. *(ISSAI 1540 P8) (ISSAI 1540.13)*

In performing the above auditor should consider whether specialized skills or knowledge in relation to one or more aspects of the accounting estimates are required in order to obtain sufficient appropriate audit evidence. *(ISSAI 1540.14)*

The difference between actual outcome of an accounting estimate and the estimated amount in the prior year's financial statements is not necessarily a misstatement of the prior period financial statements. However, it can be different if management could have reasonably been expected to have had information to inform the estimate in the prior year. Many financial reporting frameworks contain guidance on distinguishing between changes in accounting estimates that constitute misstatements and changes that do not, and the accounting treatment required to be followed. *(ISSAI 1540 P9)*

Estimates with significant risk
For accounting estimates that give rise to significant risks, in addition to the normal substantive procedures performed to meet the requirements of standards the following procedures apply:

- Establish whether management has considered using alternative assumptions or outcomes to address estimation uncertainty and evaluate reasons for choosing the relevant assumptions and rejecting the alternatives.
- Evaluate whether the significant assumptions used by management are reasonable.
- Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so. *(ISSAI 1540.15)*
- Obtain sufficient appropriate audit evidence about:
  - The basis of management's decision to recognize, or to not recognize, the accounting estimates in the financial statements; and
  - The selected measurement basis for the accounting estimates, and whether they are in accordance with the requirements of the applicable financial reporting framework.
  - Whether management has adequately disclosed accounting estimates (as per financial reporting framework including disclosure of information relating to estimation uncertainty. *(ISSAI 1540.17; 19; 20)*

If management has not followed adequate processes to ensure precision of estimation, the auditor should consider this in light of the reliability of the estimate. *(ISSAI 1540.16)*

Concluding on accounting estimates
After performing the above procedures the auditor should evaluate, based on the audit evidence, whether the accounting estimates in the financial statements are either reasonable in the context of the applicable financial reporting framework, or are misstated. *(ISSAI 1540.18)*

Some liabilities with high estimation uncertainty may not be directly recognized in the financial statements, but they may be included as part of non-financial information or disclosure notes. Such potential liabilities may also impact on the sustainability of government programs, in which case auditors may use an 'Emphasis of matter' or an 'Other matter' paragraph in the auditor's report to highlight the issue. *(ISSAI 1540 P7)*

Auditors should evaluate the adequacy of disclosure relating to the estimation uncertainty especially when the financial statements include large number estimates with high level of estimation uncertainty. *(ISSAI 1540 P12)*

Audit documentation should include the basis for conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and any indicators of possible management bias, where applicable. *(Refer to DPF 8. Substantive audit procedures performance working paper or DPF 9. Substantive analytical procedures working paper).*

Auditors should obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable. *(ISSAI 1540.22)*

Reasons for possible bias that may be specific to the public sector such as:

- Strong political motives
- Changing or unstable political environment
- Increased public expectations
- Higher than normal expectations to meet budget
- Reduction in budgets without corresponding reduction in service delivery expectations
- Public and private partnerships
- Tolerance of errors in financial statements. *(ISSAI 1540.23) (ISSAI 1540 P13)*

In some environments including a Court of Accounts environment, auditors may have additional responsibilities when the intention by management to mislead is identified. Such responsibilities often include identifying the individual(s) responsible for such actions. *(ISSAI 1540 P14)*

- ❑ ***Have you adequately documented the systems, risks and controls for the audited component?***
- ❑ ***Have you documented and assessed reliance on key controls for relevant assertions?***
- ❑ ***Are figures included in the lead schedules for component link to the main lead schedule?***
- ❑ ***Have adequate audit programs been identified covering all relevant assertions?***
- ❑ ***Has the sample size and population coverage been identified where applicable?***
- ❑ ***Have you documented all tests of controls and substantive procedures findings?***
- ❑ ***Is the audit summary memorandum on file for audit components? Are conclusions drawn support the audit opinion expressed?***
- ❑ ***Have you included communications with other auditors, experts, external parties, etc?***
- ❑ ***Have you evaluated the sample results?***
- ❑ ***Have any accounting estimates been identified and considered?***

- ***Have you considered requesting external confirmations where applicable?***
- ***Is your audited entity a banking entity? If so, have you received inter-bank confirmations?***

WORKING PAPERS

DPF 1. SYSTEM DESCRIPTION FOR AUDIT COMPONENTS

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1**			
Prepared by:		**Level 2**			
Rank:		**Level 3**			
Date:					

Component: ***(e.g. Admin expenses, Professional fees, Travel and subsistence, etc.)***

List all the risks identified affecting this audit component from the Risk of material misstatement on a financial statement level.

List of legislation and regulations relevant to the component used to compile the system description:

Items selected for the performance of the walkthrough:

[List the actual voucher number / transaction which is used to perform the walkthrough. Select transactions to cover all the key controls identified]

Transaction life cycle / Process	Risk	Potential key controls	Assertions	Is the risk significant? (Yes/No)	Documentation or forms / screens used	Responsible personnel	Accounting entries (Debit and Credit)	Walk-through procedures: Have controls been implemented? (Yes/No)	Have legislative requirements been met? (Yes/No)	Exceptions raised / risks identified
e.g. Acquisition of goods or services	*e.g. Goods and services are purchased without authorisation*	*e.g. Approvals for acquisitions are authorised by a delegated official* *{transfer key controls identified to the Reliance on key controls wp]*	*e.g. Occurrence*	*[Fraud risks such as potential invalid expenditure]*	*e.g. payment advice form*	*[insert name and level of the responsible personnel]*	*e.g. Dr Expenditure Cr Bank*	*If no, raise an exception*	*Yes*	*Exceptions should be raised for weaknesses in controls identified or any non-compliance with laws or regulations.*

DPF 2. RELIANCE ON KEY CONTROLS FOR COMPONENTS

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

COMPONENT: _______________________ *(E.g. Expenditure)*

ASSERTION	RISK	KEY CONTROL(S) IMPLEMENTED TO ADDRESS THE RISK	IS THE RISK SIGNIFICANT? (YES/NO)	ARE CONTROLS DESIGNED ADEQUATELY TO ADDRESS RISKS? (YES/NO)	IF YES, STATE LEVEL OF PRELIMINARY CONTROL RELIANCE	RELIANCE AFTER TESTING OF CONTROLS	REFERENCES TO TESTS OF CONTROL WORKING PAPER
[List assertions e.g. occurrence]	*[Include risk that is applicable for the assertion e.g. Fictitious purchase transactions have been recorded].*	*[Transfer control from the system description e.g. The ledger clerk confirms that an invoice, goods receipt note and order form is attached before payment is processed.]*	*[Insert the assessment from the system description]*	*[If yes, reliance can be placed on the control(s). If no, exceptions should be raised and reliance cannot be placed on the controls.]*	*[Medium or high reliance can be placed on the control]*	*[If tests of control reveals that preliminary reliance is not appropriate, restate final reliance]*	*WP -*

Conclusion on the reliance on key control for the component is

DPF 3. AUDIT PROGRAMS

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

Audited component: ______________________

Assertion ***[List all relevant assertions for the component]***	Risk	Control reliance ***[From Reliance on key controls working paper]***	Tests of controls procedure	Substantive procedure	WP Reference ***[Refer to the working paper where the procedure will be executed]***
[Occurrence]	*[invalid transactions]*	*[high, medium, low]*	**1.** *[Inspect proof that official authorising the payment on the system reviewed supporting documents]*	*[For a sample of recorded purchases inspect supporting documents and establish whether each recorded transaction is supported by corresponding order form, goods received note and invoice]*	
			2.		
			3.		
			4.		
			5.		
			6.		

Note: The approval of the above procedures should be evidenced by the audit director before fieldwork commences.

Approved by ___________________ Rank ______________________

Date: ___________

DPF 4. SAMPLING

[This working paper is to be completed on excel spreadsheet]

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

COMPONENT AUDITED:		
AUDIT PROGRAM(S)		*[Refer to the Audit programs wp]*
RELATED ASSERTION(S)		
POPULATION	*[Describe the population e.g. expenses recorded in the ledger]*	
OVERALL PLANNING MATERIALITY ($)		*[Refer to Planning materiality wp]*

	Amount ($)	WP reference
A. Total account balance		*[Refer to Lead schedule]*
B. Total amount of individually significant items (List significant items on the Substantive audit procedures performance working paper)		*[i.e. identify and separately test those items exceeding the tolerable misstatement value]*
C. Unusual items (other than those in B) (List unusual items on the Substantive audit procedures performance working paper) Briefly describe the nature of the unusual items		*[Insert the total amount for unusual items]* *[E.g. debtors with credit balances]*
D. Remaining balance of the population [A-B-C]	0.00	
E. Percentage of coverage [(B + C) / A]	#DIV/0!	
F. Tolerable misstatement (calculated at 40% of overall planning materiality)	0.00	
Performance materiality / tolerable misstatement	0.00	

CONSIDERATION OF REMAINING BALANCE (identified as D above)

Determine and document additional items and tests need to be performed.

Select one or more of the following options:

	Indicate option selected	WP reference
1. Are there further sample items to be selected?		
[The decision not to perform additional tests should be based on the results of the tests already performed (refer B&C above); risks and other factors. For example when 80% of the population amount is covered by significant items the auditor may decide not to perform further tests on the rest of the population]		
2. Applying analytical procedures.		
Consider whether performing analytical procedures can provide adequate audit assurance with respect to D. This option is usually applicable when a large percentage of the population is selected as significant items and the controls for the assertion could be relied upon.		
3. Testing more individually significant items		
Consider this option if analytical procedures do not provide adequate assurance and sampling is impractical.		
4. Calculate sample size for remaining balance (complete the rest of the worksheet below)		

CALCULATIONS OF SAMPLE SIZE WHEN SYSTEMATIC SAMPLING IS APPLICABLE

Based on the control reliance identified for the relevant component and assertion select the appropriate control reliance facto

	High reliance	Medium reliance	No reliance
Reliance on controls Control reliance factor	0.9	1.6	3.0

CONTROL RELIANCE FACTOR SELECTED | | *[insert selected reliance factor]*

$$\text{SAMPLE SIZE} = \frac{\text{Remaining population balance (D)} \times \text{Reliance factor}}{\text{Tolerable misstatement (F)}}$$

Sample size calculated | **#DIV/0!** | *[The sample size indicates the number of items to be tested from the population]*

SAMPLE SELECTION METHOD | | *State which method will be used to select the items for testing (Random, interval, haphazard etc.)*

NOTE: The sample items selected should be listed in the Substantive procedures performance working paper.

DPF 5. EVIDENCE TRACKING SHEET

[This working paper is to be completed on excel spreadsheet]

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1:			
Prepared by:		Level 2:			
Rank:		Level 3:			
Date:					

Information requested *[list the information requested]*	Date requested *[insert date e.g. 15 May 2008]*	Person information was requested from	List the last date the information was requested again *[insert date e.g. 15 May 2008]*	Number of times the informa-tion was requested	Number of days outstanding	Date informa-tion was received *[insert date e.g. 15 May 2008]*	Stage of audit e.g. planning, execution, fieldwork during which information was received	Date information returned to auditee (if applicable) *[insert date e.g. 15 May 2008]*	Name of person the information was returned to	Signat of pers the informa was returne
					0					
					0					
					0					
					0					
					0					
					0					
					0					
					0					
					0					
					0					
					0					

DPF 6. LEAD SCHEDULE ON COMPONENT LEVEL

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1:			
Prepared by:		Level 2:			
Rank:		Level 3:			
Date:					

Item	Financial statement balances							Explanations obtained
	Current year Actual	Adjustments	Current year Final	Budgeted Amount	Difference between Budget and Actual	Prior year Actual	Difference between Current and Prior Year Actual	
	ERN '000	ERN '000	ERN '000	ERN '000	%	ERN '000	%	
			-					
			-					
			-					
			-					
TOTAL	-	-	-	-		-		

DPF 7. TEST OF CONTROLS

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

AUDITED COMPONENT	
SAMPLE SOURCE	
NUMBER OF ITEMS TESTED	
ASSERTION(S) TESTED	

AUDIT PROGRAM

1	
2	
3	

Tickmark legend:
Tested and found correct: ✓
Tested and found not correc

ITEMS TESTED			RESULTS OF TESTS			Details of audit findings / control failures
No.	DESCRIPTION	AMOUNT ($)	1	2	3	
Reference to exceptions raised (for each procedure)						
References to manual working papers						
References to evidence						

CONCLUSION: *[conclude on final control reliance for the assertion(s) tested and transfer it to the Reliance on key controls working paper]*

DPF 8. SUBSTANTIVE AUDIT PROCEDURES PERFORMANCE

[This working paper is to be completed on excel spreadsheet]

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

AUDITED COMPONENT	
POPULATION	
SAMPLE SIZE	*[Number of items selected as per Sampling worksheet]*
ACCOUNT BALANCE AUDITED	
PERFORMANCE MATERIALITY / TOLERABLE MISSTATEMENT	

Tickmark legend:

Tested and found correct: ✓

Tested and found not correct: ⊙

List of audit programs to be performed for the sample selected

1	
2	
3	

	Transaction details				Audit programs				Amounts of errors / misstatements *[to be taken to the Audit Differences]*
No.	**Date**	**Details**	**ERN**	**Documents verified**	**1**	**2**	**3**	**4**	
1					*Insert tickmarks*				
2									
3									

4									
5									
6									
7									
Totals			**0.00**						**0.00**
Reference to exceptions raised (for each procedure)									
References to manual working papers									
References to evidence									

EVALUATION OF AUDIT TEST RESULTS

	ERN
Total account balance audited **(A)**	0.00
Total value of transactions tested **(B)**	0.00
Total value of actual misstatements **(C)**	0.00
Projected misstatements for the entire population **D=(C/BxA)**	#DIV/0!
Tolerable misstatements **(E)**	0.00
Tolerable - projected misstatements **(F)**	**#DIV/0!**
Minimum recommended additional sample items to be selected **(G)**:	**#DIV/0!**

When the figure for F is negative, the auditor should follow the steps below:

Step 1 Confirm that the final control reliance is set at '**No reliance'.** Restate control reliance where any (medium or high) reliance has been previously stated. Recalculate sample sizes where applicable and test additional items. If F above is now stated positive, stop here. If F is still stated negative, proceed to step 2.

Step 2 Extend sample sizes further to identify actual misstatements and errors in the population. The **minimum recommended** additional sample items is indicated above (G). Note that this number is merely a guideline suggesting the minimum number of items to be tested based on the projected rate of misstatements regarding the items initially tested. Where extending sample sizes is not practical or preferred for whatever reason, the impact of the projected misstatement exceeding the tolerable misstatement should be considered in light of the auditor's report.

Step 3 Once the additional sample items have been tested, confirm whether the projected misstatement is now below the tolerable misstatement (G>0). If not, this means that the expected rate of misstatements in the population may have to be increased. For example where the additional tests yielded higher errors than the initial projection, this means that there may be a need to perform even further tests.

DPF 9. SUBSTANTIVE ANALYTICAL PROCEDURES

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

Audit program: *[insert the audit program]*

1. Identify the amount and assertion to be tested

[e.g. testing accuracy of the provision for bad debts]

2. Develop an expectation

[e.g. provision for bad debt is expected to be XXX]

3. Determine the threshold

[e.g. variance below 10% are acceptable]

4. Identify significant differences for investigation

[e.g. variances above 10%]

5. Investigate differences

[Discuss with management and obtain explanations for significant differences]

6. Evaluate findings

DPF 10. AUDIT SUMMARY MEMORANDUM

[This working paper is to be completed for all audited components]

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

Audited component:

Financial statement balance:

1. Control weaknesses identified

[List control weaknesses identified]

2. Nature and extent of testing performed

Assertions	Control reliance			Substantive testing			
	Preliminary reliance on controls	Have controls been tested? (Yes / No)	Final control reliance	Extent of substantive testing	Nature of substantive tests	Population tested	% coverage for population / number of items tested
[List all assertions relevant for the component]	*[High/ Medium/No]*		*[High/ Medium/ No]*	*[High/ Medium/ No]*	*[substantive analytical, tests of detail]*		

3. Final audit assurance (substantive procedures)

[Conclude whether sufficient audit work was performed by considering the following:

- *Nature, timing and extent of audit procedures performed;*
- *Coverage of all relevant assertions.]*

4. Consideration of compliance with laws and regulations

Compliance with the following laws and regulations has been given consideration:
[list relevant laws and regulations]

5. Where other issues were identified during the audit of this component, were these followed up and where applicable brought to the attention of specialist components *(e.g. Performance, Computer and Forensic Auditing)*

6. Departures from and changes to audit program and/or plans

7. Errors / Misstatements

ACCOUNT BALANCE	WP	OVERSTATED (ERN)		UNDERSTATED (ERN)	
		DR	CR	DR	CR
	Total				

8. Conclusion

Description	Conclusion
Risk of material misstatement was correctly identified for the audited component.	
Audit work performed for the audit component is sufficient and appropriate in order to express an opinion.	
Sample tested has provided a reasonable basis for conclusions about the population that has been tested.	
All matters raised have been appropriately followed up, communicated to management.	
Errors and misstatements have been transferred to the Audit differences working paper.	

DPF 11. QUALITY CONTROL QUESTIONNAIRE FOR DETAILED PLANNING AND FIELDWORK

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

Questions		ISSAI Ref.	*1st level reviewer*				*2nd level reviewer*				*3rd level reviewer*			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
1.	Was the auditor's understanding of the business processes evident, e.g. through system descriptions, for all material audit components? (Refer to the system descriptions working paper)	ISSAI 1500 ISSAI 1315												
2.	Did the system descriptions include the flow of transactions, risks and controls for every audited component? (Refer to the system descriptions working paper)	ISSAI 1315												
3.	Did the system descriptions include controls prescribed by relevant regulations, instructions and manuals? (Refer to the system descriptions working paper)	ISSAI 1315												
4.	Were system descriptions verified by way of walkthrough tests and was the verification adequately documented? (Refer to the system descriptions working paper)	ISSAI 1330												
5.	Were exceptions raised for control weaknesses found and were they communicated to management?	ISSAI 1330												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
6.	Was the reliance on key controls documented clearly and was it appropriate to support the planned audit assurance to be obtained? (refer to Reliance on key controls working paper)	ISSAI 1330												
7.	Were controls identified on which reliance is intended for each assertion?	ISSAI 1330												
8.	Is the conclusion of the walkthrough test conclusive to support the preliminary control reliance?	ISSAI 1330												
9.	Were planning working papers reviewed and approved prior to commencement of the audit testing?	ISSAI 1220												
10.	Where reliance has been placed on internal controls:													
	(a) Have tests of control been performed for each control to be relied upon?	ISSAI 1330												
	(b) Was the internal control procedure in place for the whole financial year audited?	ISSAI 1330												
11.	Were the tests of controls approved prior to execution?	ISSAI 1300												
12.	Did the test of control procedures specifically address significant risks identified and were they clearly separated from substantive procedures?	ISSAI 1330												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
13.	Were the samples selected for testing reasonable and representative of the population?	ISSAI 1530												
14.	Does it appear that the tests of controls results were properly assessed and evaluated?	ISSAI 1330												
15.	Was the level of control reliance appropriately re-stated where necessary after tests of controls?	ISSAI 1330												
16.	Were substantive procedures developed and performed to adequately address all relevant audited components?	ISSAI 1330 ISSAI 1500												
17.	Was the use of substantive analytical procedures considered to reduce the performance and extent substantive audit procedures?	ISSAI 1520 ISSAI 1330												
18.	Before commencement of detailed substantive testing was the source documentation, direction of testing, population size, sample method used and sample size to be tested indicated?	ISSAI 1230												
19.	Was sufficient audit evidence gathered to satisfy the required level of assurance?	ISSAI 1500												
20.	Were all the audit working papers and audit procedures properly completed and concluded (to all re-performance by a third party and arrive at the same conclusion)?	ISSAI 1230												
21.	Were all relevant audit queries/exceptions appropriately raised?	ISSAI 1530.15 ISSAI 1230												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
22.	Are exceptions supported by and cross referenced to audit evidence?													
23.	Are well-supported conclusions stated for each component? (Refer to the Audit summary memorandum working paper)	ISSAI 1330.28-29												
24.	Is there a clear and traceable link between the audited financial statements and the audit procedures performed? (Refer to Lead schedule on component level working paper)	ISSAI 1230												
25.	Were conclusions drawn on all queries, exceptions and review points either satisfactorily resolved and the impact on the auditor's report determined? This point is especially important for audits with 'clean reports'. (Refer to the Audit summary memorandum working paper)	ISSAI 1220.16												
26.	Was materiality considered during the evaluation of the results of procedures performed and were proper conclusions reached in this regard? (Refer to the Substantive audit procedures performance working paper)	ISSAI 1320.10-13												
27.	If the audit approach had been changed during the audit was the reason for the change documented? (Refer to the Audit summary memorandum working paper)	ISSAI 1330 ISSAI 1230												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
28.	Were accounting estimates, e.g. provision for bad debt, depreciation adequately assessed for reasonableness and were differences correctly followed up?	ISSAI 1540												
29.	Are adjusting year-end journal entries adequately supported by the working papers, cross-referenced to appropriate schedules and agreed with the financial statements?	ISSAI 1220												
30.	Was each step of the audit procedures initialed and cross-referenced to the working paper with evidence to indicate that the work was completed?	ISSAI 1220 ISSAI 1230												

PART 5 - AUDIT SUMMARY

5.1 OVERALL CONSIDERATIONS

WHAT IS THE OUTPUT FROM THIS?

- Consider disclosures in the financial statements *(Refer to AS 1. Disclosure checklist working paper)*
- Consider event subsequent to the financial year end *(Refer to working paper AS 2. Subsequent events)*; and
- Management representations *(Refer to working paper AS 3. Management representation letter).*
- Final analytical review *(Refer to working paper AS 4. Final analytical review)*
- Evaluate unresolved audit differences *(Refer to working paper AS 5. Audit differences)*
- Conclude on the compliance with code of ethics *(Refer to working paper AS 6. Code of ethics compliance)*

5.1.1 Adequacy of presentation and disclosure of financial statements

The auditor should perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with the applicable financial reporting framework. *(ISSAI 1330.24)*

The auditor should consider whether the disclosed financial information (including the notes to the financial statements):

- Provides appropriate reference to the applicable financial reporting framework; *(ISSAI 1700.15)*
- Is described and classified appropriately and is in conformity with the applicable financial reporting framework, including the form, arrangement, and content of the financial statements and their appended notes, the titles of statements and classification of items used, the amount of detail given, and the bases of amounts set forth. For fair presentation frameworks the auditor should evaluate the overall presentation, structure and content of the financial statements and whether it fairly presents the underlying transactions and events. *(ISSAI 1700.13; 14)*;
- Relevant, understandable and reliable - as it agrees or reconciles with the underlying accounting records. *(ISSAI 1330.30) (ISSAI 1700.13)*
- Includes adequate disclosure of material matters including accounting policies consistent with the applicable financial reporting framework and reasonable accounting estimates; *(ISSAI 1700.13)*
- Whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. Evaluate whether:
    - The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated; and
    - The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed. *(ISSAI 1710.7)*

The performance and conclusions on all of the above aspects is documented in the Disclosure checklist *(Refer to AS 1. Disclosure checklist working paper).*

5.1.2 Subsequent events

Financial statements may be affected by certain events that occur after the date of the financial statements or even after the auditors' report. These events provide evidence of:

- Conditions that existed at the date of the financial statements; and
- Conditions which arose after the date of the financial statements. *(ISSAI 1560.2)*

Subsequent events are events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report. The auditor should consider the effect of these events on the audited information and on the auditor's report. *(ISSAI 1560.5)*

In order to adequately consider the events subsequent to the audit of financial statements auditor should:

- Obtain sufficient appropriate audit evidence about whether all events which has occurred between the date of the financial statements and the date of the auditor's report and require adjustment of, or disclosure in, the financial statements are appropriately reflected in accordance with the applicable financial reporting framework; and
- Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report. *(ISSAI 1560.4)*

Events occurring up to the date of the auditor's report

The auditor should perform audit procedures designed to ensure that all events that may require adjustment of, or disclosure in, the financial statements have been identified, including those after the financial year end - up to the date of the auditor's report. These procedures are in addition to procedures which may be applied to specific transactions occurring after period end to obtain audit evidence as to account balances as at period end. For example, looking at the actual outcomes of a court case in the following year may help auditors to determine compliance of the transactions with laws and regulations during the prior year. Auditors in public sector should also refer to additional legislative requirements regarding auditing events subsequent to the end of the financial year audited. *(ISSAI 1560 P4; P5)*

Public sector auditors may also consider events which occurred that:

- Have relevance for the government entity's ability to fulfill its program objectives,
- May impact the presentation of any performance information in the financial statements
- Proceedings of the legislature and other relevant bodies which the auditor may have become aware of during the course of the audit as being scheduled to take place at or after the period end, the outcome of which may impact on disclosed information. *(ISSAI 1560 P6 P7)*

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. It is however, not expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. *(ISSAI 1560.6)*

The audit should perform audit procedures necessary to identify whether such events occurred.

- Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
- Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.
- Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- Reading the entity's latest subsequent interim financial statements, if any. *(ISSAI 1560.7)*

For events identified the auditor should establish whether events have been adequately disclosed – in line with relevant financial reporting framework. *(Refer to AS 2. Subsequent events working paper) (ISSAI 1560.8)*

Facts discovered after the date of the auditor's report but before the financial statements are issued

The auditor does not have any responsibility to perform audit procedures or make any inquiry regarding the financial statements after the date of the auditor's report. However, if, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have affected the auditor's report, the auditor should:

(a) Discuss the matter with management and, where appropriate, those charged with governance.
(b) Determine whether the financial statements need amendment and, if so,
(c) Inquire how management intends to address the matter in the financial statements. *(ISSAI 1560.10)*

When management amends the financial statements, the auditor would carry out the audit procedures necessary in the circumstances and would provide management with a new report on the amended financial statements. The new auditor's report would be dated not earlier than the date the amended financial statements are signed or approved and, accordingly, the audit procedures would be extended to the date of the new auditor's report. *(ISSAI 1560.11)*

Where law, regulation or the financial reporting framework does not allow management to only include in the financial statements the effects of the subsequent event or events causing that amendment and only these amendments are approved, the auditor is allowed to:

- Amend the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements; or
- Provide a new or amended auditor's report that includes a statement in an emphasis of matter or other matter paragraph that conveys that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements. *(ISSAI 1560.12)*

When management is not required by law to issue amended financial statement or does not amend the financial statements in circumstances where the auditor believes they need to be amended and the auditor's report has not been released to the entity, the auditor should express a qualified opinion or an adverse opinion. When the auditor's report has been released to the entity, the auditor would notify those charged with governance not to issue the financial statements and the auditor's report thereon to third parties. If the financial statements are subsequently released, the auditor needs to take action to prevent reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyer. *(ISSAI 1560.13)*

Facts discovered after the financial statements have been issued

After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements. When, after the financial statements have been issued, the auditor becomes aware of a fact which existed at the date of the auditor's report and which, if known at that date, may have caused the auditor to modify the auditor's report, the auditor should consider whether the financial statements need revision, should discuss the matter with management, and should take the action appropriate in the circumstances. The auditor should:

- Discuss the matter with management and, where appropriate, those charged with governance;

- Determine whether the financial statements need amendment; and, if so,
- Inquire how management intends to address the matter in the financial statements. *(ISSAI 1560.14)*.

If management amends the financial statements, the auditor shall:
- Carry out the audit procedures necessary on the amendment.
- Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation.
- Provide a new auditor's report on the amended financial statements or amend the auditor's report – depending on the circumstances. *(ISSAI 1560.15)*

The new auditor's report should include an emphasis of a matter / other matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the auditor. *(ISSAI 1560.16)*

When management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation and does not revise the financial statements, the auditor would notify those charged with governance of the entity that action will be taken by the auditor to prevent future reliance on the auditor's report. Auditors may seek legal advice and also consider reporting to the appropriate statutory body. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers. *(ISSAI 1560.17; P8)*

5.1.3 Management representations

The auditor should obtain written representations or statements from management as audit evidence using the standard letter template. This template includes all the relevant aspects for which management should acknowledge responsibility for example the presentation of the financial statements in accordance with the applicable financial reporting framework. Management representations are necessary to obtain, but they do not provide sufficient audit evidence on their own. It should be supported by audit evidence obtained through performing other audit procedures. Auditors should identify the person(s) from whom the representations should be requested, generally from the applicable legislation. Normally, the 'Accounting Officer' or 'Permanent Secretary' is responsible for the representations. The fact that written representations should be provided together with details on who is responsible for them should be communicated and agreed to in the engagement letter. *(ISSAI 1580.3;4;6; P6)*

The written representations should be obtained as close to the auditor's reporting date as practicable. The written representations should cover the entire financial statements and the entire period(s) under audit. It usually takes the form of a representation letter addressed to the auditor *(Refer to AS 3. Management representation letter working paper)* *(ISSAI 1580.14;15; P8)*

The auditor should request management to provide written representations regarding its responsibilities relating to amongst others whether:
- Fair presentation of financial statements in line with the financial reporting framework including all relevant transactions;
- Design and implementation of internal control to prevent and detect errors;
- It has provided the auditor with all relevant information and documentation;
- Any other additional aspect which is necessary including matters relating to significant assumptions relating to accounting estimates, significant events and restatement of comparative figures. Any other reporting responsibilities – including those of reporting on non-compliance with authorities should be considered where applicable. *(ISSAI 1580.9;10;11;13; P5) (ISSAI 1710.9)*

- When auditors request management to communicate misstatements or control deficiencies, it is useful to also provide a threshold amount above such communication is necessary. In some cases auditors may ask management to provide a list of all identified misstatements and control weaknesses – even when they have been subsequently corrected. *(ISSAI 1580 P7)*

If a representation by management is inconsistent with or contradicted by other audit evidence, the auditor should investigate the circumstances and, when necessary, reconsider the reliability of other representations made by management. In such cases the auditor should perform other audit procedures to obtain necessary assurance. The auditor should also consider such inconsistencies or contradictions in relation to the competence, integrity and ethical values of management. The possible effect on the audit report should also be considered. *(ISSAI 1580.16;17;18)*

If management does not provide a representation that the auditor considers necessary, the auditor should discuss this with management, re-evaluate management's integrity and consider the impact this may have on the auditor's report. Where it is concluded that there is sufficient doubt about the integrity of management and the representations therefore are deemed not reliable, or management does not provide relevant representations, the auditor should express a disclaimer of opinion. The auditor should also consider separate reporting to legislature as appropriate. *(ISSAI 1580.19; 20 P9)*

5.1.4 Compliance with the code of ethics

During reporting auditors once again should look at their compliance to the Code of Ethics throughout the audit. The Code of ethics compliance working paper should be completed by every member of the audit team (*Refer to working paper AS 5. Code of ethics compliance).*

5.1.5 Consideration of identified misstatements

Evaluating the effect of misstatement
In forming an opinion on the financial statements, auditors need to conclude whether the financial statements as a whole are free from material misstatement. *(ISSAI 1450.1)*

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework or legislation. Misstatements can arise from error or fraud. Auditors need to consider whether financial statements give a true and fair view and giving consideration to laws and regulations as required. *(ISSAI 1450.4)*

In doing that the auditor should assess the effect of identified misstatements on the audit and the effect of aggregated uncorrected misstatements in the financial statements in order to form an opinion. In addition to this, in the public sector misstatements include instances of non compliance with legislation which also needs to be assessed. *(ISSAI 1450.3)*

At this point auditors should also:
- Accumulate misstatements other than those clearly trivial *(Refer to SP 1. Planning materiality working paper)* and evaluate whether the accumulated misstatements approach materiality.
- Accumulate misstatements for each main component or a group of components (ie. Expenditure components, revenue components, assets etc.). Do not set off expenditure and revenue misstatements, rather consider them separately.
  The auditor should consider:
  - The size and nature of the misstatements, considering quantitative and qualitative materiality factors;

  - The effect of uncorrected misstatements related to prior periods; *(Refer to AS 5. Audit differences working paper) (ISSAI 1450.5; 11)*
- Consider whether the nature and occurrence of misstatement indicate that the initial risk of material misstatement identified on a financial statement level is still appropriate. *(ISSAI 1450.6)*
- Re-calculate final materiality and determine whether it will differ from preliminary materiality. If yes, the impact of any changes to materiality and risk on the audit approach need to be considered. *(ISSAI 1450.10)*
- Consider whether adequate and sufficient audit evidence was collected during the audit or whether the audit procedures should be extended to identify the extent of certain problems.

When public sector auditors have additional reporting responsibilities relating to non-compliance with authorities and control deficiencies, they should separately evaluate each of these objectives. *(ISSAI 1450 P5)*

Auditor should keep in mind that in certain instances there is also a possibility of misstatements of relatively small amounts that, cumulatively, could have a material effect on the financial statements. For example, an error in a month end procedure could be an indication of a potential material misstatement if that error is repeated each month. In such cases the sample drawn to test the population should be extended to ensure that the account balance audited is not materially misstated.

Audit objectives may include compliance with laws and regulations and effectiveness of internal control depending on the audit mandate. The following definitions apply to types of misstatements identified:
- Control deficiency (control weakness), a condition in which the design or operation of a control does not allow management or employees to timely prevent or detect material misstatements. Such instances should be noted in the System description *(Refer to working paper DPF 1.)*
- Control deviation, the entity's failure to follow or implement a significant control procedure for a transaction. Control deviations will generally be noted via Tests of controls *(Refer to working paper DPF 7).* Instance of non-compliance with authorities, the failure to adhere to law or regulation, including budgetary authority, for a transaction. Non-compliance is usually noted through the identification of control deficiency and deviation.

Communicating to management and the correction of misstatements
All audit findings should be communicated to the appropriate level of management on a timely basis. *(Refer to OC 2. Audit query and R 1. Management letter working papers)*. The auditor should request management to adjust the financial statements. Even when management does adjust the misstatement identified the underlying internal control weakness or non-compliance with authorities may still be included in the auditor's report. Auditors should also communicate non-compliance with legislation and internal control weaknesses to management, those charged with governance and any additional parties as applicable. *(ISSAI 1450.8)*

If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain. This requirement does not apply to instances of non-compliance with authorities or control deviations. Even if a transaction is correctly shown in the financial statements, if the transaction was unlawful or the control was not followed, by its nature it represents an instance of non-compliance with authorities or a control deviation or deficiency. *(ISSAI 1450.7)*

If management refuses to adjust the financial statements containing material misstatements the auditor should consider reasons for the refusal by management and evaluate whether the matter will cause the auditor's report to have a modification. *(ISSAI 1450.9)*

Auditor should obtain written representation that management considers the effects of uncorrected misstatements on the financial statements to be immaterial and on compliance with authority and effectiveness of internal control. When auditors find instances of non-compliance with authorities or control deficiencies, representation maybe modified. *(ISSAI 1450.14; P8)*

When required by audit mandate the auditors should separately evaluate financial statement misstatements, instances of non-compliance with laws and regulations and control deviations.

If the auditor concludes that, or is unable to conclude whether, the financial statements as a whole are materially misstated, the auditor should consider the effect thereof on the opinion in the auditor's report. When auditors have additional reporting responsibilities, each reporting responsibility may be evaluated separately. For example, if auditors are required to report instances of non-compliance with laws and regulations, their evaluation whether the entity has complied with laws and regulations may be separate from their evaluation whether the financial statements as a whole are free from material misstatement. However, misstatements and instances of non-compliance with laws and regulations can also be interrelated, potentially increasing the risks of material misstatements and vice versa. For example misstatements may represent instances of non-compliance with authorities.

For control deviations, auditors determine whether they represent control deficiencies. In this evaluation, auditors evaluate compensating controls to determine whether the control objective has been met.

Communication with those charged with governance and other parties

The auditor should communicate with those charged with governance:

- Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation.
- The effect of uncorrected misstatements related to prior periods influencing the current financial statements. *(ISSAI 1450.12;13)*
- Instances of non-compliance with authorities and control deficiencies. *(ISSAI 1450 P6)*
- Any matters that may lead to modification of audit opinion, any emphasis of matter and other matter to be included in the auditor's report and the proposed wording of these paragraphs. *(ISSAI 1705.28;19;P13) (ISSAI 1706.9;P7)*

Auditors may be expected to communicate all misstatements, even those that have been corrected by the entity, and all control deficiencies (including those which are recurring), and instances of non-compliance with authorities. This maybe the case since the auditee may constitute a limited part of the wider public sector control structure. Therefore, control deficiencies may have implications from a broader perspective. Public sector auditors' determination of who to communicate with about instances of non-compliance with authorities and control deficiencies is based on professional judgment and effected by factors such as:

- The practice in the public sector environment
- The nature and number of occurrences
- Whether similar occurrences are likely to exist in the entity or in other entities for which those charged with governance have responsibility. *(ISSAI 1706 P8)*

Many auditors communicate all identified instances of non-compliance with laws and regulations. Some public sector audit organizations can, according to the audit mandate, order the entity to correct any instance of non-compliance with laws and regulations. In such cases, public sector auditors determine whether their independence will be impaired. *(ISSAI 1450 P10)*

When communicating with those charged with governance, auditors use ways of reporting relevant in their jurisdiction. Auditors may also be called upon to testify before the legislature on the results of the financial statement audit. Auditors may also communicate misstatements, instances of non-compliance with authorities and control deficiencies to additional parties such as government officials. *(ISSAI 1450 P7)*

In addition, when a reporting deadline given by legislation is not met by auditors, this fact should be reported to those charged with governance or legislature as applicable. *(ISSAI 1700 P13)*

Documentation and evidencing

Auditors should document:

- All misstatements, unless clearly trivial and whether they have been corrected
- Where applicable the amount under which misstatements are deemed to be clearly trivial
- Identified control deviations and whether they represent control deficiencies.
- Control deficiencies that do not arise from control deviations.
- Identified instances of non-compliances with authorities.
- Conclusions as to whether uncorrected misstatement, non- compliances with laws and regulations and control deficiencies are material and the basis for those conclusions *(ISSAI 1450.15)*. *(Refer to AS 5. Audit differences working paper)*

5.2 THE CONSIDERATION OF ENVIRONMENTAL MATTERS IN THE AUDIT OF FINANCIAL STATEMENTS

Environmental matters are becoming significant to an increasing number of entities and may, in certain circumstances, have a material impact on their financial statements. These issues are of growing interest to the users of financial statements. The recognition, measurement and disclosure of these matters are the responsibility of management.

Environmental matters can be complex and may therefore require additional consideration by the auditors.

This section provides practical assistance to auditors by describing:

- ***The auditor's main considerations in an audit of financial statements with respect to environmental matters;***
- ***Examples of possible impacts of environmental matters on financial statements; and***
- ***Guidance that the auditor may consider when exercising professional judgment in this context to determine the nature, timing and extent of audit procedures.***

5.2.1 Considerations regarding environmental matters

When planning and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognise that non-compliance by the entity to laws and regulations may materially affect the financial statements. However, an audit cannot be expected to detect non-compliance with all laws and regulations. In particular, with respect to the entity's compliance with environmental laws and regulations, the auditor's purpose is not to plan the audit to detect possible breaches of environmental laws and regulations; nor are the auditor's procedures sufficient to draw a conclusion on the entity's compliance with environmental laws and regulations or the adequacy of its controls over environmental matters.

It should be noted that the nature and scope of public sector audit engagements may be affected by legislation, regulation, ordinances and ministerial directives that impose additional audit or reporting responsibilities with respect to environmental issues.

The need to consider the extent of the consideration's environmental matters in an audit of financial statements depends on the auditor's judgment as to whether environmental matters give rise to a risk of material misstatement in the financial statements. In some cases, no specific audit procedures may be judged necessary. In other cases, however, the auditor uses professional judgment to determine the nature, timing and extent of the specific procedures considered necessary in order to obtain sufficient appropriate audit evidence that the financial statements are not materially misstated. If the auditor does not have the professional competence to perform these procedures, technical advice may be sought from specialists, such as lawyers, engineers or other environmental experts.

To conclude that an entity operates in compliance with existing environmental laws or regulations ordinarily requires the technical skills of environmental experts, which the auditor cannot be expected to possess.

5.2.2 Impact on the financial statements

Auditors of financial statements of governments and other public sector entities may need to consider the recognition, measurement and disclosure of any liabilities or contingencies for environmental damage. Liabilities or contingencies may arise through damage caused by the reporting entity or one of its agencies. However, in the public sector, liability or contingencies may also arise when the government accepts responsibility for clean-up or other costs associated with damage caused by others, if, for example, responsibility is unresolved or cannot be attributed to others.

Some examples of environmental matters affecting the financial statements are the following:

- Environmental laws and regulations may involve an impairment of assets and consequently a need to write down their carrying value;
- Failure to comply with legal requirements concerning environmental matters, such as emissions or waste disposal, or changes to legislation with retrospective effect, may require accrual of remediation, compensation or legal costs;
- Some entities, for example, in the extraction industries (oil and gas exploration or mining), chemical manufacturers or waste management companies may incur environmental obligation as a direct by-product of their core operations;
- Constructive obligations that stem from a voluntary initiative, for example, an entity may have identified contamination of land and, although under no legal obligation, it may have decided to remedy the contamination, because of its concern for its long-term reputation and its relationship with the community;
- An entity may need to disclose in the notes the existence of a contingent liability where the expense relating to environmental matters cannot be reasonably estimated; or
- In extreme situations, non-compliance with certain environmental laws and regulations may affect the continuance of an entity as a going concern and consequently may affect the disclosures and the basis of preparation of the financial statements.

5.2.3 Guidance on the application of professional judgement

Knowledge of the business
In obtaining a sufficient knowledge of the business, the auditor considers important conditions affecting the entity's business and the industry in which it operates, such as environmental requirements and problems.

A substantial degree of potential exposure to significant environmental risk may in general arise for any entity that is subject to environmental laws and regulations.

Inherent risk
Examples of environmental risk at financial statement level are:

- The risk of compliance costs arising from legislation or from contractual requirements;
- The risk of non-compliance with environmental laws and regulations; and
- The possible effects of specific environmental requirements of customers and their possible reactions to the entity's environmental conduct.

If the auditor considers that environmental risk is a significant component in the inherent risk assessment, the auditor should relate this assessment to material account balances and classes of transactions at the assertion level when developing the audit program.

Examples of environmental risk at the level of account balances or classes of transactions are:
- The extent to which an account balance is based on complex accounting estimates with respect to environmental matters; and
- The extent to which an account balance is affected by unusual or non-routine transactions involving environmental matters.

Accounting and internal control systems
It is management's responsibility to design and operate internal controls to assist in achieving, as far as practicable, the orderly and efficient conduct of the operations, including any environmental aspects.

Only if, in the auditor's judgment, environmental matters may have a material effect on the financial statements of an entity, does the auditor need to obtain an understanding of the entity's significant policies and procedures with respect to its monitoring of, and control over these environmental matters in order to plan the audit and develop an effective audit approach. In such cases the auditor is only concerned with those environmental controls (within or outside the accounting and internal control systems) that are considered relevant to the audit of the financial statements.

Control environment
Factors in obtaining and understanding of the control environment with respect to environmental matters may include:
- The functioning of the board of directors and its committees, with respect to the entity's environmental controls;
- Management's philosophy and operating style and its approach to environmental issues;
- The entity's organizational structure and methods of assigning authority and responsibility to deal with environmental operating functions and regulatory requirements; and
- Management's control system, including the internal auditing function, the performance of personnel policies and procedures, and appropriate segregation of duties.

Control procedures
Examples of environmental controls are policies and procedures:
- To monitor compliance with the entity's environmental policy, as well as with relevant environmental laws and regulations;
- To maintain an appropriate environmental information system, which may include recording of, for example, physical quantities of emissions and hazardous waste, environmental characteristics of products, complaints from stakeholders, results of inspections performed by enforcement agencies, occurrence and effects of incidents, etc;
- To provide for the reconciliation of environmental information with relevant financial data, for example, physical quantities of waste production in relation to cost of waste disposal;
- To identify potential environmental matters and related contingencies affecting the entity; and
- If the entity has established environmental controls, the auditor also inquires of those persons overseeing such controls as to whether any environmental matters have been identified that may have a material effect on the financial statements.

Control risk
After obtaining an understanding of the accounting and internal control systems, the auditor may need to consider the effect of environmental matters in the assessment of control risk and in any tests of control that may be necessary to support that assessment.

Consideration of laws and regulations
The responsibility for the prevention and detection of non-compliance rests with management. Management has to take into account laws and regulations that impose liability for remediation of environmental pollution arising from past events; environmental licenses that, in certain jurisdictions, specify the entity's operating conditions from an environmental point of view and the requirements of regulatory authorities with respect to environmental matters.

Changes in environmental legislation could have significant consequences for the operations of the entity and may even result in liabilities that relate to past events which, at the time, were not governed by legislation.

A government's responsibilities may also include the monitoring of compliance with laws and regulations in relation to environmental matters. More specifically, this monitoring role will be the responsibility of a particular public sector agency or agencies. In performing the financial statement audit of such an agency or agencies the auditor may need to consider, for example, controls covering the imposing of appropriate charges/fines and the collection of fines. For unresolved cases consideration may also need to be given to the recognition, measurement and disclosure of any liabilities or contingencies.

Substantive procedures
Examples of substantive procedures that an auditor may perform to detect a material misstatement due to environmental matters:

- Consider minutes from board of directors' meetings, audit committees, or any other subcommittees of the board specifically responsible for environmental matters;
- Consider publicly available industry information to take into account any existing or possible future environmental matters. Also consider general available media comment, if any;
- Consider reports issued by environmental experts about the entity, such as site assessments or environmental impact studies;
- Correspondence with enforcement agencies; and
- Correspondence with the entity's lawyers.

Using the work of others
If the work of an environmental expert is used and the outcome has been recognized or disclosed in the financial statements the auditor must consider the impact of the results of the expert's work on the financial statements.

The auditor should consider whether the internal auditors address environmental aspects of the entity's operations as part of their internal auditing activities.

If an "environmental audit" has been performed and the findings of that audit could qualify as audit evidence in the audit of the financial statements the auditor must:

- Consider the impact of the results of the "environmental audit" on the financial statements;
- Assess the professional competence and the objectivity of the "environmental auditor"/audit team;
- Obtain sufficient appropriate audit evidence that the scope of "environmental audit" is adequate for the purposes of the audit of the financial statements; and
- Assess the appropriateness of the work of the "environmental auditor" as audit evidence.

Insurance

The auditor should inquire about existing (and earlier) insurance cover for environmental risk and discuss this with management.

Representations from management
Obtain written representations from management that it has considered the effects of environmental matters on the financial statements, and that it is not aware of any material misstatements arising from environmental matters.

Subsidiaries
Inquire of auditors of subsidiaries as to the subsidiary's compliance with relevant local environmental laws and regulations and their possible effects on their financial statements.

Environmental audit
"Environmental audits" are becoming increasingly common in certain industries.

The term "environmental audit" has a wide variety of meanings. They can be performed by external or internal experts (sometimes including internal auditors), at the discretion of the entity's management. In practice, persons from various disciplines can qualify to perform "environmental audits". Often the work is performed by a multidisciplinary team. Normally, "environmental audits" are performed at the request of management and are for internal use. They may address various subject matters, including site contamination, or compliance with environmental laws and regulations. However, an "environmental audit" is not necessarily an equivalent to an audit of an environmental performance report.

The auditor of the entity's financial statements may consider using the findings of "environmental audits" as appropriate audit evidence.

Important criteria to be considered are:
- The impact of the results of the environmental audit on the financial statements;
- The competency and skill of the environmental audit team and the objectivity of the auditors, especially when chosen from the entity's staff;
- The scope of the environmental audit, including management's reactions to the recommendations that result from the environmental audit and how this is evidenced;
- The due professional care exercised by the team in the performance of the environmental audit; and
- The proper direction, supervision and review of the audit.

Reporting
When forming an opinion on the financial statements, the auditor considers whether the effects of environmental matters are adequately treated or disclosed in accordance with the appropriate financial reporting framework.

In addition, the auditor reads any other information to be included with the financial statements in order to identify any material inconsistencies regarding environmental matters.

Auditors may, in some countries, be obliged to report instances of non-compliance with environmental regulations found in the course of a financial statement audit, regardless of whether or not those instances of non-compliance have a material impact on the entity's financial statements.

5.3 ELECTRONIC COMMERCE

The purpose of this section is to provide guidance to assist auditors of financial statements where an entity engages in commercial activity that takes place by means of connected computers over a public network, such as the Internet.

This section describes:

- ***Skills and knowledge;***
- ***Knowledge of the business;***
- ***Risk identification;***
- ***Internal control considerations; and***
- ***The effect of electronic records on audit evidence.***

Skills and knowledge

The level of skills and knowledge required to understand the effect of e-commerce on the audit will vary with the complexity of the entity's e-commerce activities. The auditor considers whether the personnel assigned to the engagement have appropriate information technology (IT) and Internet business knowledge to perform the audit.

In some circumstances, the auditor may decide to use the work of an expert, for example if the auditor considers it appropriate to test controls by attempting to break through the security layers of the entity's system. The auditor also considers how the work of the expert is integrated with the work of others on the audit, and what procedures are undertaken regarding risks identified through the expert's work.

Knowledge of the business

The growth of e-commerce may have a significant effect on the entity's traditional business environment. The auditor should obtain knowledge of the business to identify and understand the events, transactions and practices that may have a significant effect on the financial statements or on the auditor's report.

The auditor's knowledge of the business is fundamental to assessing the significance of e-commerce to the entity's activities and any effect on audit risk. The auditor considers changes in the entity's environment attributable to e-commerce, and identified e-commerce business risks where they affect the financial statements.

In obtaining or updating knowledge of the entity's business, the auditor considers the following affects on the financial statements:

- The entity's business activities and industry;
- The entity's e-commerce strategy;
- The extent of the entity's e-commerce activities; and
- The entity's outsourcing arrangements.

Risk identification

Management faces many business risks relating to the entity's e-commerce activities, such as loss of transaction integrity, the effects of which may be compounded by the lack of an adequate audit trail in either paper or electronic form.

The entity addresses certain business risks arising in e-commerce through the implementation of an appropriate security infrastructure and related controls, which generally include measures to ensure the integrity of transactions and establish privacy and information protection protocols.

The auditor uses the knowledge of the business obtained to identify those events, transactions and practices related to business risks arising from the entity's e-commerce activities that, in the auditor's judgment, may result in a material misstatement of the financial statements or have a significant effect on the auditor's procedures or the auditor's report.

Internal controls
Internal controls can be used to mitigate many of the risks associated with e-commerce activities. The auditor considers the control environment and control procedures the entity has applied to its e-commerce activities to the extent to which they are relevant to the financial statement assertions. In some circumstances, for example, when electronic commerce systems are highly automated, when transaction volumes are high, or when electronic evidence comprising the audit trail is not retained, the auditor may determine that it is not possible to reduce audit risk to an acceptably low level by using only substantive procedures. CAATs are often used in such circumstances ("Computer Assisted Audit Techniques").

Audit evidence
There may not be any paper records for e-commerce transactions, and electronic records may be more easily destroyed or altered than paper records without leaving evidence of such destruction or alteration. The auditor considers whether the entity's security of information policies, and security controls as implemented, are adequate to prevent unauthorized changes to the accounting system or records, or to systems that provide data to the accounting system.

The auditor may test automated controls, such as record integrity checks, electronic date stamps, digital signatures, and version controls when considering the integrity of electronic evidence. Depending on the auditor's assessment of these controls, the auditor may also consider the need to perform additional procedures such as confirming transaction details or account balances with third parties.

SELF CHECKLIST

PART 5: AUDIT SUMMARY

For your purpose:

- ***Have you gathered sufficient, appropriate audit evidence to support audit components and relevant assertions?***
- ***Do your audit assertion, audit procedure and audit evidence support conclusions drawn?***
- ***Have all audit queries been issued and responded to by management of the auditee?***
- ***Have you considered audit procedures on the opening balances disclosed in the financial statements?***
- ***Have you received and adequately considered the management representations?***
- ***Have you considered the audit of financial statements with respect to environmental matters?***
- ***Is your audited entity affected by e-commerce? If so, does the engagement team have sufficient skills and knowledge to perform the audit?***
- ***Have you performed sufficient audit procedures to identify risks and internal controls relating to e-commerce?***
- ***Have you evaluated the financial statements and whether they are adequately presented in terms of the financial reporting framework?***
- ***Have you considered any changes to the financial statements in light of the sufficiency and adequacy of audit work performed?***

WORKING PAPERS

AS 1. DISCLOSURE CHECKLIST

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

No.	AUDIT PROGRAMME	RECORD OF WORK DONE AND CONCLUSIONS	REFERENCES
1.	Confirm that the evaluation of the financial reporting framework of the auditee was completed.	*[Insert the conclusions from the SAI level evaluation or refer to the evaluation checklist under Module 1. Part 4.]*	*[Insert references to work performed and exceptions raised]*
2.	Confirm that any additional disclosures which may be required to have an acceptable financial reporting framework have been agreed to and provided by management.		
3.	Confirm whether all disclosures required by specific laws and regulations of the auditee have been adequately provided by the management of the auditee.		
4.	Confirm whether the applicable financial reporting framework is adequately referred to in the financial statements.		
5.	Compare the format of the audited financial statements to the accounting format prescribed for the entity.		
6.	Confirm the detailed disclosure requirements for all items disclosed in the financial statements.		
7.	Cast and cross cast the financial statements and disclosure notes.		
8.	Compare the financial statements to the trial balance and confirm correct allocation of amounts from the trial balance to the financial statements.		
9.	Confirm that the headings and dates on the financial statements are correctly included.		
10.	Compare the amounts and accounts included in final ledger used for the audit to the final trial balance.		
11.	Confirm that the final (audited) trial balance was used to compile the financial statements.		
12.	Confirm whether all balances appearing on the trial balance that should have been included were included in the financial		

No.	AUDIT PROGRAMME	RECORD OF WORK DONE AND CONCLUSIONS	REFERENCES
	statements.		
13.	Confirm that all material disclosures in the financial statements have been covered by the audit.		
14.	Confirm that the comparative information in the current year's financial statements correspond to the figures audited in the previous year.		
15.	Confirm whether comparative information is in line with the requirements of the financial reporting framework and whether it has been restated where required.		

AS 2. MANAGEMENT REPRESENTATION LETTER

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

TO: THE AUDITOR-GENERAL **DATE**

This representation letter is provided in connection with your audit of the financial statements of *[insert name of audited entity]* for the year ended *[insert the date of financial year end]* for the purpose of expressing an opinion as to whether or not the financial statements present fairly, in all material respects, the financial position of *[insert name of audited entity]* as at *[insert the date of financial year end]* and the results of its operations and its cash flows for the year then ended in accordance with *[insert applicable financial reporting requirement e.g. IPSAS]*.

We acknowledge our responsibility for the accuracy of the accounting records and the fair presentation of the financial statements and we confirm, to the best of our knowledge and belief, the following representations given to you in connection with your duties as auditors of *[insert name of audited entity]* for the year ended *[insert the date of financial year end]*.

Accounting policies

The accounting policies used by the *[insert name of audited entity]* are as stated in the financial statements and are consistent with those of the previous year.

Accounting records and transactions

1. We as management responsible for the design and implementation of internal controls to prevent and detect error, misstatements and fraud.

2. We have made available to you all books of account and supporting documentation and all minutes of meetings and no such information has been withheld.

3. We have disclosed to you:
   - The results of the risk assessments that financial statements may be materially misstated as a result of fraud
   - Any knowledge of fraud or suspected fraud affecting the entity involving:
     (i) Management;
     (ii) Employees who have significant roles in internal control; or
     (iii) Others where the fraud could have a material effect on the financial statements; and
   - Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

4. To our knowledge the financial statements are free of material misstatements including omissions. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We have no plans that may alter materially the carrying value or classification of assets and liabilities reflected in the financial statements.

6. Except as disclosed in the financial statements, the results of operations for the year were not materially affected by transactions of an extraordinary or abnormal nature or of a sort not usually undertaken by the *[insert name of audited entity]*, or items relating to a prior year.

7. All transfer payments have been properly and completed accounted for and has been recorded in the proper period.

8. The Appropriation account reflects a complete record of all expenditure relating to the financial transactions of the budgetary vote under our control as well as all allocated funds (budgeted, adjustments and special authorisations by the minister).

9. The budget has been prepared in accordance with the relevant regulations and instructions and is in line with set criteria and objectives.

10. Personnel expenditure represents payments in respect of services which have been rendered to the *[insert name of audited entity]* by employees on the payroll of the *[insert name of audited entity].*

Assets

1. We have no plans or intentions that will result in any excess or obsolete inventory.

2. The *[insert name of audited entity]* has satisfactory title to all assets, and there are no liens or encumbrances on the *[insert name of audited entity]*'s assets in favour of third parties.

3. All assets were maintained and were stored in good condition during the financial year.

4. The current assets in the financial statements are expected, in our opinion, to produce at least the amounts at which they are stated. Adequate provision, in our opinion, has been made against all amounts owing to the *[insert name of audited entity]* which are known and may be expected to become irrecoverable.

Liabilities

1. The *[insert name of audited entity]* has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regularity authorities that could have a material effect on the financial statements in the event of non-compliance.

2. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in Note ………. to the financial statements all guarantees that we have given to third parties. We are not aware of any pending or threatened litigation, proceedings, hearings, claims or negotiations which may result in significant loss to the *[insert name of audited entity]*.

3. There have been no events subsequent to period end that requires adjustment of or disclosure in the financial statements or notes thereto.

4. We are not aware of any capital expenditure projects entered into without a legal contract. There were no purchase commitments in excess of normal requirements or at prices in excess of prevailing market prices.

Other matters

1. There have been no irregularities involving management or employees that have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

2. All known, actual or possible, non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements, have been disclosed to the auditors.

3. All the recorded expenditure transactions have been appropriately authorised during the year under review, except as disclosed to the auditors.

4. According to our knowledge there has been no fraud or suspected fraud affecting the financial statements and the operations of the entity.

5. Except as disclosed in the financial statements, no transactions involving management and others requiring disclosure in the financial statements have been entered into. We confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and, when appropriate, adequately disclosed in the financial statements.

6. The required tender procedures have been followed and no commissions have been received by any employee of the *[insert name of audited entity]*.

____

Signature of *Director General /Director/ Head of Finance and Administration*

AS 3. SUBSEQUENT EVENTS

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

Procedure	Event	Effect on financial statements	Date of event	WP ref.
1. Obtain understanding and evaluate adequacy of management's processes to identify events subsequent to the date financial statements are prepared.				
2. Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.				
From the date of the balance sheet through to the date of our auditor's report: 3. Review minutes of council-, management-, audit committee- and other relevant meetings.				
4. Review the most recent interim financial statements; compare with the financial statements under examination and obtain explanations for any unusual adjustments, inconsistencies, variations or other items.				
5. Discuss with appropriate officials whether the audited entity has entered into any significant transactions or agreements that may affect the financial statements under examination.				
6. Obtain representation letters from management and legal counsel (internal and external) through to the date of our auditor's report.				
7. Consider reviews and tests in the following audit areas to identify potential subsequent events (this work should be considered in conjunction with the other procedures): (a) Cash receipts and disbursements, sales and returns, purchases, and intercompany activity; (b) Doubtful accounts receivable, market value of investments and inventories, slow-moving and obsolete inventories, estimates to complete contracts in progress, re-negotiation, contract price determination and all other significant areas that have been accounted for at the balance sheet date on the basis of tentative, preliminary or inconclusive data; (c) Contracts received or terminated, fire losses, strikes, wage negotiations and governmental restrictions; (d) Purchases, sales and other commitments and				

Procedure	Event	Effect on financial statements	Date of event	WP ref.
contingent liabilities, warranties, settlement of pending litigation, tax deficiencies, environmental regulations, restrictions and penalties, etc; (e) Policy decisions; (f) Significant related party transactions; and (g) Cash-flow projections and other forecast financial information.				
8. Consider whether all events identified have been adequately disclosed in the financial statements.				

AS 4. FINAL ANALYTICAL REVIEW

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1**			
Prepared by:		**Level 2**			
Rank:		**Level 3**			
Date:					

Audit Components *[Insert actual audited components]*	**Current year final figures**	**Current year budget**	**Difference between actual and budget** *[Actual less Budgeted amount]*	**% difference** *[(Actual less budgeted amount) / budgeted amount]*	**Prior year**	**Difference current v current and prior year** *[Actual less prior year amount]*	**% difference** *[(Current year actual less prior year) / prior year figure]*	**Explanations of variances over 10%** *[These variances are only indicative of risk areas. They do not represent misstatements]*
	ERN '000	**ERN '000**	**ERN '000**		**ERN '000**	**ERN '000**		
REVENUE								
Voted funds								
Other income								
TOTAL REVENUE								
PERSONNEL EMOLUMENTS								
Salary payments								
Overtime								
Bonus								
Allowances								
TOTAL PERSONNEL								

Audit Components *[Insert actual audited components]*	**Current year final figures**	**Current year budget**	**Difference between actual and budget** *[Actual less Budgeted amount]*	**% difference** *[(Actual less budgeted amount) / budgeted amount]*	**Prior year**	**Difference current v current and prior year** *[Actual less prior year amount]*	**% difference** *[(Current year actual less prior year) / prior year figure]*	**Explanations of variances over 10%** *[These variances are only indicative of risk areas. They do not represent misstatements]*
	ERN '000	**ERN '000**	**ERN '000**		**ERN '000**	**ERN '000**		
EMOLUMENTS								
EXPENDITURE								
Goods and services								
Professional services								
Subsistence and travelling								
Administrative expenditure								
TOTAL EXPENDITURE								
TRANSFERS AND SUBSIDIES								
NET SURPLUS /(DEFICIT) FOR THE YEAR								
INVENTORY								
ASSET MANAGEMENT								

Audit Components *[Insert actual audited components]*	**Current year final figures**	**Current year budget**	**Difference between actual and budget** *[Actual less Budgeted amount]*	**% difference** *[(Actual less budgeted amount) / budgeted amount]*	**Prior year**	**Difference current v current and prior year** *[Actual less prior year amount]*	**% difference** *[(Current year actual less prior year) / prior year figure]*	**Explanations of variances over 10%** *[These variances are only indicative of risk areas. They do not represent misstatements]*
	ERN '000	**ERN '000**	**ERN '000**		**ERN '000**	**ERN '000**		
Equipment and machinery								
Furniture and fittings								
Cultivated assets								
Computer equipment								
Other fixed structures (e.g. roads etc)								
Land and buildings								
TOTAL ASSETS								
LIABILITIES								
CONTRACTS								

Conclusion

[Conclude whether the initial assessment of risk on the financial statement level was identified correctly and audit work has adequately covered all risk areas]

AS 5. AUDIT DIFFERENCES

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

[Refer to Annexure D "Guidance on the Audit differences working paper".]

Planning Materiality: ERN	Final Materiality: ERN		State reasons for adjusting overall materiality:		
When final materiality is less than planning materiality consider the effect which the revised overall materiality may have on the performance materiality and consequently on sampling for substantive tests]					
	Income Statement		Balance Sheet		Disclosure Notes
	Audit differences arising in the following components (ERN)		Audit differences arising in the following components (ERN)		
	[Revenue]	*[Goods and Services]*	*[Fixed Assets]*	*[Debtors]*	
Description of errors and misstatements					
[List errors / misstatements found here]					
Total of audit differences	0	0	0	0	0
Adjustments made by audited entity					
[Insert the total amount for adjustments made]					
Total of adjustments made by audited entity	0	0	0	0	0

	Income Statement		**Balance Sheet**		**Disclosure Notes**
	Audit differences arising in the following components (ERN)		**Audit differences arising in the following components (ERN)**		
	[Revenue]	*[Goods and Services]*	*[Fixed Assets]*	*[Debtors]*	
Total remaining unadjusted audit differences	0	0	0	0	0
Considering overall materiality is the amount quantitatively material? (Yes / No)					
Is the amount material considering qualitative materiality factors? (Yes / No)					
Qualitative audit findings without financial impact					
[List findings here]					
State the impact of audit findings on the audit opinion					

AS 6. CODE OF ETHICS COMPLIANCE

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1:**			
Prepared by:		**Level 2:**			
Rank:		**Level 3:**			
Date:					

Audited entity: *[insert the name of the audited entity]*
Financial year audited: *[insert the date of the financial year-end]*

For the purposes of the above audit, I confirm to the best of my knowledge that:
1. Provisions of the Code of Ethics have been observed by the team members during the audit.
2. The audit team members have maintained their independence, objectivity, impartiality and political neutrality throughout the audit.
3. No benefits or gifts have been received before, during or after the audit from persons employed by or associated with the auditee.
4. The audit was performed with due professional care, honesty and integrity.
5. No audit information has been disclosed to third parties.
6. Any subsequent changes to my status declared on the Code of ethics declaration working paper during the audit were appropriately communicated to my supervisors.

DECLARATION
[This declaration should be signed by the all team members]
I, the undersigned confirm that the above statements for this audit are true and correct.

Name of team member	Rank	Signature of team member

AS 7. QUALITY CONTROL QUESTIONNAIRE FOR AUDIT SUMMARY

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
1.	Were the financial statements checked to determine whether they were consistent with those of the previous financial year and consistent with the supporting schedules? (Refer to the Disclosure checklist working paper)	ISSAI 1500												
2.	Is there evidence that the auditor verified that the audited financial statements and notes thereto are properly presented and meet the applicable standards and prescribed format? (Refer to the Disclosure checklist working paper)	ISSAI 1230 ISSAI 1500												
3.	Were procedures performed to ensure the completeness and accuracy of other information accompanying the financial statements?	ISSAI 1500 ISSAI 1330												
4.	Was a properly tailored management representation letter obtained which was signed on a date close to (but prior to) the signing of the auditor's	ISSAI 1580 ISSAI 1230												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
	report? (Refer to the Management representation working paper)													
8.	Where a representation letter was refused, was a possible limitation of scope considered? (Refer to the Management representation working paper)	ISSAI 1580												
9.	Were procedures executed to identify subsequent events? (Refer to the Subsequent events working paper)	ISSAI 1560												
10.	Was a final analytical review performed and significant differences explained in relation to the audit evidence obtained? (Refer to the Final analytical review working paper)	ISSAI 1520												
11.	Have analytical review procedures identified a need for further audit procedures and have such further procedures been performed? (Refer to the Final analytical review working paper)	ISSAI 1520												
12.	Was the aggregate effect of the differences with financial impact evaluated and concluded on in order to assess the impact on the auditor's report? (Refer to the Audit differences working paper)	ISSAI 1230.8-9												
13.	Was the planning materiality level re-stated and the impact of this considered on the audit work where appropriate? (Refer to the Audit differences working paper)	ISSAI 1320												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
14.	Was compliance with the Code of ethics appropriately considered for the audit engagement? (Refer to the Code of ethics compliance working paper)	ISSAI 1200												

PART 6 – AUDIT CONCLUSIONS AND REPORTING

6.1 MANAGEMENT LETTER

WHAT IS THE OUTPUT FROM THIS?
- Communicate audit findings *(Refer to working paper R 1. Management letter).*

6.1.1 Communicating audit findings

The process for the audit is to ensure that the information contained within the auditor's report is appropriately considered and communicated to the audited entity before it is made public. The ideal mechanism for this process is through the use of the management letter. At this stage of the audit, the transaction testing and related working papers should be completed. Audit queries are generated as explained in the previous section.

The audit queries are the basis for the management letter, all matters arising from the management letter must have been generated through audit queries. The auditor can issue various management letters during the course of the audit but the final management letter is seen as the most crucial communication. Earlier management letters may be issued by the audit director, however, the management letter issued with the financial statements should be issued by the person responsible for the auditor's report. The final management letter precedes the auditor's report and should include all unresolved findings from the audit. The primary aim of the management letters is to communicate findings to the management of the auditee and to obtain their responses *(Refer to working paper R 1. Management letter)*.

For each audit finding there are several categories of information that are required. These include:
- Area of expenditure / revenue;
- Classification of the finding;
- Description of the finding;
- Implication;
- Recommendation;
- Management response; and
- Auditor's comment.

Whilst some of these categories are straightforward some require further explanation and are discussed in more detail below:

6.1.2 Classification of finding

The auditor is expected to classify the audit finding into the severity of where and how it will be reported. The categories are as follows:
- Included in management letter only;
- Included in the auditor's report under emphasis of matter / other matters; and
- Included in the auditor's report as a qualification issue.

The difference between the items has an element of professional judgement attached to it. However, for the findings included under qualification issues the auditor can use the materiality calculation to guide them. An overall evaluation of errors schedule is included at the end of this section which the auditor must complete on the relevant working paper.

The distinction between management letter and emphasis of matter is more difficult. To guide the auditor the following table can be used:

Characteristics of management letter only findings	Characteristics of Emphasis of Matter findings
Isolated finding	Common Findings
Insignificant or not material	Significant
Unlikely to recur	Recurring or likely to recur (and may have been previously reported)
Matter resolved prior to issuance of auditor's report	Matter unresolved at the time of issuing auditor's report
Mistake / omission	Fraud / misappropriation of funds / corruption
Isolated legal non-compliance with no financial effect	Any legal non-compliance in particular with any relevant act dealing with procurement

This area is not straightforward and common findings should be grouped before decisions are taken.

6.2 CONCLUDING AND REPORTING

WHAT IS THE OUTPUT FROM THIS?

- Conclude from the audit work done *(Refer to working paper, R 2. Auditors report template, R 3. Representation by audit management working paper, R 4. Matters for attention during next year's audit working paper).*

This section provides guidance on:

- ***Consideration of identified misstatements***
- ***Types of audit opinions;***
- ***Contents of the Auditor's Report;***
- ***Using comparatives in the Auditor's report.***

6.2.1 Objectives of audit reporting

Financial statements in government are usually prepared in line with a financial reporting framework set out by legislation. A general purpose framework is a financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term "compliance framework" is used to refer to a financial reporting framework that requires full compliance with the requirements of the framework.

The term "fair presentation framework" is used when over and above complying with requirements of the framework management may have to provide additional disclosures to achieve fair presentation or it could even be necessary for management to depart from a requirement to achieve fair presentation. Such departures are expected to be necessary only in extremely rare circumstances. *(ISSAI 1700.7)*

Commonly, legislation identifies the International Public Sector Accounting Standards (IPSAS) as the applicable financial reporting framework. Financial statements with disclosure notes including a statement of accounting policies and other explanations are subject to audit. The objectives of the auditor are to:

1. Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

2. Express clearly that opinion through a written report that explains the basis of the opinion. *(ISSAI 1700.6;8;9;10)*

To form an opinion the auditor should perform relevant procedures to provide reasonable assurance that the financial statements are free of material misstatements and that all requirements of the applicable financial reporting framework have been correctly applied. The auditor should follow the approach prescribed in this manual and also consider the qualitative aspects of the entity's accounting practices and indicators of management bias. *(ISSAI 1700.11;12)*

In addition, when the reporting framework allows entities to deviate from the requirements of the reporting framework in order to achieve fair presentation the auditor should also evaluate whether these deviations were adequate for that purpose.

Specific Considerations for Public Sector Auditors with a Judicial Role
In some public sector environment, such as a Court of Accounts environment, the auditors' report is often judged and used to determine personal legal implications of those responsible for financial acts, including significant matters, instances of non-compliance with authorities, and control deficiencies. Therefore, public sector auditors in a Court of Accounts environment, when evaluating the misstatements, instances of non-compliance with authorities and control deviations identified during the audit, also identify those responsible for the financial acts and for compliance with legal requirements. *(ISSAI 1450 P9)*

Reference should be made to the Reporting Guideline issued by AFROSAI-E for additional explanations and practical examples.

6.2.2 Types of audit opinions

UNQUALIFIED OPINION
An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. *(ISSAI 1700.16)*

When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state the auditor's opinion that the financial statements give a true and fair view or present fairly, in all material respects, in accordance with the applicable financial reporting framework (unless the auditor is required by law or regulation to use different wording for the opinion, in which case the prescribed wording should be used).

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view fair, in all material respects, in accordance with the applicable financial reporting framework.

Auditors should draw users' attention to a matter or matters presented or disclosed in or outside the financial statements that are important and/or fundamental for users' understanding of the financial statements or the auditor's report. These matters will be included in an emphasis of matter or an 'other matter' paragraph. The users of the financial statement in the public sectors are the legislators, members of Parliament and oversight committees, representing citizens who are the ultimate users. *(ISSAI 1700 P4) (ISSAI 1706.1;4)*

Emphasis of Matter paragraph refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. *(ISSAI 1706.5)*

Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- Bringing attention to the following aspects are properly disclosed in the financial statements:
  - Non-compliance with legislation (when no separate opinion is required)
  - Legislative actions on programs or the budget
  - Contradictive laws, regulations or directives with a significant effect on the entity.
  - Fraud, abuse or losses
  - Significant transactions
  - Significant internal control weaknesses
  - Questionable business practices
  - Transactions entered into without due regard for economy
  - Prior period restatements
  - Lack of fiscal sustainability
  - Environmental Issues
  - Corporate social responsibility issues
  - Propriety issues (proper behavior by public officials). *(ISSAI 1706 P3;P4)*

Other Matter paragraph includes findings relating to matters relevant to the users of the report listed above (under the Emphasis of Matters paragraphs) but not presented or disclosed in the financial statements. If this is not prohibited by law or regulation, these matters will be included under the heading 'Other Matter'. The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report *(ISSAI 1706.5;8; P5)*

Other matter paragraphs normally include control weaknesses, non-compliance with laws and regulations as applicable.

MODIFIED AUDIT OPINIONS

The auditor should appropriately modify the opinion in the auditor's report when the auditor:

- Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- Is unable to obtain sufficient appropriate audit evidence. *(ISSAI 1700.4;6;17) (ISSAI 1705.6)*
- Determines that the auditee did not comply with responsibilities prescribed by the financial reporting framework to:
  - Achieve fair presentation of financial information when it is a it is a fair presentation framework;
  - Fulfil all requirements of the financial reporting framework when it is a compliance framework. *(ISSAI 1700.18;19)*
- Any additional audit requirements, such as non-compliance with legislation or internal control weakness which has a material or pervasive effect on the financial statements as it is not adequately disclosed or accounted for. *(ISSAI 1705 P4;P5;P6)*

Pervasive is a term used to describe the effects on the on the financial statements of misstatements or possible effects if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasiveness of the finding will determine the kind of modified audit opinion which will be issued.

Pervasive effects on the financial statements are those that, in the auditor's judgment:

- Are not confined to specific elements, accounts or items of the financial statements;

- Represent or could represent a substantial proportion of the financial statements; or
- Fundamental to users' understanding of the financial statements. *(ISSAI 1705.5)*

The auditor should select the most appropriate modified opinion from the 3 options described below:

- A **qualified opinion** should be expressed when the auditor having obtained sufficient appropriate audit evidence concludes that there are material misstatements in the financial statements or if the auditor cannot obtain adequate evidence on aspects of the audit. Qualified opinion is issued when the misstatement or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. It is expressed as being 'except for' the effects of the matter to which the qualification relates. *(ISSAI 1705.7)*
- An **adverse opinion** should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements; and *(ISSAI 1705.8)*
- A **disclaimer of opinion** should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements. A disclaimer opinion may also be issued considering the potential cumulative effect of uncertainties even when all audit evidence is received. *(ISSAI 1705.9;10) (ISSAI 1705 P10)*

The decision on which type of modified opinion is appropriate depends upon:

- The nature of the audit finding (quantitative materiality),
- The extent of misstatement of the financial statements (quantitative materiality) and
- The pervasiveness or the possible effects of the matter on the financial statements. *(ISSAI 1705.2)*

Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s) on the financial statements. *(ISSAI 1705.16;17)*

Limitation on scope imposed by management

If management imposes a limitation of scope on the audit which is material and pervasive to the extent that it will affect the audit opinion the auditor should request management to remove the limitation. *(ISSAI 1705.11)*

If limitation persists the auditor will communicate this to those charged with governance and determine whether alternative procedures can be performed to obtain evidence. *(ISSAI 1705.12)*

If the auditor finds that no alternative procedures are possible the auditor may either withdraw from the audit, or as this is not normally applicable in public sector the auditor should issue a disclaimer of opinion. The reasons for withdrawal should be communicated to those charged with governance and in certain instances reporting to legislature may also be applicable or required. *(ISSAI 1705.13;14; P7)*

In certain instances the auditors may find that the scope limitation is imposed by parties other than management, including those charged with governance or legislation and regulations on classification of information for example due to national security. *(ISSAI 1705 P9)*

The auditor is responsible to form on opinion on one or more specific elements, accounts or items of a financial statement cannot issue unqualified opinion when there is an adverse opinion or disclaimer of an opinion was issued on the financial statements as a whole. To include such an unmodified opinion in the same report in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. *(ISSAI 1705.15)*

Supplementary information presented with audited financial statements
The auditor should be satisfied that any supplementary information presented together with the financial statements that is not covered by the auditor's opinion is clearly differentiated from the audited financial statements. If the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial statements, the auditor should explain in the auditor's report that that information has not been audited. *(ISSAI 1700.46)*

Supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of the financial statements because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented shall be covered by the auditor's opinion. *(ISSAI 1700.47)*

6.2.3 Contents and format of the auditor's report

Reporting in accordance with ISSAIs
The auditor's report should only state that the audit has been conducted in accordance with the International Standards on Auditing when all standards of ISSAI have been fully complied with. Under the 'auditor's responsibility' paragraph included in the auditor's report auditors should state the standards applied during the audit. There are four options:

- In accordance with the ISSAIs (1000-2999). This means full compliance with all relevant International Standards on Auditing (ISAs) and the additional guidance set out in the INTOSAI Practice Notes to the ISAs.
- In accordance with the ISAs; which means full compliance with all relevant ISAs;
- In accordance with the INTOSAI Fundamental Auditing Principles, but not full compliance with the ISSAIs (1000-2999); or
- In accordance with other national and relevant Auditing Standards. *(ISSAI 1700 P12)*

When applying all the provisions included in this manual the auditor's report can refer to compliance with ISSAIs (first option above).

When the auditor is required by law to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the "national auditing standards"), but additionally also complied with the ISSAIs, the auditor's report may refer to the ISSAIs in additional to the national auditing, if:

- There is no conflict between the requirements in the national auditing standards and those in ISSAIs that would lead the auditor to form a different opinion, or not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISSAIs; and
- The auditor's report should include the minimum layout requirements as stated below. The auditor's report should identify the applicable national auditing standards. *(ISSAI 1700.44)*

When the auditor's report refers to both the national auditing standards and the ISSAIs, the auditor's report shall identify the jurisdiction of origin of the national auditing standards. *(ISSAI 1700.45)*

Minimum requirements for auditor's reports
According to the ISSAIs the auditor's report includes, at a minimum, each of the following elements:

- A **title** clearly indicating that it is the report of an independent auditor on the financial statements; *(ISSAI 1700.21; 39)*
- An **addressee**, as required by the circumstances of the engagement. If laws and regulations do not identify the addressee the auditors can address the report to those charged with governance. In public sector the distribution of auditor's reports normally not restricted.

Auditors should refrain from statements that the report is intended solely for the specific users. *(ISSAI 1700.22; P11) (ISSAI 1706 P6)*

- An **introductory paragraph** that including the following:
  - Identify the entity audited;
  - State that the financial statements have been audited;
  - Identify the title of each statement that comprises the financial statements including additional reports where applicable (such as comparison of actual and budgeted amounts, reports on performance information etc). The complete set of financial statements also include any notes to the financial statements; *(ISSAI 1700 P14)*
  - Refer to the summary of significant accounting policies and other explanatory information; and
  - Specify the date or period covered by each financial statement comprising the financial statements; *(ISSAI 1700.23)*
- A description of management's responsibility for the preparation and fair presentation of the financial statements titled '**Management's Responsibility'** for the Financial Statements'. Responsibilities of management should include:
  - Preparation of the audited Financial Statements in line with the financial reporting framework;
  - Instituting necessary internal controls to enable the preparation of financial statement free of misstatements; and
  - Achieving fair presentation where applicable; *(ISSAI 1700.24;25;26;28)*

- A description of the auditor's responsibility titled "**Auditor's responsibility**" that includes the responsibility to:
  - Express an opinion on the financial statements based on the audit;
  - Perform the audit in line with the International Standards of Supreme Audit Institutions (ISSAIs). Include specific reference to the requirement to comply with ethical requirements (IFAC and INTOSAI Code of Ethics) and the explanation of reasonable assurance that is provided by the auditor that the financial statements are free of material misstatement; *(ISSAI 1700 P8)*
  - The auditor's report should describe and audit by stating that:
    - An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;
    - The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and
    - An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.
    - Where the financial statements are prepared in accordance with a fair presentation framework, the auditor's report should refer to "the entity's preparation and fair presentation of the financial statements" or "the entity's preparation of financial statements that give a true and fair view," as appropriate in the circumstances.
    - Any other reporting responsibilities of the auditor maybe applicable. *(ISSAI 1700.28;29;30;31;32;P7)*

- The auditor's report should state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's (modified – Qualified / Adverse where appropriate) opinion. When a disclaimer of opinion is issued the auditor should stated that: 'because of the matter(s) described under the Basis for Disclaimer of Opinion paragraph, however we were not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion'. *(ISSAI 1700.33) (ISSAI 1705.26;27)*

A paragraph on the **'Basis for Qualified / Adverse / Disclaimer Opinion'** includes a description of the matter giving rise to the modification and a quantification of the amount of misstatement when practicable should also be included in the paragraph. The description may refer to for example a narrative disclosure and explanation will be given on how this disclosure is misstated. It may also refer to the nature of an aspect which was omitted. All the matters which would alone warrant a qualification should be included under this heading. For example if a disclaimer of opinion is issued based on the lack of audit evidence the auditor would describe the scope limitation and also include paragraphs under the same heading with explanations for other material misstatements found during the audit. Omitted disclosures, unless prohibited by law or regulation, may be provided if it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. *(ISSAI 1705.16;17;18;19;20;21).*

- An opinion paragraph titled **'Opinion'** containing:
  - The title of this paragraph should clearly state the kind of modified opinion issued when applicable ie. Qualified Opinion, Adverse Opinion, Disclaimer of Opinion. *(ISSAI 1705.22)*
  - Reference to the applicable financial reporting framework used to prepare the financial statements.
  - An expression of opinion on the financial statements.
  - For unqualified audit opinion the paragraph will quote
    - The financial statements present fairly, in all material respects, in accordance with [name the applicable financial reporting framework]; or
    - The financial statements give a true and fair view in accordance with [name the applicable financial reporting framework]; or
    - Financial statements are prepared, in all material respects, in accordance with [name the applicable financial reporting framework]. When the reporting framework is not IPSAS the auditor should identify the jurisdiction of origin of the framework *(ISSAI 1700.34;35;36;37)*
  - For qualified audit opinion the paragraph will quote: 'except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph':
    - The financial statements present fairly, in all material respects (or give a true and fair view) in accordance with the applicable financial reporting framework when reporting in accordance with a fair presentation framework; or
    - The financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework when reporting in accordance with a compliance framework. *(ISSAI 1705.23)*
  - For adverse opinion state that: The financial statements do not present fairly - or the financial statements have not been prepared - in all material respects, in line with applicable financial framework. *(ISSAI 1705.24)*
  - For disclaimer of opinion state that because of the significance of the matter described in the Basis for Opinion paragraph the auditor has not been able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion. *(ISSAI 1705.25)*

- **'Emphasis of matters'** paragraphs with clear indication that the audit opinion is not qualified as a result of this paragraph.
- '**Other matters'** paragraphs - Standards, laws or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report

thereon. Such matters may be addressed in a separate paragraph following the auditor's opinion;
- **'Report on other legal and regulatory requirements**' includes matters reported relating to reporting responsibilities other than reporting on the financial statements. For example, the auditor maybe required to report on the legal or regulatory requirements, or on performance information disclosed. *(ISSAI 1700.38;39)*
- The auditor's signature; *(ISSAI 1700.40)*
- The date of the auditor's report, which cannot earlier than the date on which the auditor has obtained sufficient and appropriate audit evidence on which to base the audit opinion; *(ISSAI 1700.41)* and
- The auditor's address. *(ISSAI 1700.42)*

Reporting accordance with a layout prescribed by law

If law or regulation requires auditors to use a specific layout or wording of the auditor's report, the auditor's report should refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:
- A title;
- An addressee, as required by the circumstances of the engagement;
- An introductory paragraph that identifies the financial statements;
- A description of the responsibility of management for the preparation of the financial statements;
- A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
  - A reference to International Standards on Auditing and the law or regulation; and
  - A description of an audit in accordance with those standards;
- An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards;
- The auditor's signature;
- The date of the auditor's report; and
- The auditor's address. *(ISSAI 1700.43; P9)*

Understandability of reports

The auditor's report should be easy to read and understand. Clarity and understandability may be enhanced by:
- Use of non-technical language. All technical terms, unfamiliar abbreviations and acronyms should be clearly defined when used;
- Logical organization of material;
- Accuracy and precision in stating facts and in drawing conclusions;
- Effective use of titles and captions and topic sentences; and
- Use of visual aids (such as pictures, charts, graphs, and maps) to clarify and summarize complex material.

The auditor's report should be no longer than necessary to convey and support the message. Needless repetition should be avoided.

6.2.4 Representation by audit management

Senior and top managers of the OAG have a crucial role to play during the audit, and specifically relating to quality control and drafting the auditor's report. The working paper R 3. Representation by audit management includes documentation for all the changes which are made to the auditor's report as it progresses up the line and provides for statements by senior/top OAG management relating to the audit work.

6.2.5 Comparative information disclosed in the financial statements

There are two different broad approaches to the auditor's reporting responsibilities in respect of comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement. *(ISSAI 1710.2)*

Comparative information is the amounts and disclosures included in the financial statements in respect of one or more prior periods.

Corresponding figures refer to comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements. *(ISSAI 1710.6)*

The essential auditor's reporting differences between the approaches are:

- For corresponding figures, the auditor's opinion on the financial statements refers to the current period only; whereas
- For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented. *(ISSAI 1710.3)*

The auditor should obtain sufficient appropriate audit evidence and report about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework. *(ISSAI 1710.5)*

If the auditor identifies a possible material misstatement in the comparative information during the current audit, the auditor should perform additional audit procedures to determine whether a material misstatement exists. If the auditor had audited the prior period's financial statements, the requirements of events after balance sheet date should be followed. If the prior period financial statements are corrected, the auditor shall determine that the comparative information agrees with the amended financial statements. *(ISSAI 1710.8)*

Reporting on corresponding figures

When corresponding figures are presented, the auditor's opinion should not specifically refer to the corresponding figures, since the audit opinion is on the current period financial statements as a whole, including those figures. *(ISSAI 1710.10)*

When the auditor's report on the prior period, as previously issued, included a qualified opinion, disclaimer of opinion, or adverse opinion and the matter which gave rise to the modification is resolved and properly dealt with in the financial statements, the current report should not refer to the previous modification. It may, however be appropriate to include an 'Other Matter' paragraph. *(ISSAI 1710 P5)*

However, if the matter is unresolved it needs to be considered in light of the current year's financial statements. If it is material to the current period, the auditor should modify the current years report accordingly. The Basis for Modification paragraph in the auditor's report should either:

- Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or

- In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures. *(ISSAI 1710.11)*

The auditor may identify a material misstatement affecting the previous year's financial statements where an unmodified audit opinion was issued. In such circumstances, the auditor should consider whether the corresponding figures have been restated or not. If the corresponding figures have not been properly restated and/or appropriate disclosures have not been made, the auditor should request management to revise the corresponding figures or if management refuses to do so, appropriately modify the report. *(ISSAI 1710.12)*

When the financial statements of the prior period were audited by another auditor the auditor should (if not prohibited by law) refer to the predecessor auditor's report on the corresponding figures stating in an Other Matter paragraph the type of opinion expressed by the predecessor auditor and the date of the report and the reasons for a modified audit opinion. This is not often applicable as the OAG is usually mandated to audit all public sector entities. The scenario is not applicable to contracted out audits, or audits which are moved from one responsible auditor to another within the OAG, but maybe relevant when there is a situation such as nationalization. *(ISSAI 1710.13; P4)*

If, in very rare circumstances the prior period financial statements were not audited, the auditor should state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. The auditor then should obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements. *(ISSAI 1710.14)*

Reporting on Comparative Financial Statements

When the comparatives are presented as comparative financial statements, the auditor's opinion should refer to each period for which financial statements are presented and on which an audit opinion is expressed. *(ISSAI 1710.15)*

When reporting on the prior period financial statements in connection with the current year's audit, if the opinion on such prior period financial statements is different from the opinion previously expressed, the auditor should disclose the substantive reasons for the different opinion in an emphasis of matter paragraph. *(ISSAI 1710.16)*

If the financial statements of the prior period were audited by another auditor in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph stating that the prior period was audited by another auditor, the type of report issued by the predecessor auditor and if the report was modified, the reasons therefore and the date of that report. *(ISSAI 1710.17)*

If material misstatements were found affecting prior period financial statements audited by another auditor the auditor should discuss the matter with management and those charged with governance. After having obtained management's authorization, the auditor should contact the predecessor auditor and propose that the prior period financial statements be restated. If the previous auditor agrees to reissue the auditor's report on the restated financial statements and the auditor agrees with the report the auditor will only report on the current year's financial statements. In some cases the auditors are required to include an Emphasis of Matter or Other Matter paragraph in the auditor's report relating to the restatement of information. *(ISSAI 1710.18)*

When the prior period financial statements are not audited, the incoming auditor should state in the auditor's report that the corresponding figures or comparative financial statements are unaudited as applicable. *(ISSAI 1710.19)*

6.3 OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Other information containing audited financial statements includes:

- ***Considerations of other information;***
- ***Material inconsistencies; and***
- ***Material misstatements of fact.***

6.3.1 Considerations of other information

This section applies guidance when the auditor's report and financial statements appear in a document (such as the auditee's an annual report) together with other information. Such information may comprise, for example:

- A report by management or those charged with governance on operations.
- Financial summaries or highlights.
- Employment data.
- Planned capital expenditures.
- Financial ratios.
- Names of officers and directors.
- Selected quarterly data.
- Performance against financial framework.
- Quality of services.
- Volume of work.
- Efficiency target and other performance metrics. *(ISSAI 1720.1;2; P4)*

The objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report. *(ISSAI 1720.4)*

The auditor should read the other information to identify material inconsistencies with the audited financial statements. *(ISSAI 1720.6)*

An "inconsistency" exists when other information contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.
The auditor's objective is to audit the financial statements. Consequently, the auditor does not have specific responsibility to determine whether other information is properly stated.

In order that an auditor can consider other information included in the annual report, timely access to such information will be required. The auditor therefore needs to make appropriate arrangements with the entity to obtain such information prior to the date of the auditor's report.

The auditor should make arrangements with management and those charged with governance to receive the information for review. When all the other information is not available to the auditor prior to the date of the auditor's report, the auditor would read the other information at the earliest possible opportunity thereafter to identify material inconsistencies. *(ISSAI 1720.6;7)*

6.3.2 Material inconsistencies

Material inconsistencies identified before the date of the auditor's report

If the auditor identifies a material inconsistency, the auditor should determine whether the audited financial statements or the other information needs to be amended. *(ISSAI 1720.8)*

If an amendment is necessary in the audited financial statements and the entity refuses to make the amendment, the auditor should modify the opinion appropriately. *(ISSAI 1720.9)*

When revision of the other information is necessary but management refuses to make the revision, the auditor should notify those charged with governance in writing of the auditor's concern regarding the other information and include an 'Other Matters' paragraph in the report describing the inconsistency. The auditor may also choose to withhold the auditors report until consensus is reached about further action with management. *(ISSAI 1720.10)*

Material inconsistencies identified after the date of the auditor's report
If revision of the audited financial statements is necessary, the auditor should treat the inconsistency as a subsequent event. *(ISSAI 1720.11)*

If management agrees to revise the information the auditor should carry out further procedures as necessary – such as review management's procedures in distributing the new documents to all relevant parties. *(ISSAI 1720.12)*

If revision of the other information is necessary, but management refuses to make the revision, the auditor shall notify those charged with governance and any other party such as legislature, and may take any further action such as consult a legal advisor. *(ISSAI 1720.13; P5)*

6.3.3 Misstatements of fact

When the auditor still considers that there is an apparent misstatement of fact, the auditor should:
Discuss the matter with management.
Request management to consult with a qualified third party, such as the entity's legal counsel and should consider the advice received. *(ISSAI 1720.14;15)*

If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor should notify those charged with governance and any other parties such as legislature and take any further actions considered necessary. *(ISSAI 1720.16; P6)*

6.4 SPECIAL PURPOSE AUDIT ENGAGEMENTS

Special purpose audit engagements include:

- ***Audit Considerations on "Special purpose audit engagements";***
- ***Reporting on special purpose financial statements.***

6.4.1 Audit considerations

Special purpose financial statements are financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specific users. *(ISSAI 1800.6) (ISSAI 1800 P4)*

In government the financial reporting framework usually prescribed by law or regulation and it is not up to management to determine the framework. Where law or regulation prescribes the financial reporting framework to be used by management in preparing and presenting the special purpose financial statements, such a framework is presumed to be acceptable in the absence of indications to the contrary. *(ISSAI 1800 P6;7)*

In addition to preparing general purpose financial statements, the auditee may prepare financial statements for other parties (such as governing bodies, the legislature or other parties that perform an oversight function) that can demand financial statements tailored to meet their specific information needs. In some environments such financial statements maybe the only financial statements prepared by the public sector entity in which case they are considered to be special purpose financial statements. Public sector auditors, therefore, carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users ("general purpose framework") or the financial information needs of specific users. *(ISSAI 1800 P5)*

Examples of special purpose audit engagements are:

- Cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for example for creditors
- The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

Auditors can be mandated to audit the complete set of financial statements prepared in accordance with a comprehensive basis of accounting other than International Accounting Standards (IPSAS) or national standards. The auditors need to plan and perform the audit appropriately and form an opinion on the financial statements in line with the ISSAI requirements. *(ISSAI 1800.5)*

The auditor should determine the acceptability of the financial reporting framework applied in the preparation of the financial statements considering:

- The purpose for which the financial statements are prepared;
- The intended users; and
- The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances. *(ISSAI 1800.8)*

In planning and performing the audit auditors should identify any special considerations as required. These considerations may include the understanding of the selection and application (interpretation) of accounting policies. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements. *(ISSAI 1800.9;10)*

6.4.2 Reporting on special purpose financial statements

Auditor should form an opinion and report on the special purpose financial statements in line with the layout included the ISSAIs including at least the required minimum required elements. *(ISSAI 1800 P8) (ISSAI 1800.11)*

The auditor may have additional reporting responsibility to that of reporting whether the special purpose financial statements have been prepared in accordance with the applicable financial reporting framework. In this case the auditor's report describes the requirements of any relevant legislation or the audit mandate in a separate section of the auditor's report. The wording included in the legislated mandate of the may be used in the auditor's report. Where legislation governing the audit mandate does not conflict with ISSAIs, public sector auditors adopt the layout and wording used in ISSAI s so that users can more readily recognize the auditors' report as a report on an audit conducted in accordance with ISSAIs. *(ISSAI 1800 P9)*

In the unlikely event of management having a choice of financial reporting frameworks, the statement of 'Management's responsibility for the special purpose financial statements' should be expanded to include the responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances of the engagement. *(ISSAI 1800 P10)*

The auditor should evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. *(ISSAI 1800.12)*

The form and content of the auditor's report on special purpose financial statements should include:

- A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and
- If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances. When management has a choice of financial reporting frameworks, auditors may include this responsibility in the statement of management's responsibility for the Auditors should determine whether to expand the statement of management's responsibility for the special purpose financial statements to refer to the source that determines the financial reporting framework applied. *(ISSAI 1800.13)*

The auditor's should include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements and related auditor's report may not be suitable for another purpose. The auditor may also consider including a statement in the auditor's report that it is intended solely for the intended users and should not be distributed to or used by parties other than the intended users, unless the auditors' report is a public document. *(ISSAI 1800.14; P11)*

6.5 AUDIT OF SINGLE FINANCIAL STATEMENTS, SPECIFIC ELEMENTS OR ACCOUNT ITEMS OF FINANCIAL STATEMENTS

The audit of a single financial statement or of a specific element, account or item of a complete set of financial statement include:

- ***Applicability and considerations;***
- ***Forming an opinion.***

6.5.1 Applicability and considerations

This standard is only applicable when the auditor is required to audit a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework in which case provisions of the previous chapter on 'Special Purpose Audit Engagements' should also be applied to the audit. *(ISSAI 1805.1)*

Public sector entities may prepare financial information, including single financial statements, specific elements, accounts or line items of financial statements for other parties. The audit of such information may fall under the mandate of the OAG. Auditors should consider the guidance in this chapter when auditing such financial statements. *(ISSAI 1805 P4)*

The objective of the auditor is to plan and perform the audit in order to express an opinion on the specific element, account or item of a financial statement. In order to do that the auditor should comply with all ISSAIs irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements. However, when the auditor is not engaged to audit the complete set of financial statements will make the compliance with all ISSAIs impractical due to the audit effort which is required to gain appropriate understanding of the audited entity. Auditors may also agree such issues with the legislature or those with responsibility to direct the OAG. *(ISSAI 1805.5;7;10;11; P3)*

The auditor should review the acceptability of the financial reporting framework applied. The auditor should consider whether the application of the financial reporting framework will result in an adequate presentation that provides intended users with an understanding of the information conveyed. In public sector the reporting framework is often prescribed by laws or regulation. *(ISSAI 1805.8; P6)*

6.5.2 Forming an opinion

The agreed terms of the audit engagement should include the form of reports to be issued by the auditor. The form of reports should be appropriate in the circumstances. Legislation governing the audit mandate may specify the layout of, or wording to be used in, the auditor's report. When this is the case the auditor's report can refer to the audit being conducted in accordance with ISSAIs, and the legislation governing the audit mandate, only if the auditor's report includes, at a minimum, elements prescribed under section 6.2. When the wording prescribed in legislation differs significantly to the requirements of the standard the auditor should consider the impact this may have on the audit opinion. *(ISSAI 1805.9; P5;P7)*

The auditor's report may reflect an additional responsibility to that of reporting whether the single financial statement or specific element of a financial statement have been prepared in accordance with the applicable financial reporting framework. If this is the case, the auditor's report describes the requirements of any relevant legislation or the audit mandate. *(ISSAI 1805 P8)*

The auditor should express a separate opinion for each audit engagement. *(ISSAI 1805.12)*

If the complete set of financial statements and the element financial statements are published together and it is not possible to clearly differentiate the two, the auditor should request management to rectify the situation. *(ISSAI 1805.13)*

When the auditor's report on the complete set of financial statements contains a **qualified opinion, an emphasis of matter paragraph, or other matter(s) paragraph**, the auditor needs to determine the effect of this on the single financial statement or on the specific element of the financial statements. Even when such modified opinion does not relate to the audited element, public sector auditors nevertheless consider whether to include a reference to the modified opinion in the auditor's report on the element. Factors that may affect the public sector auditor's consideration include the requirements of relevant legislation or the audit mandate, other specific provisions for the engagement, and whether omission of such reference from the auditor's report on the element might be misleading. *(ISSAI 1805.14; P9)*

When the auditor's report on the audited financial statements contains an **adverse opinion** or a **disclaimer of opinion**, the auditor's report on the element or item of the complete set of financial statements should not contain an unqualified opinion. However, where the auditor feels that an unqualified opinion is adequate it may be issued when:

- The auditor is not prohibited by law or regulation from doing so;
- That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and
- The specific element does not constitute a major portion of the entity's complete set of financial statements. *(ISSAI 1805.15;16)*

However the above exception only applies for the opinion of elements or items which are not major part of the complete set of accounts. Single financial statements are deemed to be major part of the complete financial statements and cannot have an unqualified opinion if the complete set of financial statements received adverse or disclaimer opinions. *(ISSAI 1805.17)*

6.6 AUDIT OF SUMMARY FINANCIAL STATEMENTS

The audit of summary financial statements include:

- ***Applicability and considerations;***
- ***Procedures to audit summary financial statements;***
- ***Reporting on the summary financial statements.***

6.6.1 Applicability and considerations

This section deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISSAIs by that same auditor. *(ISSAI 1810.1)*

The objectives of the auditor are to plan and perform the audit in order to form an appropriate opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained. *(ISSAI 1810.3)*

Summary financial statements – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial. The summary financial statements are prepared by using pre-selected criteria. *(ISSAI 1810.4)*

The auditor should only audit the summary financial statements when the auditor has audited the financial statements in accordance with ISSAIs from which the summary financial statements have been derived. *(ISSAI 1810.5)*

The following additional examples of summary statements may be subject to audit:

Type of summary statements	**Purpose of the summary statement**
Standing/statutory appropriations	This statement should reflect all expenditure which has been incurred through statutory requirements such as interest on loans, redemption of loans, borrowing related charges, ex-gratia payments and redemption of guarantees.
Summary statement of Revenue: Tax, non-tax, return of capital from lending and equity participation, grants and borrowings.	This statement gives a general overview of the status of all different kinds of revenue in relation to each other.
Government debts – summary statement	This statement reflects on the total debt of a country, including foreign and domestic debt, servicing costs and new loans acquired. The opening and closing balances indicate the increase/decrease of debt.

During pre-engagement the auditor should request management to:

- Acknowledge its responsibility for:
  - Preparing and presenting the summary financial statements in accordance with the applied criteria.
  - To make the audited financial statement available to the intended users of the summary financial statements at all times together with the auditor's report.
- Agree to the form of opinion to be expressed on the summary financial statements. *(ISSAI 1810.6)*

Criteria for presenting information in the summary financial statements is either established by management of the auditee or set out by law. If management established criteria auditors need to consider whether the set criteria results in:

- Adequate disclosure
- Clear reference to the audited financial statements.
- Agree with or can be recalculated from the related information in the audited financial statements.
- Contain the information necessary, and are at a level of aggregation, so as not to be misleading in the circumstances.

The auditor concludes that the applied criteria are acceptable in the circumstances. If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management set out in above, and the auditor is required by law or regulation to audit the summary financial statements, the engagement cannot be conducted in accordance with this ISSAI. *(ISSAI 1810.7)*

6.6.2 Procedures to audit summary financial statements

The auditor should perform the following procedures as the basis for the auditor's opinion on the summary financial statements:

- Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements.
- When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
  - From whom or where the audited financial statements are available; or
  - The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements.
- Evaluate whether the summary financial statements adequately disclose the applied criteria.
- Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.
- Evaluate whether the summary financial statements have been prepared and presented in accordance with the applied criteria.
- In view of the applied criteria, evaluate whether the summary financial statements contain the information necessary so as not to be misleading in the circumstances
- Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements
- Any other procedures specifically required by legislation or for expressing an opinion prescribed by legislation. If another opinion is prescribed by legislation the auditor should determine whether this may mislead the users of the summary financial statements. *(ISSAI 1810.8;10)*

If the summary financial statements are not compiled and audited immediately after the audits of the individual financial statements, the auditor may need to consider any event subsequent to the issue of those reports. The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements but of which the auditor was previously unaware. The auditor should consider such facts in relation to the audited financial statements and should not issue the report on the summary financial statements until such consideration has been completed, since it would be inappropriate to issue summary financial statements if the possibility of adjustment to the audited financial statements was under consideration.

6.6.3 Reporting on the summary financial statements

The elements of the auditor's report, including the form and wording of the opinion may be prescribed by law or regulation. In such circumstances auditors should apply the prescribed wording, taking into account the provisions below on the form and content of reports. *(ISSAI 1810 P4)*

Form and content of reports

- Title clearly indicating it as the report of an independent auditor.
- Addressee (this maybe different than the audited financial statements).
- Introductory paragraph that:
    - Identifies the summary financial statements on which the auditor is reporting;
    - Identifies the audited financial statements;
    - Refers to the auditor's report on the audited financial statements, the date of that report, and the fact that an unmodified opinion is expressed on the audited financial statements; and
    - When the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, states that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements;
    - A statement, or reference to a note in the summary financial statements, indicating that they do not contain all the disclosures required by the financial reporting framework applied in preparing and presenting the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.
- A description of management's responsibility for preparing and presenting the summary financial statements in accordance with the applied criteria.
- A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this ISSAI.
- A paragraph clearly expressing an opinion.
  Unqualified opinion maybe expressed:
    - The summary financial statements are a fair summary of the audited financial statements in accordance with the [applied criteria] or
    - The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria] or
    - Expressing any other opinion prescribed by law or regulation. Consider any further explanations which may mitigate potential misunderstanding of users due to expressing a different audit opinion.
- The auditor's signature.
- The date of the auditor's report.
- The auditor's address. *(ISSAI 1810.9;10;11;12;14;15)*

The auditor should obtain sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and that management has asserted that it has taken responsibility for them. The date auditor's report should also not be earlier than the auditor's report on the audited financial statements. If the auditor becomes aware of new facts that existed at the date of the auditor's report on the audited financial statements, these should be dealt with as subsequent events on the audited financial statements before issuing the audit opinion on the summary financial statements. *(ISSAI 1810.12;13;15)*

Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited Financial Statements

The auditor's report on the audited financial statements may contain a qualified opinion, an emphasis of matter paragraph, or other matter(s) paragraph. When the auditor is satisfied that the summary financial statements are a fair summary of the audited financial statements in accordance with the applied criteria, the auditor's report on the summary financial statements should:

- State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter(s) paragraph; and
- Describe the basis for the qualified opinion on the audited financial statements, and that qualified opinion; or the Emphasis of Matter or the Other Matter(s) paragraph in the auditor's report on the audited financial statements; and
- Describe the effect thereof on the summary financial statements, if any. *(ISSAI 1810.17)*

When the auditor's report on the audited financial statements contains an **adverse opinion** or a **disclaimer of opinion**, the auditor's report on the summary financial statements should:

- State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
- Describe the basis for the adverse opinion or disclaimer of opinion on the audited financial statements; and
- State that, as a result of the adverse opinion or disclaimer of opinion on the audited financial statements, it would be inappropriate to express an opinion on the summary financial statements. *(ISSAI 1810.18)*

Auditors may have expressed an opinion in addition to the opinion on the financial statements. For example, public sector auditors might have expressed an opinion on the effectiveness of internal control. In such cases, auditors should consider the issues reported for the additional opinion(s) and include a reference to such opinion(s) in the auditor's report on the summary financial statements. *(ISSAI 1810 P3;P5)*

If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria and management does not agree to make the appropriate changes, the auditor should express an adverse opinion on the summary financial statements. *(ISSAI 1810.19)*

Unaudited supplementary information which is presented with the summary financial statements should be clearly differentiated from the summary financial statements. If this is not done the auditor's report should explain the fact that the supplementary information is unaudited. *(ISSAI 1810.23)*

The auditor should read other information included in a document containing the summary financial statements and related auditor's report. If the auditor identifies a material inconsistency, the auditor should determine whether the summary financial statements or the other information needs to be revised. Any apparent material misstatements of fact should be discussed with management. *(ISSAI 1810.24)*

Where the auditor has reported on summary financial statements and an entity states that fact in a document containing the summary financial statements, but does not include the related auditor's report, the auditor should request management to include the auditor's report on the summary financial statements in the document. If this is not done auditors may also take other actions including formal reports to the legislature, depending the legislation and audit mandate. *(ISSAI 1810.25) (ISSAI 1810 P7)*

Where the auditor has not reported on summary financial statements and an entity makes a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the audited financial statements, the auditor should be satisfied that:

- The reference to the auditor is in the context of the auditor's report on the audited financial statements; and
- The statement does not give the impression that the auditor has reported on the summary financial statements. This may be achieved by marking the summary financial statements as "unaudited."

If these provisions are not met, the auditor should request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor should advise management that the auditor disagrees with the reference to the auditor, and the auditor should consider what other actions might be appropriate. Auditors may also take other actions including formal reports to the legislature, depending the legislation and audit mandate. *(ISSAI 1810.26) (ISSAI 1810 P7)*

When the distribution or use of the auditor's report on the audited financial statements is restricted the auditor should restrict distribution or use of the auditor's report on the summary financial statements accordingly. *(ISSAI 1810.20) (ISSAI 1810 P6)*

SELF CHECKLIST

PART 6: AUDIT CONCLUSIONS AND REPORTING

For your purpose:

- ***Have you considered all the basic elements in your auditor’s report?***
- ***Has your audit been conducted in accordance with ISSAIs? If so, has the auditor’s report included such elements?***
- ***Is OAG affected by using both ISSAIs and auditing standards of your country’s jurisdiction? If so, does your auditor’s report provide sufficient format and structure?***
- ***Have you considered the use of comparatives in your auditor’s report?***
- ***Is there any other information included with the report and financial statements? If so, have you considered availability of this “other information” and whether it represents material inconsistencies and misstatements on the financial statements?***
- ***Is your audit engagement of a special purpose nature? If so, have you complied with the contractual agreements?***
- ***Are you satisfied that sufficient, reliable and relevant audit evidence has been obtained throughout the audit process?***
- ***Do all working papers indicate who performed the work, and when it was performed?***
- ***Do working papers have a heading, date and conclusion?***
- ***Are all working papers cross referenced?***
- ***Have you considered legal/statutory and organisational aspects?***
- ***Did you document and reassess the planning materiality?***
- ***Have you documented matters discussed with management?***
- ***Is the audit differences working paper on file?***
- ***Is there proof on file of supervision and review of work done?***
- ***Is there a copy of the final financial statements on file? Is it cross referenced to the lead schedule?***

WORKING PAPERS

R 1. MANAGEMENT LETTER

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1**			
Prepared by:		**Level 2**			
Rank:		**Level 3**			
Date:					

Audit of a department performed by the Auditor General

Addressee *[Applicable title of the accounting officer]*

Date

Dear Sir(s)

The financial statements of ………………….. *[Insert the name of the audited entity]* are subject to audit by the Auditor-General *[or equivalent]* in terms of ……………..……..……*[Refer to the relevant act]*.

MANAGEMENT LETTER: *[Insert the type of audit e.g. Regularity]* AUDIT PERFORMED FOR THE *[insert date]* FINANCIAL YEAR

INTRODUCTION
The audit of the ………………….. *[Insert the name of the audited entity]* for the year ended …………*[insert date]* was completed and the purpose of this letter is to bring to your attention the findings that were revealed during the audit.

SCOPE AND DETERMINATION OF RESPONSIBILITY
The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that the audit is planned and performed so as to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the annual financial statements.

An audit includes:

- Examination on a test basis of evidence supporting the amounts and disclosures in the financial statements;
- Assessment of the accounting principles used and significant estimates made by management; and
- Evaluation of the overall financial statement presentation.

The audit will also include an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to our attention and are applicable to financial matters.

The matters mentioned in this letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the Accounting Officer. Our responsibility is to express our opinion on these financial statements.

The audit findings which were identified during the course of the audit, are included below.

MANAGEMENT COMMENTS

It would be appreciated if your comments on these findings could be submitted within *(insert dates]* days after the date of this report for incorporation.

APPRECIATION

We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the ……………….. *[Insert the name of the audited entity]* during the audit.

Yours faithfully

***for* Audit Office**

MANAGEMENT LETTER OF ……………….. *[Insert the name of the audited entity]* FOR THE YEAR ENDED *[Insert relevant date]*

AUDIT FINDING

[The findings included here should be identified in the working papers where the audit procedures are performed and concluded
e.g. System description, test of control, substantive procedure performance etc.]

RISK

[Either in terms of monetary misstatement, services not being delivered or assets not safeguarded]

RECOMMENDATION

[Recommendations should include reference to preventative and detective controls].

MANAGEMENT COMMENTS

R 2. AUDITOR'S REPORT

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

LETTERHEAD OF THE OAG

Audit of the *[insert name of audited entity]* performed by the Auditor General
Addressee *[Name, applicable title and address of the Accounting Officer]*
Date
Dear *[Sir / Madam]*

Report of Independent Auditors on the Financial Statements
We have audited the accompanying financial statements of *[insert the name of the auditee]* for the year ended *[insert date of financial year end]*. These financial statement comprise the *[insert statements as applicable i.e. statement of financial performance, statement of financial position, cash flow statement etc.]* for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with *[the applicable financial reporting framework]* and legislation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards for Supreme Audit Institutions. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion *[option for unqualified opinion]*
In Our opinion, the financial statements present fairly, in all material respects, the financial position of *[insert the name of the auditee]* as at *[insert date of financial of financial year end]*,

and (*of*) its financial performance and its cash flows for the year then ended in accordance with *[insert reference to relevant accounting framework or legislation, ie. IPSAS]*.

Basis for Qualified- / Adverse- / Disclaimer of- Opinion *[option for qualified audit opinion]*
[Include the audit paragraph(s) which has lead to a qualified- / adverse- / or disclaimer of audit opinion. For unqualified audit opinion this paragraph is not included.]

Qualified Opinion *[option for qualified opinion]*
In Our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the results of operations of *[insert the name of the auditee]* as at *[insert date of financial of financial year end].*

Adverse Opinion *[option for adverse opinion]*
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the consolidated financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of ABC Company and its subsidiaries as at December 31, 20X1, and (*of*) their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Disclaimer of Opinion *[option for a disclaimer of opinion]*
Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Emphasis of matter *[option when there are matters for emphasis both for qualified or unqualified audit opinions]*
Without qualifying our opinion, we draw attention to the management on the following matter(s) that relate to our responsibility in the audit of the financial statements.

Other matters
[Insert other matters under this heading]

Other reporting responsibilities
[Insert the other legal and regulatory requirements i.e. when there is a responsibility to separately report on the procurement practices followed by the auditee. The form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]
[Date of the auditor's report]
[Auditor's address]

R 3. REPRESENTATION BY AUDIT MANAGEMENT

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:					

Name of reviewer:

Title of the reviewer:

Level of review responsibilities for this audit: *[i.e. first / second / third level reviewer]*

I hereby confirm that:

1. I completed, approved or was consulted on the overall audit plan and audit programs prior to the commencement of field work.
2. I reviewed the work performed by the *[i.e. first / second]* level reviewers before my review.
3. I am satisfied that the approach followed and the decisions made during the audit have been in terms of the relevant requirements. Conclusions were consistently drawn in the working paper templates, the management letter and the draft auditor's report.
4. I concur with the manner in which the technical consultations have been addressed.
5. Quality control reviews has been undertaken in compliance with the provisions of this manual.

Based on the representations stated above, except as documented below, I support the auditor's opinion expressed.

Comments by reviewer

Recommended amendments to Auditor's Report	Reasons

Signed by: Date

[insert relevant name and title]

R 4. MATTERS FOR ATTENTION DURING NEXT YEAR'S AUDIT

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1:			
Prepared by:		Level 2:			
Rank:		Level 3:			
Date:					

No.	Matters for attention	Comments	WP ref.

R 5. QUALITY CONTROL QUESTIONNAIRE FOR REPORTING

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
CONCLUDING AND REPORTING														
1.	Was there a management letter for discussion with the management of the auditee?	ISSAI 1230												
2.	Does the management letter set out:													
	a. Clear statement of the problem, including possible causes and consequences (e.g. weaknesses in internal control);	ISSAI 1230												
	b. Practical and cost-effective recommendations in terms of non-existing or non-functioning internal controls;	ISSAI 1220												
	c. Comments from the auditee;													
	d. Conclusion by auditor whether the matter is resolved, unresolved and whether it will be included in the auditor's report	ISSAI 1230												
3.	Where issues in the draft management letter were resolved, was this adequately evidenced on	ISSAI 1230												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
	file?													
4.	Was the management letter signed by the person with delegated responsibility for the audit?	ISSAI 1220												
5.	Was there adequate communication with the auditee throughout the audit and with the compilation of the final management letter?	ISSAI 1260												
6.	Were minutes taken at meetings with the management of the auditee and were these minutes included in the audit file?	ISSAI 1230												
Auditor's report														
7.	Were all significant matters identified in the management letter addressed in the draft auditor's report?	ISSAI 1700												
8.	Did reported findings have relevant supporting documentation such as working papers and audit evidence.	ISSAI 1230												
9.	Did the auditor's report contain the following information:													
	a. Objective or scope of the audit;	ISSAI 1700												
	b. Expression of opinion on the financial statements; and	ISSAI 1700												
	c. Identification of the financial statements and the financial year to which it refers?	ISSAI 1700												
10.	Were individual conclusions for the separate components updated with management comments, reviewed, summarised and consolidated into a final auditor's report?	ISSAI 1230												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	**No**	**N/A**	**Comments**	**Yes**	**No**	**N/A**	**Comments**	**Yes**	**No**	**N/A**	**Comments**
11.	Was the appropriate audit opinion expressed based on the supporting working papers?	ISSAI 1700, 1500, 1230												
12.	Is the format and content of the auditor's report in accordance with the applicable standards?	ISSAI 1700												
13.	Are reporting findings clear, factual and adequately summarized?	ISSAI 1700												
14.	Have target dates for reporting been achieved or otherwise valid reasons supplied?	ISSAI 1220												
AUDIT DOCUMENTATION														
15.	Generally, do the audit working papers, the audit procedures carried out, and the results of the audit procedures support and confirm the audit opinion furnished?	ISSAI 1230												
16.	Do the working papers:													
	a. Include indexing/signatures and dating by preparer and reviewer?	ISSAI 1220												
	b. Indicate the meanings of audit tickmarks?	ISSAI 1220												
	c. Indicate the source of information?	ISSAI 1500												
	d. Indicate the procedure executed?	ISSAI 1220												
	e. Indicate the purpose of photocopied or scanned in documents?	ISSAI 1230												

Questions		ISSAI Ref.	1st level reviewer				2nd level reviewer				3rd level reviewer			
			Yes	No	N/A	Comments	Yes	No	N/A	Comments	Yes	No	N/A	Comments
	f. Indicate that all schedules, prepared by the audited entity, have been cast & cross cast?	ISSAI 1230												
	g. Conclude on the work performed?													
ENGAGEMENT QUALITY CONTROL REVIEW														
17.	Where the audit has been selected for a engagement quality control review identify whether the following was performed:	ISSAI 1220												
	a. Was a suitably qualified reviewer appointed?	ISSAI 1220												
	b. Has the engagement quality control review been performed including a review of the draft auditor’s report?	ISSAI 1220												
	c. Were any differences in opinion adequately resolved?	ISSAI 1220												
	d. Was a discussion held on significant findings with the engagement quality control reviewer?	ISSAI 1220												
	e. Have all the findings been considered and resolved with the audit team before the issuance of the auditor’s report?	ISSAI 1220												

PART 7 AUDITING CONSOLIDATED FINANCIAL STATEMENTS AND AGGREGATED ACCOUNTS

7.1 Introduction

Many SAIs have mandates to give an opinion on the consolidated financial statements or aggregated accounts of government. In addition, SAIs may audit individual ministries, departments or agencies which become the 'components' for the consolidated audit. Auditors of the consolidated statements need to obtain adequate and sufficient audit evidence in order to express an opinion. ISSAI 1600 highlights the requirements and considerations for auditors when performing these audits. According to the approach in ISSAI 1600, reliance maybe placed on the work of the component auditors and communication and co-operation between the auditors and the component auditors is necessary.

This implies that the audit of consolidated accounts should be performed after the other audits have been finalized. However, coordination between consolidated and component auditors should take place from the beginning of the component audits. This process starts while compiling the annual overall audit plan of the SAI before the annual audit cycle begins (refer to par. 3.5 in Module 1 of this manual. The detailed audit process and related considerations are described in detail below.

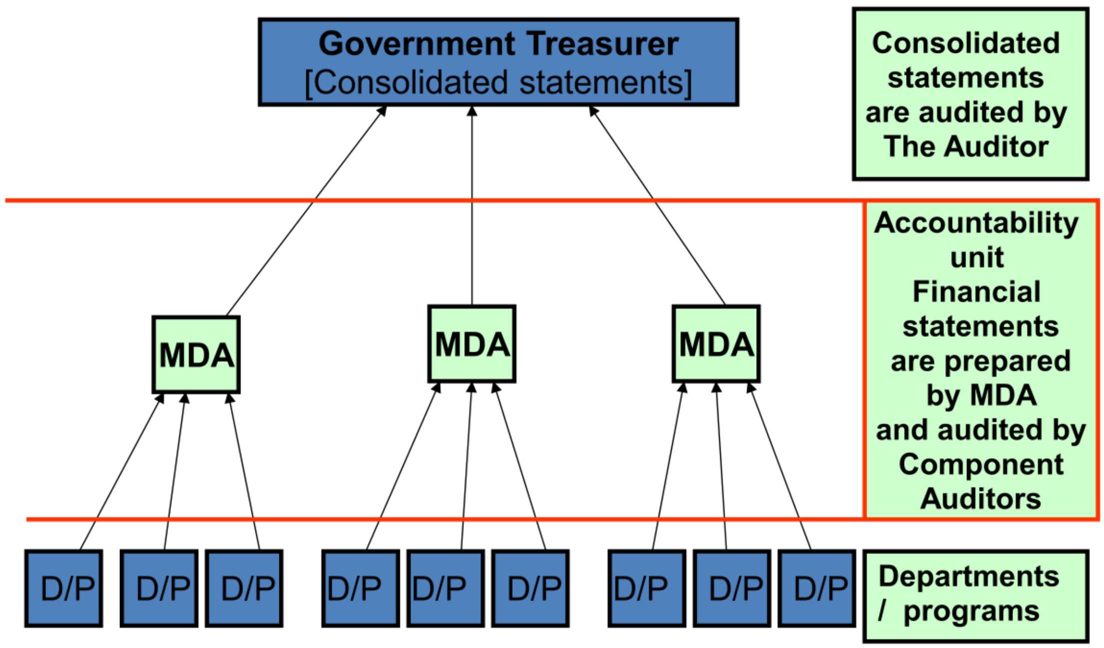
WHAT IS THE OUTPUT FROM THIS?
Understand the additional considerations for auditing consolidated financial statements or aggregated accounts.

IMPORTANT NOTE:
The paragraphs included in this manual serve are summarized from the detailed Guidance on Auditing Consolidations issued by AFROSAI-E. SAIs who audit consolidated accounts should refer to and customize the detailed approach prescribed in this guideline for a more comprehensive approach.

7.2 The consolidation process

Understanding and knowledge of the auditee and the consolidation process starts with identification of the accounting officer and the audited entity. For the purposes of this guidance the terminology 'Government Treasurer' is used to identify the person and entity responsible for the consolidation process. The figure below demonstrates the different levels on which government entities operate and the relationships between these entities in the consolidation process.

The Consolidation process



The audit of consolidated statements should be identified as a separate audit, in addition from audits conducted on an level. MDAs are Ministries, Departments and Agencies whose accounts are consolidated in the financial statements or aggregated accounts of government. This is due to the fact that a separate set of accounts is audited and a separate audit opinion is expressed on the consolidated financial statements. The Auditor General should assign the responsibility for the audit of consolidated financial statements to a member of audit staff on an appropriate level. This auditor will be responsible for the direction, supervision and performance of the audit keeping in mind any additional reporting responsibilities maybe prescribed by law. *(ISSAI 1600.11;16;P4; P5)*

When complying with ISSAIs auditors should comply with all statements of ISSAIs for the purposes of auditing consolidations. MDAs will constitute components of the consolidated statements. The financial statements of MDAs are included in the consolidated financial statements. The auditors of the MDAs are referred to as component auditors.

7.3 Additional audit considerations

The audit of consolidated statements will follow the same audit process as a regularity audit. However, there are some additional aspects the Auditor needs to consider. The Auditor should identify, understand and document the process of consolidation applied by the Government Treasurer. In terms of this the Auditor needs to consider the following:

The reporting framework prescribed by legislation for example preparation of financial statements following cash basis IPSAS

1. How MDAs are identified for consolidation and whether all components or MDAs should have been included are in fact included.
2. The inter-entity balances and transactions between MDAs impacting the consolidated statements should be identified and eliminated.

3. Reporting dates and accounting policies for MDAs. Differences in reporting dates and accounting policies will require adjustments in the consolidated statements. Differences need to be identified and audited.
4. Obtain an understanding of the instructions issued by the Government Treasurer to the management of MDAs.

The aim of the Auditor is to obtain sufficient and appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on the consolidated financial statements. To achieve this there should be clear communication between the Auditor and the component auditors. The Auditor should clearly document the work performed on auditing the consolidated financial statement by using the relevant regularity audit working papers. Matters to be documented include the analysis of components, the planning and performance of procedures to be performed and communication with component auditors and external parties. *(ISSAI 1600.12;13;50;P8;P9;P14)*

The top-down approach

In instances where **SAIs only provide opinion on the consolidated financial statements** the following steps are provided in ISSAI 1600.

1. Identification of significant components (MDAs) included in the consolidated statements. Each component (MDA) should be separately evaluated in order to identify those with either financial significance considering materiality on the consolidated level, or carrying significant risks of material misstatement for the consolidated statements.
2. Each significant component (MDA) should be audited by the Auditor or component auditors in line with ISSAI.
3. For components which are identified as not significant components the Auditor may only perform analytical procedures on a consolidated level to obtain assurance.
4. The Auditor should consider the overall level of audit coverage and whether the evidence obtained is sufficient and appropriate to express an opinion on the consolidated statements.

Overview of Audit Process Flow

The following stages of the audit are looked at:

1. Pre-engagement activities
2. Strategic planning
3. Detailed planning
4. Fieldwork
5. Reporting

Pre-Engagement Activities
(ISSAI 1600.14:19;20;40;41;50;P7;P12;P19)

The pre-engagement phase includes:

- Resource planning,
- Consideration of ethical requirements
- Communication with component auditors
- Establishment of engagement and communication with auditee.

Table 1. The following diagram illustrates the links between the requirements of this guideline to the Regularity Audit Manual working papers for the main phases

Description	**RAM working papers**	**Specific considerations**
Resource planning	Budgeted v Actual hours Competency matrix	Requirements such as resource planning, ethical requirements and

	Team agreement	terms of engagement should be put in the context of the audited consolidation
Ethical requirements	Code of ethics	Consider the component auditor's compliance with ethical requirements for the purposes of consolidations
Communication with component auditors	Letter of instruction	New working paper, facilitating co-ordination of work with component auditors
Establishing terms of engagement	Engagement letter	Addressed to the Government Treasurer

Strategic Planning
(ISSAI 1600.15;17;18;21;22;23;30;32;34;50;P10; P13;P15;P16;P18)

Strategic planning stage of the audit includes the following:

- Determination of materiality
- Identification of significant components
- Performing risk assessment procedures
- Assessment of internal control on an overall level
- Assessment of risk of material misstatement on a financial statement level
- Establishing the overall audit strategy

Description	**RAM working papers**	**Specific considerations**
Determination of materiality	➢ Planning materiality	Materiality is calculated on an overall level
Identification of significant components	➢ Lead schedule	Identify significant MDAs as well as audited components from the consolidated financial statements. Confirmation of government entities to be consolidated.
Performing risk assessment procedures	➢ Prior year's audit matters ➢ Preliminary analytical review ➢ Going concern checklist ➢ Fraud checklist ➢ Using the work of another auditor ➢ Using the work of an expert ➢ Engagement team discussion document	Evaluation of risks and controls implemented on an overall level (i.e. controls instituted by Government Treasurer to set policies, reporting requirements and monitor)
Assessment of internal control on an overall level	➢ Internal control checklist ➢ Internal audit checklist ➢ Audit committee checklist	The evaluation centrally computerized systems are evaluated

Description	RAM working papers	Specific considerations
Assessment of risk of material misstatement on a financial statement level	➢ Risk of material misstatement on a financial statement level	Risk of material misstatement is set on an overall level.
Establishing the Overall Audit Strategy	➢ Overall Audit Strategy	Communication of Overall Audit Strategy on this level should be to the Government Treasurer or equivalent person.

Detailed planning / Fieldwork
(ISSAI 1600.24;25; 26;27;28;29;31;32;33;35;36;37;P11;P17;P18)

During detailed planning and fieldwork auditors need to consider each audited component and each assertion and perform the following:

- Description of processes and systems for each audited component
- Assessment of control reliance for each assertion
- Designing audit programs
- Sampling
- Performance of audit procedures

Description	RAM working papers	Specific considerations
Description of the processes and systems	➢ Systems description for components	Identification of inter-governmental transactions which should be eliminated on consolidation. Processes, risks and controls for the consolidation process should also be understood.
Assessment of control reliance for each assertion	➢ Reliance on key controls for components	
Design of audit programs	➢ Audit programs	Review the work performed by component auditors and evaluate whether it is sufficient and appropriate. Audit programs planned to be executed by component auditors should be communicated in a timely manner
Sampling	➢ Sampling worksheet	

Performance of audit procedures	➢ Lead schedule on a component level ➢ Tests of controls ➢ Substantive audit procedures performance ➢ Substantive analytical procedures ➢ Evidence tracking sheet	Review of procedures and evidence for work performed by component auditors

Audit summary
(ISSAI 1600.38;39;42;43;44;45;50)

The audit summary part of the audit includes the following activities:

- Review of financial statements
- Events after financial year end
- Review of audit work
- Communication of findings.

Description	**RAM working papers**	**Specific considerations**
Review of financial statements	➢ Disclosure checklist	The checklist is completed in light of the consolidated financial statements Auditor should also ensure that the financial statements audited by the component auditor(s) are aggregated adequately into the consolidated statements
Events after financial year end	➢ Subsequent events	Identify events between the year-end of audited components (MDAs) and the date of the Auditors report on the consolidated financial statements.
Review of audit work	➢ Review sheet ➢ Audit summary memorandum	
Communication of findings	➢ Audit query	Audit queries are issued to relevant parties i.e. the Government Treasurer

Auditor's reporting
(ISSAI 1600.11.46;47;48;49;P3;P4;P20)

Auditor's reporting includes the following activities:

- Evaluation of audit findings
- Reporting

Description	**RAM working papers**	**Specific considerations**
Evaluation of	➢ Audit differences	Audit differences are considered in

Description	RAM working papers	Specific considerations
audit findings		light of the materiality for the consolidated financial statements
Reporting	➢ Management letter ➢ Auditor's report	Formal communication directed to the Government Treasurer or equivalent person. Consider responsibilities to report to other parties outside the entity (such as regulatory agencies) Auditors report should not refer to work performed by component auditors.

PART 8 AUDIT OF SMALL ENTITIES

8.1 IDENTIFICATION AND CHARACTERISTICS OF SMALL AUDITS

Special consideration in the audit of small entities includes the following:

- ***Understanding the characteristics of a small entity; and***
- ***Application of ISSAIs for small entities detailing each stage of the audit.***
- ***Additional guidance on detailed planning for small entities***
- ***Amended / additional working papers***

Applicability of the guidance

In this chapter consideration will be given to the audit of small public sector entities. In terms of this manual all audits should fully comply with the International Standards of Supreme Audit Institutions (ISSAIs). Consequently, the guidance included here does not aim to establish any exemptions from the requirements of these standards. The objective is to describe the characteristics commonly found in small entities and consider the how these may affect the application of ISSAIs. Some working papers are replaced by more appropriate and simplified versions as indicated in the summary tables for each phase of the audit. This guidance is aimed to supplement and not to substitute the guidance contained in the relevant section in the Regularity Audit Manual. It is therefore recommended that the relevant sections of the RAM are read together with this additional guidance.

Whether an audit is 'small' should be decided by OAG and not by the audit team at the start of the audit. During the preparation of an annual audit plan of the OAG, smaller audits are identified in the context of government which should be audited. To decide on small audits quantitative characteristics including the size of an entity with smaller budgeted expenditure, less assets and number of employees are considered. In addition to these indicators there are also some qualitative characteristics which may be considered.

Note: Limitations on audit budget and time is not a valid reason to follow this methodology on audits other than those identified as 'small' audits in the annual planning documentation of the OAG.

What characteristics may contribute to the auditee being small?

A "smaller entity" refers to an entity which typically possesses characteristics such as:

- Smaller number individuals tasked with management responsibilities; and
- One or more of the following:
  - Straightforward or uncomplicated and fewer transactions which are easier to understand
  - Smaller budgeted expenditure and revenues;
  - Simpler, less sophisticated record-keeping;
  - Fewer types of goods and services provided;
  - Limited internal controls with an increased potential for management to override controls;
  - There is concentration of management in a small number of individuals (often a single individual), fewer levels of management with responsibility for a broad range of controls (a more 'hands on' approach); or
  - Few personnel, many having a wide range of duties providing less opportunities for segregation of duties and functions.

However, these characteristics are not exhaustive and sometime can also be found in larger entities. In addition, smaller entities may not necessarily display all of these characteristics.

8.1.2 Audit considerations for small entities

Some characteristics of small public sector entities may affect the audit work which should be performed and the application of the standards. Auditors should keep in mind that some ISSAIs may not be applicable for the engagement. For example, where the entity does not have any outsourced activities, audit committee or internal audit, such considerations may be marked 'not applicable'. In addition, even when the specific standard is found to be relevant, this does not mean that all of its requirements are relevant for the auditee. When a requirement is conditional and the condition does not exist at the auditee, it is not necessary for the auditor to comply with the requirement. For example there may not be a need to hold an engagement team discussion as part of the risk assessment activities if it is only a one-person team, or perform further procedures if the auditor has not identified previously unidentified or undisclosed related parties or significant related party transactions.

In smaller entities there is usually less number of recorded transactions, fewer goods and services provided, revenue collected from fewer sources and employees usually have a more thorough understanding of the entity. Due to this auditors do not normally have to spend extensive amount of the time to interview different personnel and understand the operations of the entity.

In government normally the same mandates apply to the audit of small entities than to large entities. Similarly to large audits, auditors should gain understanding of legislative requirements applicable for the auditee and consider them throughout the audit. Mostly, the same financial regulations apply for small audits than to large ones. However, complying with the same legislative framework as large public sector entities maybe more onerous for small entities.

Audits of small entities usually have fewer audit staff and strict timeframes, yet all the ISSAIs need to be considered and complied with. Where it is possible the following guidance may reduce the burden on auditors of small entities.

Overall considerations

Timing of audit work

Audit budgets and available audit time is normally very limited to perform audits of small entities. Consequently, to save time these audits should best be performed after the financial year-end or when the financial statements are become available. Interim audits are almost never conducted for these audits as this would normally not be feasible. This does not however, mean that tests of controls should not be performed. Some of these tests, such as inventory counts may be observed by the auditors during the financial year. Such instances should be considered and scheduled by the auditors where applicable.

Communication with management and those charged with governance

To identify those charged with governance, the auditor should determine who are entrusted with the supervision, control and direction of the small entity. This may be in the form of a board, council or audit committee.

As the audit should be finalised within a short space of time, the timely response of management to audit queries should be emphasised. Meetings with management of the entity and those charged with governance are kept to the minimum during small audits and therefore require more planning from the auditors. Discussion points and questions need to be identified in advance by auditors with any information which needs to be obtained from management.

Documentation of audit work

Audit documentation facilitates supervision and review of the audit and provides evidence for the auditor's report issued. The documentation for small entities may be less extensive. The working papers provided at the end of this guidance may replace some of the original working papers. Where certain working papers or some parts of the working papers are not applicable, this should be clearly stated.

The following paragraphs discuss the different phases of the audit and identify the relevant working papers to be completed for small audits. In most cases reference is made to existing working papers in the Regularity Audit Manual. Additional or amended working papers for the audit of small entities are included under section 8.9.

8.2 PRE-ENGAGEMENT ACTIVITIES

Similarly to any audit, pre-engagement activities are vital part of planning the audits of small entities. There should be a suitably qualified senior person identified to take responsibility for the small audit.

The following table indicates the applicable working papers to be completed.

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
PE 1.	Budgeted v Actual hours	To establish the time budgeted for the audit of each component and document actual hours spent on the audit.	Mandatory, to be completed for each audit.	Team-Leader/ Senior Auditor	Audit Director or person responsible for the auditor's report to sign off the conclusion
PE 2.	Code of ethics	Evaluate the team's independence	Mandatory, to be completed for each audit.	Each team member	Audit Director or person responsible for the auditor's report to sign off the conclusion
PE 3.	Code of ethics conclusion	Conclude on the team's independence	Mandatory, to be completed for each audit.	Team-Leader	Audit Director or person responsible for the auditor's report to sign off the conclusion
PE 4.	Competency matrix of audit team	Conclude on the team's ability and competence to perform the audit. Identify competency gaps and training requirements.	Mandatory, to be completed for each audit.	Team-Leader	Audit Director or person responsible for the auditor's

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
					report to sign off the conclusion
PE 5.	Team agreement	Agreement on the scope of the work required by each team member.	Administrative working paper to be completed for each audit	Team-Leader	Audit Director
PE 6.	Audit engagement letter	Agreement and common understanding about the terms of the engagement and informs both auditors and management regarding the expectations on the audit. The engagement letter is sent to the audited entity and normally discussed during a meeting. The Accounting officer should also sign the letter.	Mandatory, to be completed for each audit.	Senior Auditor/ Audit director	Audit Director or person responsible for the auditor's report to sign the letter.
PE 7.	Quality Control Questionnaire for Pre-Engagement	Facilitating review and to identify aspects which may not have been adequately addressed during the pre-engagement phase of the audit.	Mandatory, to be completed for each audit.	Team Leader/Senior Auditor	Audit Director
OC 1.	Review worksheet	To document coaching and the responses to the reviewers	To be completed when necessary	Reviewers on all levels	
OC 2.	Audit query	To provide a basis for communication of findings with the client.	To be completed when findings are raised and communicated	Auditor	Team-Leader

Budgeted v Actual hours

Budgeted v Actual hours working paper to identify the budgeted time for the audit. For smaller entities it is not always practical to prepare the budget in very much detail. When this is the case, budgeted and actual time may be monitored on an overall basis, for example providing hours or days for major stages of the audit, including pre-engagement activities, strategic planning, detailed planning etc.

Code of ethics and Competency matrix
Code of ethics working paper and competency matrix should be completed for each team member and concluded on by the person responsible for the audit. Since there are usually fewer auditors completing these working papers should be less time consuming.

Team agreement
This is an administrative working paper, but where it is deemed necessary by the team leader, it can be completed. Usually, when the work is divided between fewer auditors and over a short space of time there may not be a need confirm the scope of work and deadlines in writing.

Engagement letter
Engagement letter should be completed for small audits using the same template included in RAM. This is a very important communication tool with the auditee confirming the responsibilities of auditors and management. Due to the fact that interim audits are not often performed, the table including the target dates in the engagement letter for smaller audits can be simplified. The contents of the engagement letter may also be discussed during the opening meeting.

8.3 STRATEGIC PLANNING

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
SP 1.	Planning materiality	Calculation of quantitative planning materiality. Considering factors which may influence qualitative materiality.	Mandatory to complete for each audit.	Team-Leader	Senior Auditor
SP 2.	Lead schedule (small entities)	Identification of audit components to be audited, including significant balances and transactions from the financial statements. Identify risks areas where large differences are noted between current and prior year and current and budgeted figures.	Mandatory to complete for each audit.	Team-Leader	Senior Auditor
SP 3.	Risk identification checklist (small entities)	To determine the entity's susceptibility to fraud. Identify risks relating to sustainability of services or going concern. Identify risk areas from the prior year audit that might have an influence on the current year's audit.	Mandatory to complete for each audit.	Team-Leader	Senior Auditor
SP 4.	Governance arrangements checklist (small entities)	Identify high level risks relating to the manual and computerised control environment. To provide an assessment of the work and competence of the internal audit function. To provide an assessment of the	Mandatory, to be completed for each audit.	Team-Leader	Senior Auditor

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
		efficiency and compliance of the audit committee to prescribed laws and regulations.			
SP 5. (SP 9 in main manual)	IT Internal control checklist	Identify high level risks relating to the manual and computerised control environment.	When there is a computerized system it is mandatory to complete	Team-Leader	Senior Auditor
SP 6. (SP 11 in main manual)	Using the work of another auditor	To determine the extent of use of the work of another auditor (where applicable).	When applicable it is mandatory to complete	Team-Leader	Senior Auditor
SP 7. (SP 12 in main manual)	Using the work of an expert	To determine the extent of use of the work of an expert (where applicable).	When applicable it is mandatory to complete	Team-Leader	Senior Auditor
SP 8. (SP 13 in main manual)	Risk of material misstatement on a financial statement level	Transfer all the risks identified during the strategic planning phase of the audit. Link these strategic risks to the audit components identified in the Lead schedule where possible and identify any further work which needs to be done. Determine risk of material misstatement on a financial statement level.	Mandatory to complete for each audit.	Team Leader/ Senior Auditor)	Audit Director
SP 9.	Overall Audit Strategy (small entities)	Setting out the conclusion from all working papers up to this stage and formulating the high level audit approach.	Mandatory to complete for each audit.	Team Leader/ Senior Auditor)	Audit Director or person responsible for the audit
SP 10. (SP 15 in main manual)	Engagement team discussion document	Confirms understanding and informs the engagement team about important aspects of the audit.	Mandatory to complete for each audit.	Team Leader/ Senior Auditor)	Audit Director
SP 11. (SP 16 in main manual)	Quality Control Questionnaire for Pre-Engagement	Facilitating review and to identify aspects which may not have been adequately addressed during the pre-engagement phase of the audit.	Mandatory, to be completed for each audit.	Team Leader/ Senior Auditor)	Audit Director
OC 1.	Review worksheet	To document coaching and the responses to the reviewers	To be completed when necessary	Reviewers on all levels	
OC 2.	Audit query	To provide a basis for communication of findings with the client.	To be completed when findings are raised and communicated	Auditor	Team-Leader

Obtaining an understanding of the entity's internal controls relevant to the audit is equally important in the audit of a small public sector entity. In smaller entities, there are often fewer employees, which can limit the extent to which segregation of duties is practicable and the paper trail of documentation available. But internal control still exists. In such entities, the control environment (management's commitment to ethical values, competence, attitude toward control, and their day-to-day actions) will be very important to evaluate. This will involve assessing the behaviour, attitudes, and actions of management through completing the checklists provided.

In addition, while the control environment for smaller public sector entities may differ from larger public sector entities, they may both be part of the larger government control environment. As a result, controls may exist outside the auditee (such as Ministry of Finance).

Planning materiality
The template provides for the calculation of an overall quantitative materiality. Usually, the final figures are available at this point to determine materiality, which will mean that planning materiality will be very close if not the same as final materiality. Qualitative factors are considered in line with the audit mandate of the OAG and other legislative requirements.

Lead schedule and analytical review
Document financial statement balances and identify audited components in the Lead schedule for SE *(Refer to working paper SP2.)*. The financial statements of small entities are usually less complex, for example disclosing fewer types of expenditure or revenue. Audit components are identified by considering materiality and risks of items disclosed in the financial statements.

The same excel spreadsheet documents the budgeted amounts and figures from prior year to provide for a basic analytical review. Differences between actual and budgeted and prior year figures over 10% should be explained. However this rule is applicable for underutilization of budget. Over utilization budget is all material regardless of the amount involved. Explanations normally are obtained from the responsible persons at the auditee. These differences only indicate risk areas and do not constitute misstatements.

Risk identification checklist
The Risk identification checklist includes the consideration of aspects relating to fraud, sustainability of services and prior year's audit findings.

Consideration of fraud risk factors
Fraud should be considered on a financial statement level (during strategic planning) and on a component level (during detailed planning). On a financial statement level, the checklist below should be completed in order to identify fraud risk indicators.

Note: The checklist does not serve as a tool to identify actual fraudulent activities in an entity. The areas where the operations of the entity reflect higher risk or where fraud risk indicators seem to be present should be noted and taken to the Risk of material misstatement working paper.

Sustainability of services considerations
Auditors should assess factors which indicate that the entity is at risk of fully delivering services required by its mandate. The environment around the auditee may impact on the operations of a smaller entity more significantly. The possibility of for example losing a key employee may also have a larger impact on the operations of a smaller entity. The actions instituted by management and plans in place to address these risks should be evaluated.

Matters reported during prior year
Auditor should read prior year's auditor's report and management letter to identify risk areas relating to previous audit findings. These areas should be flagged as risk areas and linked to audited components identified for audit in the Lead schedule. This is done in the Risk of material

misstatement working paper *(refer to working paper SP 13.)*. Risk areas will be followed-up during detailed planning and fieldwork.

Governance arrangements checklist

The governance arrangement checklist evaluates the high level controls existing in the auditee, including the functioning of internal audit and audit committees where applicable.

Evaluation of the internal controls

High level internal controls of the auditee are evaluated related to the following areas:

- Control environment
- Risk assessment processes
- Control Activities
- Monitoring

Evaluation of audit committee and internal audit

Understand governance arrangements at the auditee by looking at the work performed by internal audit and the audit committee. Auditors should be aware of any applicable legislative requirements relating to internal audit and audit committees for the auditee. Usually in government the same legislative frameworks are applicable for smaller government entities as for larger ones.

Small entities usually do not have large internal audit functions and sometimes they may share this function with other government entities. The work performed during a financial year may also be limited. However, when legislation requires auditees to have internal audit functions, external auditors should evaluate the setup and proper functioning of such functions. This should be done even though there may not be any planned reliance placed on the work performed by internal auditors.

IT Internal control checklist

The size, detail and content of the IT policy will vary according to various factors which include the size of the organisation and its IT department and the importance or criticality of the IT systems. For example, a large government ministry are likely to have detailed IT strategies which span over several hundred pages, or on the other hand, at a small entity it may be a one page document. When reviewing the strategy the auditor should consider what is appropriate for the organisation.

It is likely that the IT section consist of very few people – sometimes only one person. During general control review attention should be paid to sufficient segregation of duties, especially regarding the following functions which should be performed by different persons:

- Programmer and database administrator;
- System administrator and database administrator;
- Security administrator and database administrator; and
- Network administrator and database administrator.

Auditors should gain an understanding of the relevant application systems used by the auditee. General controls of financial systems should be evaluated by the auditor using the IT internal control checklist.

Evaluating the work of an expert or another auditor

The working paper on evaluating the use of the work of another auditor or expert should be completed when applicable. However, the work of another auditor should not often be applicable, as smaller entities do not often have operations which cover a larger geographical area and should not have subsidiaries audited by other auditors.

Risk of material misstatement on a financial statement level

Summarise risks identified during strategic planning for each area and determine the overall level of risk of material misstatement on a financial statement level.

Overall Audit Strategy
The Overall Audit Strategy should summarise the conclusions drawn on working papers during strategic planning. For smaller audits the Overall Audit Strategy may be kept brief deleting considerations if they are not applicable. For smaller auditees, it is more likely that:

- Interim audits will not normally be performed
- Specialised IT audits and performance audits will not be performed
- Formal meetings with management and those charged with governance will be kept to the minimum
- Due to the short timeframe of some audits audit queries may not be issued more than once.

The applicability of these elements depends on the circumstances of each audit. For audits with very short timeframes it may be impractical to discuss the Overall Audit Strategy with management of the auditee.

Engagement team discussion document
The team discussion should take place regarding the key areas indicated in the working paper during strategic planning.

8.4 DETAILED PLANNING AND FIELDWORK

Auditing of public sector entities usually have mandates to audit the internal controls of the auditees. Consequently, auditors have to evaluate the design and effective implementation of internal controls relating to the audit components selected in the Lead schedule. In addition, auditors should evaluate and test the internal controls relating to areas of significant risks, which include occurrence of expenditure, completeness of income and existence of assets. A system based approach concentrating on processes, risks and controls for key ----→Missing ----

Timing of tests of controls need to be considered as some controls have to be tested during the financial year – for example observing inventory counts. These events usually take place before the audit work begins but for some auditees it is necessary to attend.

The applicable working papers are included in the table below.

WORKING PAPERS		**PURPOSE / DECISIONS / OUTCOMES**	**MANDATORY WORKING PAPERS**	**COMPLETED BY**	**REVIEWED BY**
DPF 1.	System description for audit components	Identification of audited components in the Lead schedule. Identify risks relevant to the component from the Inherent risk on a financial statement level working paper. Further guidance on completing this working paper is provided below.	Mandatory, to be completed for each audited component or group of components with largely similar processes.	Auditor/ Team Leader	Audit Manager (Senior Auditor)
DPF 2.	Reliance on key controls for components	Link the risks identified in the system description to assertions and decide whether controls are going to be	Mandatory, to be completed for each audited component with system	Auditor/ Team Leader	Audit Manager (Senior Auditor)

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
		tested.	descriptions.		
DPF 3.	Audit programs	Risks identified in the System descriptions need to be covered. Reference can be made to further guidance given on tests of controls and substantive tests in this chapter.	Mandatory, to be completed for each audited component.	Auditor/ Team Leader	Audit Manager (Senior Auditor)
DPF 4.	Sampling	Samples should be included in the Substantive procedures performance working paper	Mandatory, to be completed for each procedure / grouping of procedures	Team Leader	Senior Auditor
DPF 5.	Evidence tracking sheet	To document information requests and track outstanding audit evidence for further action	Administrative working paper	Auditor/ Team Leader	Senior Auditor
DPF 6.	Lead schedule on component level	To break down the audited component and identify any further focus areas relating to the component	To be completed for each component – administrative working paper	Auditor/ Team Leader	Senior Auditor
DPF 6.1	Analytical review for salaries and wages	To document the performance of analytical review for salaries and wages	To complete when analytical procedures are performed	Auditor/ Team Leader	Senior Auditor
DPF 7.	Tests of controls	Document the performance of tests of controls	Mandatory, to complete for each test of controls performed.	Auditor/ Team Leader	Senior Auditor
DPF 8.	Substantive audit procedures performance	Document the performance of substantive procedures	Mandatory to complete for each substantive procedure of group of procedures.	Auditor//Team leader	Senior Auditor
DPF 9.	Substantive analytical procedures	Document the performance of substantive analytical procedures	Mandatory to complete for each substantive analytical procedure performed.	Auditor/Team leader	Senior Auditor
DPF 10.	Audit summary memorandum	Summary of the audit process for each component	Mandatory, to be completed for each audit	Auditor/Team leader	Senior Auditor

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
			component.		
DPF 11.	Quality Control Questionnaire for Detailed planning and fieldwork	Facilitating review and to identify aspects which may not have been adequately addressed during the detailed planning and fieldwork phase of the audit.	Mandatory, to be completed for each audit.	Team Leader/ Senior Auditor	Senior Auditor
OC 1.	Review worksheet	To document coaching and the responses to the reviewers	To be completed when necessary	Reviewers on all levels	
OC 2.	Audit query	To provide a basis for communication of findings with the client.	To be completed when findings are raised and communicated	Auditor	Team-Leader

System description and Reliance on key controls working paper

Additional emphasis should be placed on the fact that items with similar nature should be grouped and audited together. In order to ensure that the often limited audit time and resources are concentrated on the correct risk areas there is an increasing need to understand the main risk areas for each audited account balance or transaction. During detailed planning the risks and controls should be identified and further understood for each of the audit components identified in the Lead schedule.

Auditors should understand the nature of transactions under each audit component identified in order to group such transactions into a system description where possible. Normally total expenditure or payments for an entity includes a variety of expenditure items, including administrative expenditure, supplies and consumables etc. Transactions under these components normally have similar processes, risks and subjected to the same internal controls. When this is the case auditors may group these components together for the purposes of detailed planning and fieldwork. Control reliance will be identified for each assertion together for these items. Reference can be made to section 7.5 for additional guidance on how to complete the system descriptions for small entities.

The starting point of the system description is to understand the basic processes for each component **which should be in place**. This represents the ideal situation based on the provisions of the legislative framework, which should be understood by the auditors before embarking on completing the working paper. Legislative framework of the entity, the financial regulation and property management of Ministry of Finance will generally highlight the internal controls which need to be in place at the auditee. However, where the legislative frameworks do not cover or cover only partially the main processes of the audited component, auditors should use the guidance included in the tables below as good practices on 'potential controls'.

Walkthrough procedures should confirm whether the entity has implemented necessary internal controls to counter risks.

Where there are exceptional circumstances, for example different forms used by the auditee for an expenditure item – such instances maybe noted.

According to the nature of the transactions related risks and controls, the financial operations of an entity can be grouped into the following main categories:

System description and control reliance work	Considerations
Expenditure / payments	Expenditure grouping different kinds of general and administrative expenditure supplies, purchases of goods and services, inventory etc.
Salaries and wages	Usually has different processes risks and controls and needs to be separately considered. It is also usually a large expenditure item for government entities.
Procurement	Should be included as a separate audit component and evaluated separately where there is a statutory obligation to audit compliance. For smaller entities, however there may not be too many contracts which makes sampling easier.
Revenue or receipts - Grants received - Other revenue	Grants received normally needs to be covered separately, but without significant risks. Other revenue, however is significant fraud risk area and needs to be considered separately.
Fixed assets	Fixed assets are very important to cover even where financial information is reported on a cash basis. Existence of assets should be identified as a significant fraud risk area.
Current assets Cash, bank and receivables	Should also be covered separately where applicable.
Long terms liabilities and payables	Should also be covered separately where applicable.

Audit programs
Tests of controls and substantive tests should cover applicable assertions for each component. Refer to the additional guidance included below on the minimum audit programs to be considered for some of the major audit components.

Sampling
Sample sizes are identified via the usual considerations and working papers included in the Regularity Audit Manual. Where audit components are grouped together for the purposes of identifying control reliance, sample items may also be calculated for the entire population of expenditure.

For example where audit components with similar nature were grouped together during detailed planning, the entire expenditure balance will constitute the population used to calculate the sample size. Sample size calculated by using a larger account balance will be higher and should cover all sub-components. Auditors should ensure that items are selected from all sub-components.

Evidence tracking sheet
This working paper is for administrative purposes. When auditing a smaller entity, there may not be a need to track evidence requested from the auditee. However, when auditors have had

problems in the past with non- or late receipt of evidence from the auditee, the completion of this working paper may become recommended and necessary.

Lead schedule on component level

This working paper indicates the relevant sub-components and the break-down of audit components. For smaller entities grouping similar audit components together is increasingly important. Consequently, the lead schedule on a component level should be completed including all sub-components which are considered together.

Performance audit programs

Audit programs identified during detailed planning should be performed and such performance should be documented. There are separate working papers to document the different types of audit programs which may be applicable.

Tests of controls, substantive procedures performance and substantive analytical procedures performance working papers should be completed, as applicable.

The Analytical review for salaries and wages working paper provides a suggested format for performing a month to month analysis of the component and sub-components. It serves to give assurance but also to identify areas where further audit work should concentrate. Large variances should be flagged for further audit work and explanations.

Audit summary memorandum is a summary document assisting review and checking the correctness of decisions made. For small audits it is likely that audit components are grouped together to make decisions for detailed planning it may not be necessary to complete this summary.

7.5 ADDITIONAL GUIDANCE ON DETAILED PLANNING FOR SMALL ENTITIES

The following guidance assists auditors to complete the system description and identify basic audit programs for some of the main audit components. This guidance is providing a starting point for the audits and not aiming to be complete as far as audit work is concerned. Auditors should consider this guidance for each audit engagement, together with any additional legislative requirements as applicable.

Expenditure / payments

Significant risk area due to a risk of fraud: Occurrence of expenditure as invalid payments may be made

Walkthrough tests should then be performed for each type of expenditure. For example a transaction should be selected for goods and services and administrative expenditure etc.

Assertions	**Audit objectives / control objectives**	**Error statements**
Occurrence:	Transactions and events that have been recorded and disclosed have occurred and pertain to the entity.	Fictitious or fraudulent transactions have been effected and recorded.
Accuracy (Measurement):	Amounts and other data relating to recorded transactions and events have been recorded appropriately.	Inaccurate recording due to human errors or misstatements.
Classification:	Transactions and events have been recorded in the proper accounts. Financial information is appropriately presented and disclosures are clearly expressed.	Transactions posted to an incorrect account. Inappropriate or non-understandable disclosure of financial information.

Completeness:	All transactions and events that should have been recorded have been recorded. All required disclosures have been included in the financial statements.	Transactions that have been effected are not recorded or disclosed. All required disclosures have not been included in the financial statements.
Compliance:	Transactions have been effected in compliance with relevant laws, legislations or regulations. Compliance with prescribed standards in terms of disclosure of assets, inventory and liabilities.	Non-compliance with relevant laws and regulations relating to the transactions. Non-compliance with prescribed standards in terms of disclosure of compensation for goods and services.
Cut-off:	Transactions and events have been recorded in the correct accounting period.	Transactions recorded in the incorrect period.
Value for money:	Transactions or events relating to the acquisition of goods and services represent the economical acquisition as well as efficient and effective use of resources.	Human resources are too costly. Resources are not utilised to derive full benefit. Resources are not utilised to achieve the objectives of the entity.

Transaction life cycle	Risk	Potential Control	Assertion	Audit tests
Ordering of goods	Goods ordered which are not necessary or in line with budget requirements.	Order of goods is properly authorized by an independent official. Person authorizing the purchase orders should confirm that there are adequate funds and valid motivation for the acquisition.	Occurrence	***Tests of control:*** For selected payments inspect selected purchase orders to ensure that: • It was properly authorized by the appropriate official. • The availability of funds and the reasonability of the order were confirmed before the authorization. ***Substantive tests:*** For a sample of purchases recorded in the ledger confirm that the purchase orders were appropriately authorized before the goods or services were delivered.
Reallocation of funds between budget line	Incorrect or unauthorized spending of budgeted funds	Appropriate authorization of re-allocations, in compliance with the legislative framework.	Occurrence	***Tests of control:*** Obtain a list of re-allocations. For a selected sample of re-allocations confirm that they were appropriately authorized and in compliance with legislative requirements.
Receiving goods and services	Delivery of incorrect, inferior quality or incomplete goods and services	Goods received notes issued when receiving goods including statement by the receiving officer that the correct and complete goods and services were acquired. Report or documentation (certificate of work done) to support that a service was provided.	Occurrence Value for money	***Tests of control:*** Observe the receiving of goods and inspect proof that: • Goods received notes are issued for goods received. • The receiving officer checked that correct goods were received in the correct quantity and quality. ***Substantive tests:*** For a sample of purchases recorded in the ledger inspect the goods received note or certificate of work done and confirm that goods received or services provided were correct and complete.
Payments for goods and	Unauthorised / incorrect	Documentation is in place before payments are authorised.	Occurrence Accuracy	***Tests of control:***

Transaction life cycle	Risk	Potential Control	Assertion	Audit tests
services	payments are made Incorrect classification of expenditure	Official authorizing the payment should check that: • Adequate supporting documents, invoices, payment voucher are in place. • There are sufficient budgeted funds to cover the transaction. • Procedures applied to select a supplier were appropriate. • The payment is recorded in the correct account and financial period on the financial system. Segregation of duties between officials responsible for the payment and the receipt of goods.		Obtain the list of personnel duly designated to authorize payments. For selected payments recorded inspect the signature or other proof that the officer has checked that valid supporting documents are attached to the payments and that calculations and details on the payment voucher are correct. ***Substantive tests:*** For selected payments recorded in the ledger confirm that: • The payment voucher was authorized before the payment was made by the correct official; • There is a goods received note or services specified have been satisfactorily performed before the payment was made; • Prices charged agreed to contractual terms or appear reasonable; • Calculations were made correctly by recalculating relevant amounts; • Expenditure is recorded under the correct chart of account code; • There were sufficient budgeted funds available for the transaction; • The beneficiary was correctly named on the payment voucher; • All relevant supporting and valid documents are attached to the payment voucher. There was full compliance with contract requirements before payments were made by looking at certificates / inspection committee reports / performance bond and minutes of site meetings.
Payments for goods and services (cont.)	Not all payments are recorded	Delegated official is periodically accounts for all the pre-numbered payment vouchers.	Completenes s	***Tests of control:*** Inspect the periodic reconciliation between manual payment

Transaction life cycle	Risk	Potential Control	Assertion	Audit tests
		Periodic reconciliation of payment vouchers and entries in the ledger.		vouchers and recordings of payments in the financial system / ledger. ***Substantive tests:*** For a sample of payment vouchers trace payments to the transaction listing report to ensure that they were accurately recorded.

Payroll / salaries and wages

For auditing salaries and wages in a small entity auditors may find analytical procedures very useful. Usually, there are fewer employees, where a month to month review of expenditure may more likely give much of the required assurance *(Refer to working paper SP 2. Lead schedule on component level Small Entities)*. In addition, the importance of evaluating and testing internal controls should be emphasised.

Normally there should not be many appointments and terminations, consequently audit work should concentrate on the maintenance of employees and payments of salaries and wages.

Transaction life cycle	Risk	Potential Control	Assertion Addressed	Audit test to be Performed
Appointment of personnel	Ghost employees are included in the personnel system	Letter of appointment and personnel file (including copies of certificates) Feedback from supervisor to administration to confirm the individual has commenced employment.	Existence	***Tests of control:*** For a sample of new employees obtain the personnel files. Inspect required supporting documents for appointments, including information on the selection committee and signed letter of appointment. Evaluate whether the position has been filled in a timely manner.

Transaction life cycle	Risk	Potential Control	Assertion Addressed	Audit test to be Performed
Payments of salaries	Salaries maybe paid in duplicate, to persons who are not on the payroll and at incorrect amounts.	Any amendments to standing salary information (or salary master file) should be properly authorized. Access to standing salary information should be restricted to authorized personnel.	Measurement, Accuracy	***Tests of control:*** For a sample of changes made to standing salary information (for example salary increases), confirm that changes were appropriately authorized. ***Substantive tests:*** For a sample of changes made to standing salary information, inspect supporting documents and confirm the validity of changes affected.
Salaries are paid at correct amounts			Completeness, Occurrence	***Tests of control:*** For selected payroll runs inspect proof that: • The payroll information has been authorised by an official independent of payroll processing. • Line managers have confirmed the payroll details for their own departments. Inspect proof that there is regular and independent reconciliations are performed between the payroll and the financial system. The employee records kept by line managers are independently and regularly reconciled to the HR department's records (at least twice annually). ***Substantive tests:*** For a sample of employee payments recorded in the ledger: • Compare the basic salary included to the approved salary schedule. • Verify that valid supporting documents exist for all additional salary inputs including overtime payments, leave

Transaction life cycle	Risk	Potential Control	Assertion Addressed	Audit test to be Performed
				pay, incentives, bursaries, travel claims, subsistence claims, loan repayments, garnishee orders, etc. • Confirm that all additional salary inputs are properly authorised by the line manager before the payroll run. • Confirm that salary deductions have been properly calculated • Statutory payments have been appropriately made. • Recalculate salary amounts. For a sample of employees on the payroll physically verify the existence of the employees. Where this procedure is not practical, confirm whether that the selected employee(s) had take leave during the past year. Where no leave transactions have been noted further follow-up may be necessary to verify the existence of the employee.
Termination of employment	Terminated, retired employees are paid after finishing service	System verification of all staff over retirement age Policies to ensure non attendance is taken up by the supervisor Standard procedures for informing personnel to inform finance	Validity	***Substantive tests:*** For a sample of terminations examine personnel files and determine whether: • The termination was processed within a reasonable time or at least before the next payment of salaries. • The file represents reasonable documentation including leave application, sick sheets, promotion information, training requirements, etc. • Inspect documentation to confirm that the employee was excluded from the subsequent salary run.

Revenue

Assertions	Audit objectives / control objectives	Error statements / Risk

1.	Completeness:	All revenue which should have been received have been received and recorded in the ledger. All required disclosures have been included in the financial statements.	Not all revenue has been received or recorded in the ledger. All required disclosures have not been included in the financial statements.
2.	Accuracy:	Amounts and other data relating to recorded transactions, events and provisions have been recorded appropriately.	Inaccurate recording due to human errors or intentional misstatements.
3.	Classification:	Transactions and events have been recorded in the proper accounts. Financial information is appropriately presented and disclosures are clearly expressed.	Transactions are recorded in incorrect accounts. Inappropriate or non-understandable disclosure of financial information.
4.	Compliance:	Transactions have been effected in compliance with relevant laws, legislations or regulations. Compliance with prescribed financial reporting framework (i.e. IPSAS or IFRSs) in terms of disclosure of revenue.	Non-compliance with relevant laws and regulations relating to the transactions. Non-compliance with prescribed standards in terms of disclosure of revenue received.
5.	Cut-off:	Transactions and events have been recorded in the correct accounting period.	Transactions recorded in the incorrect period.
6.	Occurrence:	Transactions and events that have been recorded and disclosed have occurred and pertain to the entity.	Fictitious revenue transactions have been recorded. Overstatement of other revenue/sales.
7.	Value for money:	Transactions and events relating to revenue received represent efficient, economical and effective conduct of business.	Inputs are not utilised in a way to maximise revenue received.

Significant risk area due to a risk of fraud: Completeness of revenue as receipts maybe misappropriated / not recorded or banked

Transaction life cycle	**Risk**	**Potential Control**	**Assertion**	**Audit test to be Performed**
GRANTS RECEIVED				

Transaction life cycle	Risk	Potential Control	Assertion	Audit test to be Performed
Requisitioning of revenue	Revenue requisitioned is not in line with budgeted funds Not all revenue budgeted for is received	Checking process between the revenue requisitions and the approved revenue budgets	Completeness Accuracy	***Substantive tests:*** For selected requisitions confirm that: • Revenue requisitioned did not exceed the budgeted amounts. • Amounts requisitioned have been received and recorded in the ledger. • Amounts requisitioned have been received within a reasonable time.
OTHER REVENUE RECEIVED				
Identification of potential revenue	All potential revenue may not be collected	There is a process in place to identify types of revenue to be collected.	Completeness	***Substantive tests:*** Compare the list of authorized services to the types of revenue received and determine whether the auditee has accounted for all the types of revenue it should collect.
Revenue generation	Services maybe charged which are not within the legal mandate of the entity	Types of services rendered are regulated e.g. included in regulations. Any changes effected to services rendered or the tariffs are reflected in the budget documentation	Occurrence	***Substantive tests:*** Obtain a list of authorized services included in legislations, regulations or other documentation. Compare the types of services authorized to the revenues collected and disclosed by the auditee.
Charging for goods / services rendered	Not all revenue is charged or received	Official tariffs or fees charged are regulated e.g. list of tariffs of authorized services are included in regulations. Regular reconciliations are performed between: • The number of units sold / services provided and	Completeness Accuracy	***Tests of control:*** Inspect proof of documentation that regular reconciliations are performed by independent officials between: • The number of units sold / services provided and the revenue received and recorded. • The tariffs used to charge for services and the official tariffs determined in the regulations.

Transaction life cycle	Risk	Potential Control	Assertion	Audit test to be Performed
		the revenue recorded in the register. • The tariffs used to charge for services and the official tariffs determined in the regulations.		***Substantive tests:*** For a sample of periods perform a reconciliation between: • The number of units sold / services provided and the revenue recorded in the register. • The tariffs used to charge for services and the official tariffs determined in the regulations.
Recording revenue	Not all revenue received is recorded	There is a documentation process for each unit of goods / services delivered. Databases or registers are updated for all income transactions.	Completenes s Accuracy	***Tests of control:*** Inspect proof regular reconciliations are performed between: • Invoices and revenue receipts issued. • Receipts issued to bank deposits and cash book entries. • Cash book to the entries in the ledger. Confirm that different officials are responsible for: • Receiving cash payments • Recoding of revenue in the ledger, and • Performing reconciliations and checks. Confirm that revenue receipts are pre-numbered and accounted for on a periodic basis. ***Substantive tests:*** For a sample of invoices issued confirm that there was a receipt issued or a debtor was raised where applicable. For a sample of revenue receipts issued confirm that: • The amounts received were banked. • The revenue received was recorded in the ledger. • Entries have been posted to the appropriate accounts.

Transaction life cycle	**Risk**	**Potential Control**	**Assertion**	**Audit test to be Performed**
				For a selected period confirm that all pre-numbered receipts (including cancelled ones) have been accounted for. ***Substantive analytical procedure:*** Calculate theoretical revenue figure by multiplying the rates charged with the number of items sold or services rendered according to sources other than the ledger (registers etc.). Compare this estimate to the actual revenue received and obtain reasons for differences exceeding 10%.
Banking of revenue received	The full amount of income received has not been banked.	Daily banking of cash received. Independent supervisory checks of amounts received in the register and amounts banked. Regular (weekly or monthly depending on the frequency of the transactions) bank reconciliations between the cash book and the bank statements	Completeness	***Tests of control:*** Confirm that all revenue collected is banked regularly, as early as possible after collection. Inspect proof of supervisory checks between amounts to be banked to receipts recorded in the cash book. Confirm that bank reconciliations are performed and reconciling items are followed up. ***Substantive tests:*** Re-perform the bank reconciliations for selected period(s) and identify any reconciling items are due to amounts banked being less than the cash received. For a sample of periodic (daily) receipts recorded in the cash book register confirm that: • The total amounts were timely banked. • The total amount received was banked and no expenditure was made out of cash received before banking.
Income	Recording of income in	The last transaction for the	Completenes	***Substantive tests:***

Transaction life cycle	Risk	Potential Control	Assertion	Audit test to be Performed
received was recorded in the correct financial period (accrual accounts only)	the incorrect period	financial year is identified and recorded in the correct period	s, Cut-off	Identify the last 5 revenue receipts of the financial year and the first 5 transactions for the following year. Trace the transactions to the general ledger and ensure that it has been recorded in the correct year. (*Test should only be performed for accounts prepared on an accrual basis)*
Safeguarding of key documents	Controlled documents are open to theft or used by unauthorized personnel. Receipts / invoices may not be issued for services rendered	Key documents are stored in safe or appropriate location and accounted for on a regular basis. Counterfoil register for the revenue receipt books maintained.	Existence of cash Completeness of revenue	***Tests of control:*** Inspect unused revenue receipt books / invoices and other documents and confirm that they are stored in a safe or locked in a store to prevent access by unauthorized personnel. Confirm that all revenue receipt books are accounted for periodically. Confirm that all receipts and issues from the counterfoil register have been recorded. Inspect the certificate issued by the officer in charge confirming that all documents received were checked and found correct.

Accounts receivable

Main assertion: Existence

Transaction life cycle	Risk	Potential Control	Assertion	Audit test to be Performed
Identifying debtors	Credit is granted inappropriately, leading to uncollectable amounts	Approval process for new debtors should be in place to assess credit worthiness. List of approved debtors is	Existence	***Tests of control:*** Inspect the approved list of debtors and confirm that it is regularly updated, for example debtors who failed on their payments should be removed.

		maintained.		***Substantive tests:*** For selected accounts receivable balances confirm that the debtors appear on the approved list of debtors.
Recording accounts receivable	Outstanding amounts may not be collected	Regular independent reconciliations between revenue received and accounts receivable balances.	Existence	***Tests of control:*** Inspect proof that regular accounts receivable reconciliations are regularly performed and outstanding balances are followed up. ***Substantive tests:*** For a sample outstanding accounts receivable recorded confirm the outstanding balance by reconciling the invoices and receipts issued. Send out confirmation letters directly to the debtors in order to confirm outstanding balances.
Collection of outstanding amounts	Outstanding amounts may not be collected	Regular reminders / demand notes are sent to the relevant debtors.	Existence	***Tests of control:*** Inspect proof that reminders or demand notes sent to debtors on a regular (at least monthly) basis. ***Substantive tests:*** For a sample of debtors with outstanding balances during the financial year confirm that reminders or demand notes have been sent out.
Recording accounts receivable	Accounts receivable includes balances which are not collectable	Aging of debtors / accounts receivable is monitored on a regular basis.	Existence	***Tests of control:*** Confirm that long outstanding balances are monitored and uncollectable accounts are written off as bad debts on a regular basis.

Non-current assets

Main assertion: Existence

Significant risk area due to a risk of fraud: Existence as assets maybe lost, stolen or inappropriately used.

TRANSACTION LIFE CYCLE	RISK	POTENTIAL CONTROL	ASSERTION	AUDIT TEST TO BE PERFORMED
Ordering of assets	Assets or may be ordered which are not necessary or in line with budget requirements.	Order of goods is properly authorized by an independent official. Person authorizing the purchase orders should confirm that there are adequate funds and valid motivation for the transaction.	Occurrence	***Tests of control:*** For selected asset purchases inspect selected purchase orders to ensure that: • It was authorized by the appropriate official. • The availability of funds and the reasonability of the order were confirmed before the authorization. • Assets ordered were planned for in the asset management plan. ***Substantive tests:*** For a sample of purchases recorded in the ledger confirm that the purchase orders were appropriately authorized before the receipt of assets.
Receiving assets	Delivery of incorrect, inferior quality or incomplete assets.	Delivery of assets should take place only in allocated areas. Goods received notes issued when receiving assets. Assets received are checked by receiving officer to confirm that correct and complete assets were received. Assets are received by a	Occurrence Value for money	***Tests of control:*** Inspect the area where assets deliveries take place. Observe the receiving of assets and inspect proof that: • Goods received notes are issued for each asset received. • The receiving officer checked that correct assets were received in the correct quantity and quality. Observe that different officials are responsible for the receipt of asset and subsequent safeguarding of

TRANSACTION LIFE CYCLE	RISK	POTENTIAL CONTROL	ASSERTION	AUDIT TEST TO BE PERFORMED
		different official to the one who is in charge of safeguarding the asset / storeroom.		assets/inventory. ***Substantive tests:*** For a sample of asset acquisitions recorded in the ledger inspect the goods received note to confirm that assets have been received.
Payments for assets	Unauthorised / incorrect payments are made Incorrect classification of assets	Documentation is in place before payments are authorised. Official authorizing the payment should check that: • Adequate supporting documents, invoices, payment voucher are in place. • There are sufficient budgeted funds to cover the transaction. • Procedures applied to select a supplier were appropriate. • The payment is recorded in the correct account and financial period on the financial system. Segregation of duties between officials responsible for the payment and the receipt of goods.	Occurrence Accuracy	***Tests of control:*** For selected acquisitions recorded in the ledger inspect the signature or other proof that the officer has checked that valid supporting documents are attached to the payments and that calculations and details on the payment voucher are correct. ***Substantive tests:*** For selected payments regarding asset acquisitions recorded in the ledger confirm that: • The payment was authorized by the correct official; • There assets were received before the payment was made; • Adequate numbers of quotes have been obtained for the acquisitions as per requirements. • Prices charged agreed to contractual terms or appear reasonable; • Calculations are correct by recalculating relevant amounts; • Acquisition is recorded under the correct chart of account code; • There were sufficient budgeted funds available for the transaction; • The beneficiary was correctly named on the payment

TRANSACTION LIFE CYCLE	RISK	POTENTIAL CONTROL	ASSERTION	AUDIT TEST TO BE PERFORMED
				voucher; • All relevant supporting and valid documents are attached to the payment voucher.
Recording of assets	Misappropriation of assets	Regular reconciliation between the asset register and general ledger All assets acquired are recorded in the asset register by an official independent of the official ordering and receiving the assets. The locality of the asset is recorded in the asset register. Regular physical asset counts take place.	Existence	***Tests of control:*** Inspect proof of that: • Periodic reconciliation is performed between the asset register and the general ledger. • Asset counts have been performed on a regular basis. • The asset register includes unique identification details and the location of the assets. • There is a segregation of duties between officials ordering, receiving and recording of assets. ***Substantive tests:*** For selected payments regarding asset acquisitions recorded in the ledger: • Confirm that the assets are recorded in the asset register. • Inspect assets to confirm that they exist and that they are utilized.
Maintenance of assets	Misappropriation or loss of assets	Assets / inventory are physically safeguarded and protected as access to store-room is limited and monitored. A delegated official authorises access to and issues asset / inventory from	Valuation	***Tests of controls:*** Inspect store-room and ensure that it is appropriately safeguarded by observing the following: • The store-room is locked at all times. • Authorisation by delegated official is needed for access to and issues asset / inventory from storeroom or other storage facility

TRANSACTION LIFE CYCLE	RISK	POTENTIAL CONTROL	ASSERTION	AUDIT TEST TO BE PERFORMED
		storeroom or other storage facility Insurance cover is in place, where appropriate, and regularly reviewed and updated A loss register is completed for all assets / inventory lost, stolen or vandalized. Any asset / inventory losses are followed up by management and appropriate actions are taken.		• Fire extinguishers, sprinklers, fire proof safes are used. ***Substantive tests:*** For selected items included in the loss register trace the transactions to the asset register / inventory listing to ensure that items have been removed from the asset register / inventory listing.
Asset disposal or write-off	Misappropriation or loss of assets	Assets scrapped or disposed of are recorded in the asset register as disposed or scrapped and the general ledger entries are effected	Valuation	***Tests of controls:*** Inspect loss register and establish whether it is regularly updated. Inspect proof that management regularly reconciles entries in the loss register to the asset register. ***Substantive tests:*** For selected entries in the loss register confirm that assets have been removed from the asset rgister.

Accounts payable

Main assertion: Completeness

TRANSACTION LIFE CYCLE	RISK	POTENTIAL CONTROL	ASSERTION	AUDIT TEST TO BE PERFORMED

TRANSACTION LIFE CYCLE	RISK	POTENTIAL CONTROL	ASSERTION	AUDIT TEST TO BE PERFORMED
Recording accounts payable	Not all payables are recorded	Management checks and reviews on the recording of payables Regular and independent reconciliations of outstanding accounts payable balances with expenses incurred and payments made.	Completeness Accuracy	***Tests of controls:*** Inspect proof that accounts payable are reconciled and outstanding balances are followed up. ***Substantive tests:*** For a sample accounts payable recorded at the financial year end: • Confirm the outstanding balance by reconciling the invoices and payments. • Inspect payments affected after year end regarding outstanding balances. • Confirm that payments made during the year have been timely and whether any interest has been charged due to late payments. Send out confirmation letters directly to the creditors to confirm outstanding balances and any interest which may have been charged during the year.

8.7 AUDIT SUMMARY AND REPORTING

Auditor’s reporting working papers remain as per regularity audit methodology with the exception of the matters for attention of next year’s auditors which do not have to be completed if not necessary.

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
AS 1.	Disclosure checklist	Financial statements review to evaluate appropriateness of disclosures.	Mandatory to complete for each audit.	Team leader	Senior auditor
AS 2.	Manageme nt Representa tion letter	To obtain additional audit evidence in form of written representations from management of the auditee. This letter contains all requirements for the auditor and should be provided by the auditors to the auditee. It should be signed by the accounting officer and returned to the auditors as evidence.	Mandatory, to be completed for each audit.	Team Leader/ Senior Auditor)	Audit Director or person responsible for the auditor’s report to sign the letter
AS 3.	Subsequen t events	To identify events after the year end which influence the financial statements / audited information.	Mandatory, to be completed for each audit.	Team Leader/ Senior Auditor	Senior Auditor/ Audit Director
AS 4.	Final analytical review (where applicable)	To confirm that given all yyyyyyyyyyyyyyyyytments all risks areas have been adequately covered and the correct conclusions have been drawn.	Mandatory, to be completed for each audit.	Team Leader/ Senior Auditor	Senior Auditor/ Audit Director
AS 5.	Audit differences	Documentation of all quantifiable misstatements and errors. Facilitates the evaluation of the affect of these errors on the auditor’s report.	Mandatory, to be completed for each audit.	Team Leader/ Senior Auditor	Senior Auditor/ Audit Director
AS 6.	Code of Ethics compliance	Declaration on the compliance with the provisions of the Code of Ethics for the audit	Mandatory, to be completed for each audit.	Team leader to ensure that all team members sign the declaration	Senior Auditor/ Audit Director
AS 7.	Quality Control Questionna ire for Audit summary	Facilitating review and to identify aspects which may not have been adequately addressed during the audit summary phase of the audit.	Mandatory, to be completed for each audit.	Team Leader/ Senior Auditor	Senior Auditor/ Audit Director
OC 1.	Review worksheet	To document coaching and the responses to the reviewers	To be completed when necessary	Reviewers on all levels	
OC 2.	Audit query	To provide a basis for communication of findings with the client.	To be completed when findings are raised and communicated	Auditor	Team Leader

WORKING PAPERS		PURPOSE / DECISIONS / OUTCOMES	MANDATORY WORKING PAPERS	COMPLETED BY	REVIEWED BY
R1.	Management letter	Final management letter is issued to the Accounting Officer and should include all matters that will be reported on in the auditor's report. Management's responses are requested on the findings.	This document is communicated to the management of the audited entity and responses are requested	Team Leader/ Senior Auditor	Audit Director or person responsible for the auditor's report to sign.
R 2.	Auditor's report	Provides templates for standard auditor's reports	To be completed for each audit	Team Leader/ Senior Auditor	Audit Director or person responsible for the auditor's report
R 3.	Representation by audit management	Where applicable this working paper provides a tracking of the changes made to auditor's reports.	Mandatory, to be completed for each audit.	All senior / top managers involved in the audit.	A person responsible for the auditor's report to sign the letter
R 4.	Matters for attention during next year's audit	Documentation of issues which is useful for the following auditors.	Administrative working paper	Team Leader/ Senior Auditor	Senior Auditor/ Audit Director
R 5.	Quality Control Questionnaire for Reporting	Facilitating review and to identify aspects which may not have been adequately addressed during the audit reporting phase of the audit.	Mandatory, to be completed for each audit.	Team Leader/ Senior Auditor	Senior Auditor/ Audit Director

Disclosure checklist, Subsequent events review and Management representation letter *should be completed.*

Final analytical reviews will most likely not be applicable. However, it is important that the Lead schedule should be updated to reflect the final balances included in the financial statements. Materiality may need to be recalculated where applicable.

8.8 QUALITY CONTROL

Quality of audit work should be monitored as per the provisions of section 1.5 of this manual. The Quality control questionnaires should be considered and completed throughout the audit.

For small audits, it is unlikely that engagement quality controls reviews would be applicable. However, this decision should be made on a OAG level.

WORKING PAPERS

PE 1. BUDGETED VERSUS ACTUAL HOURS (SMALL ENTITIES)

Auditee:		Reviewed by:	Name	Rank	Date
Period end:		Level 1			
Prepared by:		Level 2			
Rank:		Level 3			
Date:		Date:			

[This working paper should be completed on an excel spreadsheet. It should be amended as necessary to reflect actual considerations, working papers and audit team members involved]

ACTIVITIES	TOTAL			*[AUDITOR 1]*			*[AUDIT MANAGER]*		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Pre- engagement activities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Strategic planning	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Detailed planning & fieldwork	**0**	**0**	**0**	**9**	**0**	**0**	**0**	**0**	**0**
Expenditure	0	0	0			0			0
Revenue	0	0	0			0			0
[Add all audited components]	0	0	0			0			0
Overall fieldwork	0	0	0			0			0
Conclusion and reporting	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Quality control	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL HOURS	**0**	**0**	**0**	**9**	**0**	**0**	**0**	**0**	**0**

PE 6. AUDIT ENGAGEMENT LETTER (SMALL ENTITIES)

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1**			
Prepared by:		**Level 2**			
Rank:		**Level 3**			
Date:		**Date:**			

LETTERHEAD OF THE OAG

Audit of the *[insert name of audited entity]* performed by the Auditor General

Addressee *[Applicable title of the accounting officer]*

Date

Dear Sir / Madam

The financial statements of *[Insert the name of the audited entity]* for the year ended *[insert relevant date]* are subject to audit by the Auditor General in terms of *[Refer to the relevant section of the act]*.

The purpose of this letter is to outline:

- The terms of the audit engagement and the nature, and limitations, of the annual audit
- The respective responsibilities of the auditor and the management of the *[insert name of audited entity]* in the annual audit.
- The terms of the audit engagement are set out below. This letter will remain effective until a new audit engagement letter is issued.

Objective(s) of the audit

The objective(s) of the annual audit are:

- To express an independent opinion on the financial statements prepared in accordance with *[the applicable financial reporting framework]* and legislation. These financial statements comprise the balance sheet as at *[insert relevant date],* the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.
- *[Insert any additional audit objectives e.g. the evaluation of compliance with authorities or internal controls, where applicable]*

This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of the services we will provide. Our audit will be conducted with the objective of our expressing an opinion on the financial statements as well as the compliance with relevant laws and regulations applicable to financial matters *[also refer to any other reporting responsibilities if any]*.

Responsibilities of the auditor

Our audit will be conducted in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements or compliance with all applicable legislation. *[Where applicable, include reference to the* OAG*'s policy to report on amounts of projected errors / misstatements]*

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the International Standards on Auditing.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will report or communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

While our audit is not directed to reporting the following, we will report these items if we become aware of them during the course of the audit:

- Non-effective performance of operations – relates to management's responsibility to undertake activities in an effective and efficient manner.
- Instances of non-compliance with authorities – relates to management's responsibility to undertake activities, use resources, and fulfill accountability requirements, in accordance with authority granted by the legislature and all other relevant directions.
- Waste – relates to management's responsibility to obtain and apply resources in an economical manner, without any public money being wasted.
- Instances of abuse – relates to management's responsibility to meet the expectations of the legislature and the public as they relate to appropriate standards of behavior.

Responsibilities of management

Our audit will be conducted on the basis that management has responsibility:

- To prepare financial statements in accordance with *[insert relevant financial reporting framework]* and in the manner required by *[Insert section and title of relevant act]*.
- To establish and maintain internal controls necessary to:
  - Enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
  - Provide reasonable assurance that adopted policies and prescribed procedures are adhered to and errors and irregularities, including fraud and illegal acts are prevented or detected.
- To provide us with access to:
  - All information which is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Any additional information that we may request from management for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

The following are the key deliverables and target dates that should be met by both parties:

	Activity	**Responsibility**	**Target date**
1.	Meeting between the OAG and management of the audited entity	*Management of the audit team and the audited entity at relevant levels.*	*Insert target dates*
2.	Request information from audited entity.	Team Leader	
3.	Submit information requested for audit, including financial statements and supporting file (incl. trial balance, lead schedules, detailed ledger) for audit.	Management of the audited entity	

	Activity	Responsibility	Target date
4.	Issue management representation letter.	Director-General/ Director/Head of Finance and Administration)	
5.	Issue final management letter.	Auditor General	
6.	Submit written response to management letter to the OAG.	Director-General/ Director/Head of Finance and Administration)	
7.	Meeting between the OAG and the management of the audited entity to discuss the management letter findings.	*Management of the audit team and the audited entity at relevant levels*	
8.	Issue approved audit opinion to audited entity.	Auditor General	

Fees [Only applicable if any audit fees or allowances are recovered from the auditee – delete when not applicable]
(Our fees are based on the time spent on your affairs by our managers and staff, and on the levels of skills and responsibility involved. Our fees will be billed at monthly intervals during the course of the audit and settlement is due within 30 days of the date of invoice.)

Agreement to terms
This letter will remain effective until it is replaced. We shall be grateful if you could confirm your agreement to the terms of this letter by signing and returning the enclosed copy, or let us know if the terms of our engagement are not in accordance with your understanding.

We look forward to full cooperation from your staff during our audit.

Yours faithfully

[AUDITOR GENERAL]

[Head of Administration & Finance]

SP 2. LEAD SCHEDULE (SMALL ENTITIES)

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
eriod end:		Level 1			
Prepared by: (Auditor)		Level 2			
Rank:		Level 3			
Date:		Date:			

Components	**Current year actual** *[Final figures in the financial statements]*	**Will item be included as a separate audited component? (Yes / No)**	**Current year budget**	**Difference between actual and budget** *[Actual less budgeted amount]*	**% Difference (A)** *[(Actual less budgeted amount) / budgeted amount]*	**Prior year**	**Difference Current vs Prior year** *[Actual less prior year amount]*	**% Difference (B)** *[(Current year actual less prior year) / prior year figure]*	**Explanations of variances over 10% for (A) or (B)** *[Obtain explanations from management]*
	ERN '000		**ERN '000**	**ERN '000**	**%**	**ERN '000**	**ERN '000**	**%**	
REVENUE				0	#DIV/0!		0	#DIV/0!	
SALARIES AND WAGES				0	#DIV/0!		0	#DIV/0!	
Salary payments				0	#DIV/0!		0	#DIV/0!	
Overtime				0	#DIV/0!		0	#DIV/0!	
Bonus				0	#DIV/0!		0	#DIV/0!	
Allowances				0	#DIV/0!		0	#DIV/0!	
Appointments / resignations				0	#DIV/0!		0	#DIV/0!	
EXPENDITURE				0	#DIV/0!		0	#DIV/0!	
Goods and services				0	#DIV/0!		0	#DIV/0!	

Professional services				0	#DIV/0!		0	#DIV/0!	
Subsistence and travelling				0	#DIV/0!		0	#DIV/0!	
Administrative expenditure				0	#DIV/0!		0	#DIV/0!	
TOTAL EXPENDITURE				0	#DIV/0!		0	#DIV/0!	
ASSET MANAGEMENT				0	#DIV/0!		0	#DIV/0!	
Equipment and machinery				0	#DIV/0!		0	#DIV/0!	
Furniture and fittings				0	#DIV/0!		0	#DIV/0!	
Cultivated assets				0	#DIV/0!		0	#DIV/0!	
Computer equipment				0	#DIV/0!		0	#DIV/0!	
Other fixed structures (e.g. roads etc)				0	#DIV/0!		0	#DIV/0!	
Land and buildings				0	#DIV/0!		0	#DIV/0!	
TOTAL ASSETS				0	#DIV/0!		0	#DIV/0!	
LIABILITIES				0	#DIV/0!		0	#DIV/0!	
DEVELOPMENT EXPENDITURE				0	#DIV/0!		0	#DIV/0!	

[Conclude whether the initial assessment of risk on the financial statement level was identified correctly and audit work has adequately covered all risk areas]

SP 3 RISK IDENTIFICATION CHECKLIST (SMALL ENTITIES)

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1**			
Prepared by:		**Level 2**			
Rank:		**Level 3**			
Date:		**Date:**			

No.	**AREAS FOR CONSIDERATION**	**YES**	**NO**	**RECORD OF WORK DONE**	**WP. REF.**
CONSIDERATION OF FRAUD RISK FACTORS					
1.	Through interview with management and those charged with governance and inspection of relevant documentation (including risks assessments of the auditee, prior year auditor's reports, special / forensic reports), determine whether:				
1.1	Management is aware of any fraud, suspected fraud. *[Document the areas where fraud risk is identified]*				
1.2	Any fraud investigation is currently being conducted. *[Document the focus areas of the investigation(s)]*				
1.3	Any high risk areas have been identified by management in the risk assessment of the auditee resulting from the risk of fraud. *[Document the areas where risk of fraud is identified]*				
1.4	There are any concerns regarding the nature, extent and frequency of management's assessment of the internal controls systems to prevent and detect fraud. *[Is there evidence of management assessing the internal controls on a regular basis?* *Are actions taken to address any weaknesses identified in the internal controls?]*				
2.	Interview non-management personnel to identify instances where unusual pressure is or has been exerted by management with the possible intention of overriding any internal controls that may exist. *[For example management personnel often take payment advices from the finance section to authorise payments without validity checks by the payment clerk]*				
3.	Scrutinise the financial statements, trial balance or general ledger to identify balances and transactions that are unusual (e.g. outside normal operations, the account balances appear for the first time) or complex (e.g. the transaction(s) that involve multiple or related entities etc). Where such transactions have been identified inquire from management about the rationale for these transactions and evaluate whether they constitute a risk area. Note such transactions and areas for further audit.				
4.	Enquire from the auditee's finance / procurement personnel whether there has been any major expenditure incurred or revenue received near to the financial year end and their knowledge of any unusual terms or conditions associated with these transactions.				
5.	Identify the following accounts or transactions from the financial statements as a separate audited component:				

No.	AREAS FOR CONSIDERATION	YES	NO	RECORD OF WORK DONE	WP. REF.
5.1	Significant journal entries *[for example when large number of entries passed around year end]*				
5.2	Significant accounting estimates requiring management bias				
5.3	Bad debts written off				
5.4	Subsistence and travelling allowances or overtime payments (especially where there are large amounts involved)				
6.	Inspect previous audit documentation, documents of the auditee, interview previous auditors and consider whether any of the following indicators may be applicable or has been identified:				
6.1	Past irregularities or manipulations by management.				
6.2	Evidence of theft or misuse of assets by management (e.g. for private purposes).				
6.3	Management living beyond their means.				
6.4	Instances where management denied access to records, facilities, certain employees, customers, vendors, or third parties outside the entity from whom audit evidence might be sought.				
6.5	Complaints by management about the conduct of the audit, any intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.				
6.6	Unusual delays by the entity in providing requested information.				
6.7	An unwillingness to add or revise or correct financial statements or to address control deficiencies on a timely basis.				
6.8	Unwillingness by management to permit the auditor to meet privately with those charged with governance.				
6.9	Frequent changes in accounting estimates that do not appear to result from changed circumstances.				
6.10	Tolerance of management towards violations of the code of conduct.				
SUSTAINABILITY OF SERVICES CONSIDERATIONS					
	Through discussions with management and inspecting relevant documentation determine whether:	Yes	No	Record of work done	W.p. Ref.
7.	All staff holding key positions or having capabilities key to the operations of the auditee have been retained by the auditee. When such employee has left the entity there has been appropriate replacement arranged during the financial year. *[Consider the impact of the resignations on the future of the entity, and determine through inquiry from knowledgeable persons whether the replacement personnel will be able to fulfill the requirements of their new positions]*				
8.	Consider the publicity of the auditee during the financial year, including press clipping and publications which have indicated poor service delivery or (potential)				

No.	AREAS FOR CONSIDERATION	YES	NO	RECORD OF WORK DONE	WP. REF.
	misconduct at the auditee. *[Document instances of negative publicity and identify audited components affected]*				
9.	There have been labour difficulties/work stoppages during the financial year.				
10.	There have been excessive staff turnover during the financial year.				
11.	Inspect government's budget and other documents and confirm that the auditee's budget has remained reasonably the same compared with last year with adequate provisions for inflationary increases, new requirements and primary projects / programmes.				
12.	Consider whether there are any plans of government to privatise the entire or part of the functions of the auditee.				
13.	Identify pending legal proceedings against the auditee that may, if successful, have significant financial impact on the operations of the auditee. *[For significant legal proceedings and relating contingent liabilities obtain external confirmation from external parties such as lawyers or attorneys]*				
14.	Inspect proof that management regularly assess cash flows and make proactive plans to maintain required liquidity.				
15.	Inspect the financial information of the auditee and determine whether the following scenarios have been applicable for the auditee:				
15.1	Expenditure exceeding revenue resulting in liabilities building up.				
15.2	Increasing debtors balances and / or bad debts				
15.3	Liabilities increasing				
15.4	Cash flow problems due to non-receipt / collection of revenue				
CONSIDERING MATTERS REPORTED IN THE PRIOR YEAR					
16.	Consider audit findings included in the auditor's report and management letter of the prior year. List areas where audit findings have been noted under the relevant part of the Conclusion.				

CONCLUSION

The following fraud risk indicators have been identified (Q1-6):

The following risk factors relating to the sustainability of services have been identified (Q: 7-15)

The following risk areas have been noted from prior year's auditor's report and management letter (Q 16.):

SP 4. GOVERNANCE ARRANGEMENTS CHECKLIST (SMALL ENTITIES)

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1**			
Prepared by:		**Level 2**			
Rank:		**Level 3**			
Date:		**Date:**			

Control aspects		**Yes**	**No**	**Record of work done**	**WP ref.**
Control environment					
1.	Identify related public sector entities which: • Fall under the control of the auditee. • Fall under the control of the same person (ie Minister) who is in charge of the auditee. Document the related parties in the Overall Audit Strategy working paper.			*[for example: meeting with Ms X Chief Finance Officer on 03-09-0x. Inspected annual report for list of disclosed related parties]*	*[B12 annu-al report]*
2.	Have there been any transactions (acquisitions, transfers, payments for services provided etc.) during the financial year between the auditee and any of the identified related entities? If there are such transactions document the nature and extent of such transactions and identify them for further audit work where applicable. If management has not identified any transactions even though related parties do exist, consider further work to be done on this aspect.				
3.	Are there updated and signed service level agreements for major outsourced functions? *[Major outsourced functions include payroll, IT, asset management or maintenance, internal audit]*				
4.	Have the audee fulfilled all relevant external reporting requirements during the financial year? *[For example any reporting required by the oversight in form of expenditure reports, management accounts, forecasts, etc.]*				
5.	Has management promulgated a code of conduct for employees in the organisation during the period under review?				

Control aspects		Yes	No	Record of work done	WP ref.
	Inquire to employees. The code of conduct should be emphasised by management to employees on a regular basis.				
The auditee's risk assessment process					
6.	Does the auditee has a documented and approved risk management policy?				
7.	Have formal risk assessments been performed on a regular basis (e.g. at least twice a year depending on the size and nature of the audited entity)?				
8.	Have the risk assessment identified and addressed for key areas of concern? *[including asset-, expenditure-, revenue-, personnel-management etc.]*				
9.	Are clearly documented and specific controls identified in response to the risks? *[Note: specific controls should identify responsible persons, documentation and review requirements]*				
10.	Does the audited entity have any legislated mandate with respect to environmental matters? *If yes, the auditor should consider using the environmental guideline of AFROSAI-E.*				
11.	Does any of the auditee's activities have significant impact on environmental issues i.e. waste generation, water contamination etc. *If yes, the auditor should consider using the environmental guideline of AFROSAI-E.*				
Control activities					
12.	Has management interpreted relevant financial regulations or instructions and developed its own written policies and procedures to guide key processes and controls? *[Note: regulations / instructions describing what needs to be done should be interpreted and applied in the circumstances of the auditee. This is aimed at giving guidance on 'how' to perform 'what' is prescribed in the generic provisions of the law or regulation.]*				
13.	Do the above policies and procedures include a clear description of roles and responsibilities for staff involved in the activities, detailing requirements for documentation and reporting.				
14.	Has adequate provision been made for segregation of incompatible functions for example different persons authorising the transaction, processing payment or recording the transaction and having custody of assets?				
Monitoring of controls					
15.	Is there evidence of management's monitoring key aspects of the entity's operations? *[For example are management reports generated on a regular basis, reports of internal audit used as a tool to monitor]*				
16.	Has management identified non-compliances and was there corresponding amendment in the operation of internal control practices?				

Control aspects		Yes	No	Record of work done	WP ref.
AUDIT COMMITTEE					
17.	Confirm whether the entity has an audit committee. *[If no audit committee has been or are in the process of being established, do not continue with the questionnaire. If the entity are in the process of establishing an audit committee, confirm that the aspects in the questions below have been considered]*				
18.	Confirm that the audit committee has a documented and approved terms of reference making provision for the: • Membership of the committee; • Attendance and frequency of meetings; • Roles and responsibilities; • Reporting procedures and responsibilities.				
19.	Confirm that the committee has authority to investigate any matters within its terms of reference, obtain external professional advice and invite outsiders with relevant experience to attend meeting if necessary.				
20.	Inspect the CVs or profiles for the audit committee members and confirm whether:				
20.1	The membership complies with relevant legislative requirements and provides for non-executive (independent) members, including the chairperson of the committee.				
20.2	Members have relevant qualifications and experience as required. *[The majority of the members should have financial qualifications]*				
21	Confirm that the audit committee held meetings regularly, in line with relevant legislative requirements or at least twice a year.				
22.	Confirm whether the committee met with the external auditors at least once without the executive members from the auditee present to ensure that there are no unresolved issues of concern.				
23.	By reviewing the minutes of the audit committee meetings, and other evidence confirm that the audit committee has effectively discharged its responsibilities in respect of the following **duties /functions**:				
23.1	Reviewed the internal controls of the auditee, including financial control, accounting systems and reporting.				
23.2	Reviewed compliance with relevant legislative requirements.				
23.3	Reviewed the adequacy of risk management policies and processes.				
23.4	Reviewed interim and final financial statements and evaluated whether they are in compliance with the prescribed reporting framework.				
23.5	Review key external audit documents including the overall audit strategy, management letter (including management responses) and draft report. Commented on these documents to ensure that the audit addresses concerns of the councillors or accounting officer, as applicable.				
23.6	Reviewed and approved the annual internal audit plan.				
23.7	Reviewed the reports of internal audit and the results of other investigations where applicable.				

Control aspects		Yes	No	Record of work done	WP ref.
23.8	Met regularly with internal and external auditors and responded to requests regarding information and meetings in a timely manner.				
23.9	Provided advice and reviewed management's decisions on contentious issues, including significant accounting and auditing problems, changes in accounting policy and adjustments in the financial statements.				
23.10	Reviewed management processes regarding the identification of fraud risk factors.				
23.11	Evaluated whether management appropriately addressed material weaknesses in internal control, identified during the year, by internal and external audit.				
INTERNAL AUDIT					
24.	Does the audited entity have an internal audit function?				
25.	Does the Internal Audit Unit (IA) contain an adequate proportion of competent, properly trained and experienced auditors as per minimum requirements set by the audited entity?				
26.	Is there adequate allocation of staff and other resources that correspond with the IA needs?				
27.	Does internal auditor's report directly to the accounting officer or external oversight mechanisms (audit committee) where applicable?				
28.	Is the IA function separated from the operations of the audited entity?				
29.	Is there a written provision from the accounting officer providing IA unrestricted access to all records, assets etc. of the audited entity?				
30.	Does the IA carry out its functions in compliance with the public financial regulations?				
31.	Is there a formal document (charter) including the scope, responsibilities, purpose of IA?				
32.	Does the scope of IA include evaluating and reporting on internal controls applicable to identified high risk areas as identified by management?				
33.	Does the scope of IA include the consideration of the following for each audited area: • Compliance with applicable laws and regulations; • Reliability of reported information; and • Efficiency, economy and effectiveness of operations.				
34.	Does IA prepare annual plans for their audits?				
35.	Does IA submit progress reports on a regular basis to the accounting officer and audit committee to you show progress against the plan?				
36.	Has IA performed and finalised all the planned audits for the financial year?				
37.	Is there a documented audit approach followed for the IA assignments?				
38.	Does IA have a documented audit approach that is in line with applicable standards for IA?				
Evaluation of specific audits performed					
39.	Has IA performed any audits relevant to the scope of this audit?				

Control aspects		Yes	No	Record of work done	WP ref.
40.	If yes, have relevant audit programmes and sample items for the audit been identified?				
41.	Are there files containing adequate and detailed documentation (including working papers) for the audit and evidence for findings in the auditor's report?				
42.	Are reasons for performing each test, the result and the conclusions documented?				
43.	Are conclusions supported with adequate and sufficient audit evidence?				
44.	Is there evidence that the work performed has been reviewed?				

The following risks have been identified:

Conclusion on overall functioning of internal audit:

Conclusion on specific work performed by internal audit

Audits performed by internal audit	Is this relevant to the audit? (Yes / No)	Can reliance be placed on the audit of this area by internal audit? (Yes / No)
[list all audits covering the period under audit]		

SP 9. OVERALL AUDIT STRATEGY (SMALL ENTITIES)

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1**			
Prepared by:		**Level 2**			
Rank:		**Level 3**			
Date:					

1. INTRODUCTION

The objective of the Overall Audit Strategy is to ensure that an effective and efficient audit is performed, including the timeous identification of the need and role of specialists. This document has been compiled based on cumulative audit knowledge and experience, as well as important matters, which has come to the attention of the auditors.

This document is considered to be valuable, as it should ensure that all expectations are met and that the strategy takes full cognisance of significant management concerns.

3. TERMS OF REFERENCE

3.1 Primary reporting responsibility

The annual financial statements for the year ended *[insert the applicable date]* and the notes to thereto will be audited in terms of *[insert applicable legislative reference]*. The preparation of financial statements in line with the *[insert the applicable reporting framework]* of the *[name of audited entity]* and the maintenance of the effective internal control measure are the responsibility of the *[Insert relevant title e.g. Accounting Officer / Council]*.

The OAG is responsible for the audit and report on the financial statements in accordance with the audit approach of the Auditor-General that complies with the International Standards of Supreme Audit Institutions (ISSAIs).

3.2 Extent of report

In terms of the ISSAIs the *[Name of the SAI]* is required to report and express an opinion on the annual financial statements of the *[name of audited entity]*. All matters raised in the previous year's financial statements must be followed-up and reported on.

A regulatory audit will be carried out and will consist mainly of the following:

- The extent to which the financial statements fairly present the *[name of audited entity]*'s activities for the year.
- The accuracy, quality and completeness of the accounting records kept
- That authorised expenditure is substantiated by sufficient and acceptable documentation.
- Sufficient and applicable internal control procedures are in place and maintained.
- Compliance with regulations, policies, acts and other directives.
- Compliance with the budget control procedures.

3.3 Report to management

Regular feedback will be given to management on the progress of the audit and weaknesses identified during the audit. The management of the *[name of audited entity]* will be informed of any internal control weaknesses noted, the effect thereof and any deviations from the prescribed accounting procedures. Audit queries will be issued during the audit and discussed with the *[include title of the designated officer e.g. Treasurer/CFO]* at the scheduled meetings. Audit queries should be followed up by management to ensure prompt feedback to the audit team including necessary actions to be taken.

At the end of the audit a management letter will be issued on all unresolved weaknesses noted *[also include references to the interim management letter where applicable]*. A final management letter will be issued on *[Indicate planned dates if applicable]*. The draft auditor's report will be discussed with management.

3.4 Specialised audits

We are aware of the following audits which are/will be performed at *[insert the name of the audited entity]* during the current year.

Compliance audit *[Indicate whether a specialized compliance audit will be performed at the entity]*

Performance audit *[Indicate if a performance audit will be done at the entity]*

IT Audit *[Indicate if an IT audit will be done at the entity]*.

3. KNOWLEDGE OF THE ENTITY

3.1 General Background

Physical and postal address of audited entity:		
Contact telephone number:		
Fax number(s):		
<u>Banking details:</u> Bank name:	Type of account:	Bank account number:
<u>Attorney details:</u> Name:	Address:	

3.6 Mandate and purpose of the entity

3.7 Appropriate legislation

[List key acts and regulations, government policies and requirements of the audited entity that will affect the audit]

Key laws and regulations:
Other applicable instructions, circulars etc.:
Accounting framework:

3.8 Management structure

[List the details of the accounting officer/council, key financial personnel, head of internal audit etc.]

Name	Rank	Telephone number	Fax number	e-mail address

3.9 Organisational structure

[Include details / organogram of the organizational structure]

3.6 Size of entity

Total staff composition: Total expenditure budget: Total income budget: Sites, regional offices:

3.15 Operations of the audited entity

Nature of the entity's operations and goods and services delivered: Allocation of activities to business units and regional offices *[delete where not applicable]*:

3.8 Related parties

Related entities	Nature of relationship	Nature of significant transactions
	[for example entities under the control of the same Minister]	*[for example transfer payments]*

3.9 Reporting environment

Annual report presented by the audited entity to be published together with the financial statements: Other reporting in-year statutory reporting responsibilities *[delete where not applicable]*:

4. RISK ASSESSMENT

During strategic planning phase of the audit governance arrangements of the *[name of audited entity]* have been evaluated and risks identified liked to key areas of consideration.

4.1 Risks identified

The following risks have been identified for the audit.

Governance arrangements, including high level internal controls, internal audit and audit committees Fraud risks identified Sustainability of services considerations Risk areas identified from prior year's reports

4.2 Risk of material misstatement

Based on the assessment of the risk of material misstatement on a financial statements level was identified to be *[insert results of risk assessment: high, medium or low]*. This risk assessment will have an impact on the audit approach and sample sizes drawn during detailed testing.

4. PLANNED AUDIT APPROACH

4.1 Audit components

The following audit components were identified for detailed audit work:
(List components identified in the Lead schedule e.g.:
Revenue
Expenditure
Transfer payments
Personnel expenditure
Assets]

4.2 Timing of audit

[Include whether an interim and / or final audit will be performed and the timing of them]

4.3 Materiality

Any error and misstatement which by itself of aggregated with similar errors and misstatements exceeds *[insert amount of materiality]* will be considered material for the purposes of this audit. This figure was calculated based on *[insert what item was the materiality calculated on].*

Due to our other audit responsibilities findings relating to *[non-compliance of legislation, fraud or control deficiencies]* will be evaluated by considering the nature of the finding.

4.4 Planned regional visits

[If applicable, indicate the planned regional visits and how the relevant locations were selected. Delete when not applicable]

4.5 Use of specialist and/or experts

[If applicable, list the external experts that will be involved during the audit, stating the extent and necessity of their involvement, e.g. tax experts, IT specialists etc. Delete section when not applicable]

4.6 Involvement of other auditors

[If applicable, list other auditors that will be involved e.g. work done by regional offices of the SAI, auditors of subsidiaries or divisions. Delete when not applicable]

5. ADMINISTRATION

5.1 Meetings and communication with management of the audited entity

Formal communication is established between the OAG and the management of the audited entity, in order to accomplish a sound co-operation between these parties. The following persons are invited to participate in the meetings:

Name	***Position***	***Contact details***
Audited entity:		
	e.g. Accounting officer	
	Chief Financial Officer etc	
Audit Office:		
	Audit director	
	Audit Manager	

[List all other persons as needed]

5.2 Target dates

[The table below should contain the relevant dates for the communications with the management of the audited entity and dates for the key deliverables on both sides. Dates included here should be the same as communicated in the Audit engagement letter. Include all commitments made. See inserted examples]

	Activity	**Responsibility**	**Target date**
1.	Meeting between the OAG and management of the audited entity	*Management of the audit team and the audited entity at relevant levels.*	*Insert target dates*
2.	Request information from audited entity.	Team Leader	
3.	Submit information requested for audit, including financial statements and supporting file (incl. trial balance, lead schedules, and detailed ledger) for audit.	Director General/ Director of Administration and Finance	
4.	Issue management representation letter.	Director General/ Director of Administration and Finance	
5.	Issue final management letter.	Auditor General	
6.	Submit written response to management letter	Director General/ Director	

	Activity	Responsibility	Target date
	to the OAG.	of Administration and Finance	
7.	Meeting between the OAG and the management of the audited entity to discuss the management letter findings.	*Management of the audit team and the audited entity at relevant levels*	
8.	Issue approved audit opinion to audited entity.	Auditor General	

5.3 Administrative Matters

[For internal information only]

PROJECT ID

BUDGETED AUDIT HOURS

Activity	Hours
Pre-engagement activities	
Planning	
Execution	
Conclude and Report	
Project Management	

DPF 6.1 ANALYTICAL REVIEW OF SALARIES AND WAGES

Auditee:		**Reviewed by:**	**Name**	**Rank**	**Date**
Period end:		**Level 1:**			
Prepared by:		**Level 2:**			
Rank:		**Level 3:**			
Date:		**Date:**			

[This working paper is to be completed on excel spreadsheet]

	Current year total	**Budget**	**Prior year total**	**Month 1**	**Month 2**	**Month 3**	**Month 4**	**Month 5**	**Month 6**
Number of employees									
Gross salaries	#VALUE!								
					#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Overtime paid	#VALUE!								
					#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Leave pay	#VALUE!								
					#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Allowances	#VALUE!								
					#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Less: Deductions	#VALUE!								
					#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Net payment	#VALUE!								
					#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Net payment per empoyee	#VALUE!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

PE 7. QUALITY CONTROL QUESTIONNAIRE FOR PRE-ENGAGEMENT (SMALL ENTITIES)

		ISSAI 1Ref.	Yes	No	N/A	Comments
	PRE-ENGAGEMENT ACTIVITIES					
1.	Was there an overall time budget for the audit engagement? *(Refer to the Budget v Actual hours working paper)*	ISSAI 1220 ISSAI 1230				
2.	Are audit staff available that have the degree of technical training and proficiency required to perform the audit? (Refer to Competency matrix)	ISSAI 1300.7-8				
3.	Do all audit team members (with special emphasis on management) comply with the office's requirements in terms of independence? (Refer to Code of ethics working paper)	ISSAI 1200.14 ISSAI 1230.8				
4.	Has the engagement letter been signed by both parties and put on file?	ISSAI 1210 ISSAI 1230.8				

SP 11. QUALITY CONTROL QUESTIONNAIRE FOR STRATEGIC PLANNING (SMALL ENTITIES)

		ISSAI 1Ref.	Yes	No	N/A	Commen ts
	STRATEGIC PLANNING					
5.	Have all material balances in the financial statements been identified for audit and included in the Lead schedule?	ISSAI 1315.25				
6.	Is the Lead schedule cross referenced to the final audited financial statement?					
7.	Were analytical procedures performed and were conclusions on risks adequately drawn?	ISSAI 1315.6(b)				
8.	Have risk areas been appropriately considered and concluded on? *(Refer to the Risk identification checklist)*	ISSAI 1240.16 ISSAI 1570 10(a-b); 16 ISSAI 1230				
9.	Was an acceptable materiality level set for audit reflecting the risk of material misstatement identified on the financial statement level?	ISSAI 1315.5;10				
10.	Were qualitative materiality factors appropriately identified and documented?	ISSAI 1315.10				
11.	Were the governance arrangements appropriately considered and conclusions drawn? *(Refer to the Governance arrangement checklist)*	ISSAI 1610 ISSAI 1315.18 ISSAI 1230				
12.	If it was intended to rely on the work performed by Internal audit, was the work evaluated and tested to confirm its adequacy?	ISSAI 1610.11-12				
13.	When use was made of the experts work did the auditor obtain sufficient, appropriate audit evidence that such work is adequate for the purposes of the audit?	ISSAI 1620.12				
14.	Was a meeting held with the engagement team to discuss the susceptibility of the financial statements to material misstatement?	ISSAI 1240.15				
15.	Was the IT Internal Control Checklist evaluated and concluded on?					
16.	Were all the risks identified during strategic planning transferred to the Risk of material misstatement on the financial statement level working paper? Were individual risks liked to audited components where applicable?	ISSAI 1315.14				
17.	Was the risk of material misstatement on the financial statement level adequately identified?	ISSAI 1230.8				
18.	Was overall audit strategy document prepared and approved?	ISSAI 1300.12 ISSAI 1220				

DPF 11. QUALITY CONTROL QUESTIONNAIRE FOR DETAILED PLANNING AND FIELDWORK (SMALL ENTITIES)

		ISSAI 1Ref.	Yes	No	N/A	Comments
	DETAILED PLANNING AND FIELDWORK (Complete for each audited component)					
19.	Is there clear evidence that detailed planning and fieldwork was completed for all audit components identified in the Lead schedule?	ISSAI 1500 ISSAI 1315				
20.	Where components are grouped together is this clearly documented?	ISSAI 1315				
21.	Did the system descriptions include references to applicable regulations, instructions and manuals?	ISSAI 1315				
22.	Were all exceptions / audit queries documented for control weaknesses found?	ISSAI 1330.16-17				
23.	Was the reliance on key controls documented clearly and was it appropriate to support the planned audit assurance to be obtained? (refer to Reliance on key controls working paper)	ISSAI 1330.6-7				
24.	Where reliance has been placed on internal controls:					
	(a) Have tests of control been performed for each control to be relied upon?	ISSAI 1330.8				
	(b) Was the internal control procedure in place for the whole financial year audited?	ISSAI 1330.11				
25.	Did the tests of control procedures:	ISSAI 1330				
	(a) Specifically address significant risks identified and					
	(b) Were they performed before the substantive procedures?					
26.	Were the samples selected for testing reasonable and representative of the entire population?	ISSAI 1530.6-8				
27.	Were tests of controls properly assessed and control reliance appropriately re-stated after tests of controls?	ISSAI 1330.16.17				
28.	Were substantive procedures developed to adequately address all relevant assertions?	ISSAI 1330 ISSAI 1500				
29.	Was the performance of each audit program properly documented?	ISSAI 1220 ISSAI 1230				
30.	Is there evidence of approval for planning working papers and audit programs prior to the commencement of fieldwork at least by the audit manager?	ISSAI 1220 ISSAI 1230				
31.	Was the audit work performed adequately documented including the source of the documentation, audit test performed, population size, sample size tested and sample method used?	ISSAI 1230				
32.	Were all relevant tests of controls performed and concluded before commencing with substantive testing?					

		ISSAI 1Ref.	Yes	No	N/A	Comments
33.	Were analytical procedures or substantive analytical procedures considered to reduce the extent of substantive audit procedures required?	ISSAI 1520.5 ISSAI 1330				
34.	Were all third-party confirmations received back and differences followed up and concluded on?	ISSAI 1505				
35.	Were all the audit programs and audit procedures properly completed and concluded on?	ISSAI 1230				
36.	Were all relevant audit queries/exceptions appropriately raised?	ISSAI 1530.15 ISSAI 1230				
37.	Are exceptions (audit queries) raised supported by and cross referenced to supporting audit evidence?					

AS 7. QUALITY CONTROL QUESTIONNAIRE FOR AUDIT SUMMARY (SMALL ENTITIES)

	AUDIT SUMMARY	ISSAI 1Ref.	Yes	No	N/A	Comments
38.	Were conclusions drawn on all queries, exceptions and review points either satisfactorily resolved or the level of influence the auditor's report determined?	ISSAI 1220.16				
39.	Is there a clear and traceable link between the audited financial statements and the audit procedures performed?	ISSAI 1230				
40.	Was the Disclosure checklist appropriately completed to confirm that the financial statements are consistent with prior years and in line with prescribed format?	ISSAI 1500.15				
41.	Were accounting estimates adequately assessed for reasonableness and were differences correctly followed up?	ISSAI 1540				
42.	Are adjusting entries adequately supported by the working papers, cross-referenced to appropriate schedules and agreed with the financial statements?	ISSAI 1220				
43.	Was a properly tailored management representation letter obtained which was signed on a date close to (but prior to) the signing of the auditor's report?	ISSAI 1580 ISSAI 1230				
44.	Were procedures to identify subsequent events appropriately executed and documented?	ISSAI 1560				

R 5. QUALITY CONTROL QUESTIONNAIRE FOR REPORTING (SMALL ENTITIES)

		ISSAI 1Ref.	Yes	No	N/A	Comments
	AUDIT REPORT					
45.	Was the aggregate effect of audit differences with financial affect evaluated and concluded on? (Refer to the Audit differences working paper)	ISSAI 1230.8-9				
46.	Was the need to re-state planning materiality considered and documented?	ISSAI 1320				
47.	Does the Lead schedule agree to the final financial statements?					
48.	Were all unresolved audit queries included in the management letter?					
49.	Was there a management letter discussed with the management of the auditee?	ISSAI 1230				
50.	Does the management letter set out: (a) Clear statement of the problem, including possible consequences (weaknesses in internal control)	ISSAI 1230				
	(b) Practical and cost-effective recommendations in terms of non-existing or non-functioning internal controls	ISSAI 1220				
	(c) Comments from the auditee					
	(d) Conclusion by auditor whether the matter is resolved, unresolved and whether it will be included in the auditor's report	ISSAI 1230				
51.	Was there adequate communication with the auditee throughout the audit and with the compilation of the final management letter?	ISSAI 1230 SA 260				
52.	Were minutes taken at meetings with the management of the auditee and were these minutes included in the audit file?	ISSAI 1230				
	Auditor's report					
53.	Were all significant matters identified in the management letter addressed in the auditor's report?	ISSAI 1700				
54.	Do reported findings have relevant supporting documentation such as working papers and audit evidence?	ISSAI 1230				
55.	Does the auditor's report reflect the decisions made and conclusions drawn on working papers?					
56.	Was the correct audit opinion expressed based on the supporting working papers?	ISSAI 1700 ISSAI 1500 ISSAI 1230				
57.	Is the format and content of the auditor's report in accordance with the applicable standards?	ISSAI 1700				
DOCUMENTATION OF AUDIT WORK						
58.	Generally, do the audit working papers, the audit procedures carried out, and the results of the audit procedures support and confirm the audit opinion	ISSAI 1230				

		ISSAI 1Ref.	Yes	No	N/A	Comments
	furnished?					
59.	Do the working papers:					
	(a) Include indexing/signatures and dating by preparer and reviewer?	ISSAI 1220				
	(b) Indicate the meanings of audit tickmarks?	ISSAI 1220				
	(c) Indicate the source of information?	ISSAI 1500				
	(d) Indicate the procedure executed?	ISSAI 1220				
	(e) Indicate the purpose of photocopied or scanned in documents?	ISSAI 1230				
	(f) Indicate that all schedules, prepared by the audited entity, have been cast & cross cast?	ISSAI 1230				
	(g) Conclude on the work performed?					

ANNEXURES

ANNEXURE A – ADDITIONAL GUIDANCE ON DETAILED PLANNING AND EXECUTION FOR KEY COMPONENTS

1. REVENUE AND RECEIPTS

Audit objectives

1.	**Completeness:**	To confirm that all revenue, returns and adjustments that should have been recorded are recorded.
2.	**Occurrence:**	To confirm that the transactions have taken place for the benefit of the entity during the financial period.
3.	**Existence:**	To confirm that recorded sales and trade accounts receivable represent valid claims against customers.
4.	**Measurement:**	To confirm that the accounting records and supporting schedules are mathematically correct.
5.	**Valuation:**	To confirm that trade accounts receivable are included in the financial statements at the proper amount.
6.	**Rights & obligations:**	To confirm that recorded trade accounts receivable are owned by the entity.
7.	**Presentation/disclosure:**	To confirm that revenue and trade accounts receivable information has been appropriately disclosed in the financial statements.

Essential audit programs

1. Trade accounts receivable must be circularised on or before the year-end. Results are to be summarised on the firm's "Circularisation Summary" form.

2. Sales cut-off procedures should be correlated with inventory cut-off procedures.

3. If verification work is performed before the year end, audit tests for completeness, accuracy and validity must be performed on transactions during the intervening period.

4. Documents of title to the receivables (deeds of sale, hire-purchase agreements, etc.) must be inspected.

5. Material credit balances must be investigated and transferred to accounts payable if appropriate.

6. Schedules must be scrutinised to identify potential "Loans to Officers".

7. Specific Analytical Review must always be performed in respect of the completeness objective.

Example of the transaction life cycle or processes for revenue
Steps 1 to 7 below sets out the transaction life-cycle of revenue, from planning to acquire revenue in order to achieve the institution's strategic objectives to monitoring and reviewing the effective management of revenue, which can feed back into the institution's strategic planning process.

The risks and controls to mitigate risks are detailed hereafter for each element of the transaction life cycle
1. Planning and budgeting;
2. Origination of revenue;

3. Receiving revenue;
4. Recording revenue;
5. Safeguarding revenue;
6. Access control and transferring of duties; and
7. Monitoring, reviewing and improving Revenue management.

TRANSACTION	RISKS	CONTROL DETAILS
Planning and budgeting	The institution's strategic plan and budget does not include an accurate forecast of anticipated revenue.	• The institution has a plan to manage Revenue (including a cashflow) which is derived from the strategic plan and budget and linked to the institution's service delivery objectives. • The Revenue Management plan is reviewed annually and approved by a delegated official and evidenced by minutes or a signature.
	A category of service which could be chargeable is not charged for.	• The annual strategic planning process must consider the introduction of charges for services provided by the institution but not currently charged for, as evidenced by minutes of meetings.
Origination of Revenue: Voted funds	Voted funds are not requisitioned according to the cashflow (either the amount or the timing).	• Monthly requisitions are verified against the approved cash flow plan before approval by a delegated official. • If approved cash flow projections need to be adjusted, such proposed adjustments are motivated to the relevant treasury by a delegated official.
Origination of Revenue: Services rendered	A chargeable service is not charged for.	• A delegated official reviews control documents (such as timesheets) to monitor use of resources against budget and invoices raised/cash received. • Services that are rendered free of charge must be approved by the Accounting Officer (AO) or a delegated official.
	A chargeable service is incorrectly priced.	• The annual strategic planning process must include evidence (e.g. minutes of meetings) that all charges (price lists) have been reviewed and adopted. • Where appropriate, there is an annual management review and approval of the institution's tariff structure. • Chargeable services must be compared by a delegated official against an approved structure of tariffs.
	A chargeable service is not delivered to the appropriate quality.	• Recipient signs (equivalent of goods receipt note 'GRN') for service received. • A client acknowledges by means of certification that goods or services are received in good order or is of acceptable quality.
	Creation of unauthorised cash sales.	• A delegated official reconciles control documents (e.g. timesheets, stock records) to cash received. • A delegated official is authorised to deal with cash sales. • Rotation of duties or segregation of duties to be applicable to officials assigned the responsibility of cash sales.
	Invoices are not	• Pre-numbered invoices are dated and reconciled

TRANSACTION	RISKS	CONTROL DETAILS
	issued for services provided.	monthly by a delegated official to control documents (e.g. timesheets, stock records).
	Debtors are not created for non-cash sales.	• A delegated official reconciles control documents (e.g. timesheets, stock records) to invoices and the debtors ledger.
	Credit is extended in unwarranted situations.	• A delegated official approves the granting of credit after checking the debtors ledger and before further sales are authorised.
	Debtors are not managed.	• A delegated official uses the age analysis and approved regular follow up procedures to collect debts. • Scheduled notification/reminders are dispatched timeously to debtors. • Appropriate legal measures instituted to defaulting debtors.
	Credit notes are not reflected in debtors accounts.	• Pre-numbered credit notes are reconciled each month to the debtors ledger by a delegated official.
	Debtors are overstated as uncollectable amounts are not written-off.	• A delegated official reviews long-outstanding amounts and, if appropriate, recommends that the Accounting Officer (AO) authorises the write-off of such amounts in accordance with the institution's debt write-off policy.
Receiving Revenue: Voted Funds	Voted funds are not received in accordance with amounts requisitioned.	• Amounts received are reconciled against copy of requisition by a delegated official.
Receiving Revenue: Donor Funds	Funds not received in accordance with notification by Donor.	• A delegated official monitors the bank account and notifies the relevant authorities if amounts due are not received.
	Donors fail to reimburse agreed expenditure timeously.	• A delegated official monitors the submission of required documentation to Donors in accordance with the agreement. • Scheduled reminders are sent to donors with the required documentation. • Amounts received in the bank account are reconciled against Donor agreements by a delegated official.
	Donor funds not used for purpose granted.	• A delegated official certifies that expenditure incurred is in accordance with the Donor agreement. • An official is delegated to monitor and report on the donor funded project.
	Unspent Donor funds not returned.	• A delegated official monitors expenditure in accordance with the Donor agreement and notifies the RDP fund of amounts to be repaid.
	Revenue is not received as anticipated in the	• Bank accounts are monitored against the approved budget by a delegated official, and any under/over collection disclosed in regular reports signed by

TRANSACTION	RISKS	CONTROL DETAILS
	cashflow.	Accounting officer (AO). • Steps are taken to rectify under-collection of revenue and such steps are documented and approved by a delegated official.
	Cash received is counterfeit.	• Officials receiving cash verifies its authenticity before a receipt is issued. • Identifying acceptable methods of payment. • Cash verification equipment be made available to verify authenticity. • The acceptance of cheques is limited to those that are bank guaranteed.
	Cheques received are dishonoured.	• A delegated official authorises delivery of a service only after the cheque presented appears as 'cleared' on the bank statement.
	Cash/cheques/postal orders received are not banked due to theft or carelessness.	• Ensure that cheques and postal orders received are reconciled with the bank deposit slip and the remittance register. • Ensure that the banking of money is performed by two persons who are independent of the receipting function.
	Cash/cheques/postal orders and registered articles are not recorded in register on receipt thereof and the possibility exists for misappropriation.	• Ensure that two officials are present when opening the post. • All payments received in the post should be recorded in a remittance register by those responsible for opening the post and the register should be signed. • Pre-numbered receipts should be issued for all direct payments received in cash. • All receipts should be banked daily and it should be ensured that cash on hand agrees to records. • The remittance register and receipts issued are reconciled to bank deposits by an independent supervisory official. • Deposit slip to be made out by the cashier and not by employees opening the post. • Cashier to reconcile cheques and cash to remittance register before accepting them for banking (remittance register should be signed acknowledging acceptance). • Bank deposits should be reviewed regularly and gaps in daily banking investigated by management.
	Unallocated receipts not followed up and cleared.	• Cashier supervisor reviews and signs receipt suspense account on a monthly basis to ensure that all unallocated items have been cleared.
	Post-dated cheques/postal orders not banked on due date.	• Supervisor reviews Post-dated Cheque Register on a daily basis to ensure that receipts are completed for cheques for that specific day and to ensure that post-dated cheques/postal orders are banked on due date.
Recording Revenue	Revenue received is not recorded in the	• Revenue is recorded immediately when received and a numbered receipt is issued which must record the type of payment.

TRANSACTION	RISKS	CONTROL DETAILS
	Receipt book and not recorded timeously.	• A delegated official (not the official receiving the revenue) reconciles the cash received to the receipt book each day. • The numerical sequence of receipts issued is checked in the General Ledger. • A delegated official contacts a sample of debtors to confirm amounts recorded as outstanding. • A delegated official is responsible for updating the remittance register.
	Recorded deposits may be: • inaccurate (errors) • overstated (fictitious deposits/overstated deposits).	• Bank reconciliations should be performed or reviewed every month, by someone independent of banking/recording of cash.
	Discounts allowed may not be recorded.	• Queries on debtors statements should be investigated by someone independent of debtors and banking records.
	Revenues are incorrectly recorded in the Receipt book.	• The Receipt book is reconciled monthly to the institution's general ledger and is independently reviewed and evidenced by the signature of a delegated official. • Cash received is reconciled to the Receipt book independently of the official receiving the Revenue. • Reconciling differences are approved by a delegated official.
	Revenue received is not appropriately identified and is allocated to a suspense account.	• As part of the monthly clearing of the suspense account, a delegated official reconciles revenues to receipts/invoices. • A delegated official must approve clearance from suspense accounts. • A delegated official must be assigned to periodically monitor the financial systems report on the suspense account.
	Revenue received is not reflected against debtors accounts.	• Monthly debtors' reconciliations are timeously performed by a delegated official and evidenced by a signature on the reconciliation. • Outstanding reconciliation items are regularly followed up and resolved by a delegated official.
	Interest is not charged on outstanding amounts.	• Monthly debtors' statements are approved before being despatched by a delegated official. • A delegated official to reconcile the financial system with debtors and interest charged.
Safeguarding Revenue	Revenue paid into unauthorised bank accounts.	• The institution's delegations must specify that only the Accounting Officer (AO) can request authority from the relevant Treasury to open a bank account on behalf of the institution.
	Revenues are not paid into the authorised bank	• The bank account is reconciled to the receipt book and general ledger and is independently reviewed, and evidenced by the signature of a delegated

TRANSACTION	RISKS	CONTROL DETAILS
	account timeously.	official.
	Revenue is stolen or lost.	• A delegated official is responsible for the physical safekeeping and protection of all revenue received by the institution and such an official is held accountable for any loss via disciplinary or legal action. • The loss register is completed and signed by a delegated official for all revenue lost or stolen. • A delegated official regularly reviews insurance cover in place, where appropriate. • A delegated official must identify what action is required in the event that revenue is lost or stolen. • Security arrangements are outlined to minimise the loss of revenue.
	Inconsistencies exist in the manner in which losses are written off.	• A write off policy is developed and approved by management. • Losses are only written off with the authority of the Accounting Officer (AO) or delegated authority.
	Loss amount written off without proper authorisation.	• Verify the signature of the person approving the amount written off.
	Losses not reviewed on a regular basis.	• Losses are reviewed on a monthly basis and signed as evidence thereof by the appropriate senior official.
Access control and transferring of duties	Cheques, cash, postal orders and receipt can be stolen.	• Access to the cashier's office must be restricted to authorised officials only.
	Access to cashier's office and safe.	• Keys to the cashier's office and safe must be carried on the cashier at all times.
	Responsibility for cash not determined.	• The cashier must complete a handing over certificate stating the contents of the safe whenever the cashier is absent from work.
	Cash shortages / misappropriation.	• The handing over certificate is signed by the cashier, relieving the cashier and supervisor and serve as evidence that the contents of the safe had been checked and that cash on hand had been counted and balanced with the receipts issued.
	Responsibility cannot be determined / misappropriation.	• The cashier signs as proof that receipt books have been received.
	Receipt books can be stolen.	• Ensure that receipt books are issued and used in numerical sequence. Used receipt and deposit books should be stored in numerical sequence for a period of 5 years.
Monitoring, reviewing and improving	Risks and controls are not analysed,	• A risk assessment of policies and procedures around the management of revenue is reviewed and updated annually by management.

TRANSACTION	RISKS	CONTROL DETAILS
Revenue management	reviewed and improved.	
	Non-compliance with policies and procedures.	• There is evidence of an annual management review of policies and procedures relating to revenue to ensure that suitable controls are in place to mitigate risks. • Deviations from policies and procedures are subject to approval by the Accounting Officer (AO) or by a delegated official. • There is on-going training on policies and procedures for Revenue Management. • There is evidence of a management review and adoption of action plans arising from internal and/or external audits. • Actions agreed by the Audit Committee are implemented by Management and results reported back to the Audit Committee.
	Experience gained (lessons learned) is not input when planning the management of revenue.	• Revenue planning is reviewed, annually updated, and approved by management. • Management considers prior experience in managing revenue when planning and budgeting for revenue.

2. EXPENDITURE

Audit objectives

1.	**Completeness: (Including cut-off)**	To confirm that all trade acquisitions, returns and adjustments that should have been recorded are recorded, or no acquisitions and losses have been omitted from the accounting records.
2.	**Occurrence:**	To confirm that the transactions and events have taken place in the name of the entity in the financial period i.e. no such information is fictitious or fraudulent.
3.	**Existence:**	To confirm that recorded liabilities exist, and that all recorded purchase transactions are valid.
4.	**Measurement (Accuracy):**	To confirm that the accounting records and supporting schedules are mathematically correct and transactions have been recorded accurately.
5.	**Valuation:**	To confirm that recorded liabilities are fairly stated.
6.	**Rights & obligations:**	To confirm that recorded liabilities represent valid claims upon the business.
7.	**Presentation & disclosure:**	To confirm that all acquisitions and trade accounts payable information have been appropriately disclosed in the financial statements.
8.	**Value for money:**	To confirm that a transaction or event relating to expenditure represents the economical acquisition as well as the efficient and effective use of resources.

Essential audit programs

1. The following documentation must be reviewed after the year-end to identify unrecorded liabilities for goods and services:
   a) Creditors statements and invoices (particularly those identified as unprocessed on reconciliations), purchase journals, bills payable books and files of unprocessed documentation; and
   b) Payment vouchers, cash books and files of unpaid documents.

2. Consideration must be given to the results of substantive tests on the income statement where unrecorded liabilities may have been identified.

3. Purchase cut-off procedures should be correlated with inventory cut-off procedures.

4. If verification work is performed before the year-end, audit tests for completeness, accuracy and validity must be performed on transactions during the intervening period.

5. Liabilities in foreign currencies should be converted to dollars at rates in forward cover contracts or rates ruling at the year-end.

6. Specific Analytical Review must always be performed in respect of the completeness objective.

Example of the transaction life cycle or processes for expenditure
Steps 1-6 below represent the life-cycle of expenditure transactions, from planning for and acquiring the goods and/or services necessary to achieve the entity's strategic objectives, to monitoring and reviewing the management of goods and services.

The risks and controls to mitigate against risks are detailed for each element in the transaction life cycle, which is as follows:-

1. Planning and budgeting for goods and/or services (including demand management);
2. Acquisition of goods or services;
3. Logistics management;
4. Payment for goods and services;
5. Disposal management; and
6. Monitoring, reviewing and improving the management of goods and services.

TRANSACTION	RISKS	CONTROL DETAILS
Planning and budgeting for goods or services (including demand management)	Acquisitions of goods or services are not linked to the institution's strategic plan and budget.	• Budget working papers (demand plan) exist to support expenditure for goods and services included in the strategic plan and budget. • Budget working papers (demand plan) are scrutinised by a delegated official to ensure that acquisition plans are realistic.
	Service delivery is interrupted as essential goods or services are not available when required.	• A delegated official reviews the schedule of acquisitions to confirm that appropriate lead times have been incorporated.
Acquisition of goods or services	Goods and services are purchased without authorisation.	• Approvals for acquisitions are authorised by a delegated official.
	Goods or services are purchased without complying with policies, procedures and acquisition requirements.	• Tenders or quotes (if applicable) are obtained from independent suppliers, in terms of approved policies. • An official order is approved by a delegated official independent of the official obtaining the tenders/quotes.
	Inappropriate supplier is chosen, as industry and/or commodity analysis has not been conducted.	• A delegated official conducts an industry and commodity analysis to identify potential suppliers that can deliver value for money as per the institution's purchase schedule and confirmed by minutes of meetings.
	Goods or services are acquired which were not planned or budgeted for.	• A delegated official verifies the acquisition of goods or services against budget working papers prior to the order being placed. • If goods or services to be acquired are not included in the budget working papers, the purchase must be authorized by a delegated official prior to acquisition.

TRANSACTION	RISKS	CONTROL DETAILS
	Bid specifications are biased and not properly evaluated (if applicable).	• Bid specifications are approved by a delegated official or committee and recorded in minutes. • There is evidence of an evaluation process.
	Officials have a conflict of interest.	• Officials sign a 'declaration of interest' register.
	Bidders gain access to information they are not entitled to.	• Officials involved in procurement sign undertaking that they are aware of the ethical code requirements.
	The Accounting Officer fails to use appropriate suppliers.	• The list of potential suppliers from the database is approved per signature by a delegated official and regularly reviewed and updated.
	Contracts are awarded to a restricted number of suppliers.	• A delegated official reviews updated list/database of recent suppliers and certifies that over time, all are invited to submit bids.
	Orders for goods or services are placed but are not received or not received timeously.	• A copy of the order should be filed sequentially and all file orders should be checked sequentially and cross-referenced to the goods received note (GRN) to confirm that goods ordered have been received.
	Order forms are misused.	• Blank order forms should be subject to stringent stationery controls in the custody of an appropriately delegated official.
	Consultants unable to meet minimum requirements of quality and efficiency are appointed.	• A delegated official ensures that minimum requirements of quality and efficiency to be achieved when appointing consultants are included in contract and terms of reference (TOR). • TOR includes reference to ethical code of relevant profession to ensure that assignments are executed to meet ethical principles at all times. • A delegated official drafts contract stipulations requiring unbiased advice from consultants.
	Procurement process is abused	• Accounting officer investigates allegations of corruption, improper conduct or failure to comply with documented procedures made against any role player. • A fraud prevention plan is regularly updated by a delegated official. • The duties of officials involved in procurement are properly segregated.
Logistics management (setting stock levels)	Optimum stock levels are not determined	• Minimum and maximum stock levels and lead times are fixed, regularly reviewed and approved by a delegated official.

TRANSACTION	RISKS	CONTROL DETAILS
Logistics management (Vendor performance)	The institution does not obtain value for money (delivery periods, quality, quantity).	• Standard performance evaluation checklist is completed for each contracted out contract by the official receiving the service. • A delegated official reviews the past performance evaluation checklists of current vendors before authorisation of any new transaction. • A delegated official activates processes to remove poorly performing suppliers from the list of potential suppliers.
	Suppliers behave unethically.	• A delegated official logs allegations of fraud, reviews complaints and reports to the accounting officer. • Appropriate steps are taken to resolve the situation.
Logistics management (Receiving of goods)	Theft by employees or third parties.	• Delivery of goods only authorised to secured areas. • The official receiving the goods should be independent of those ordering and paying for the goods. • There are management and supervisory checks on the ordering and receiving functions. • Isolation of responsibility for receiving and safe custody of goods.
	Incorrect goods are accepted.	• Copies of the purchase requisitions / order forms are sent to the section where the goods are received. • Goods received note (GRN) is completed when receiving the goods by the receiving official. • Officials receiving goods should only complete and sign a GRN when satisfied that goods match those that were ordered, e.g. on the purchase requisition.
	Goods delivered are damaged.	• Officials receiving the goods should complete and sign a goods received note (GRN) as evidence of having received and inspected the goods and of having checked it against the order. • Damaged or otherwise unsatisfactory goods should not be accepted or signed for and should be returned to the supplier (and documented on the invoice).
Logistics management (recording)	Goods received are not recorded in the ledger.	• A delegated official, independent of officials ordering or receiving goods, ensures that all entries are recorded timeously in the inventory listing/ledger. • A delegated official checks the details of goods and services from the invoices to the inventory list and ledger in terms of cost price, classification, date, etc.
	Goods received are recorded inaccurately (allocation, amounts, dates etc.).	• The official responsible for recording in the ledger checks the supporting documents the details of goods and services from the invoices to the inventory list and ledger in terms of cost price, allocation (classification), date, etc.

TRANSACTION	RISKS	CONTROL DETAILS
	Stock losses may occur.	• Assets / inventory are physically safeguarded and protected as access to store-room is limited and monitored. • A delegated official authorises access to and issues asset / inventory from storeroom or other storage facility. • Insurance cover is in place, where appropriate, and regularly reviewed and updated. • A loss register is completed for all assets / inventory lost, stolen or vandalized. • Any asset / inventory losses are followed up by management and appropriate actions are taken. • Items lost or stolen are recorded in the asset register or inventory list.
Logistics management (Issue and distribution of items from stock)	Stock is issued incorrectly (including incorrect stock and / or incorrect recording of issue).	• The person receiving the goods / inventory confirms receipt of correct stock and signs for it on the issue note. • A delegated official conducts an independent reconciliation of goods / inventory issue notes to the ledger and exceptions are followed up and reported. • Goods / inventory items returned are recorded in a register, including reasons for return. Reasons for returns are followed up and reported to delegated official.
Payment for goods and services	Suppliers paid for goods not received, or goods not ordered, or damaged goods received.	• The creditors' payment function is independent of ordering and receiving of goods. • Supplier's original invoices are matched with a copy of the order and signed GRN before payment is made. • Cheque signatories/persons approving creditor payments review all documentation supporting the payment.
	Suppliers are paid before payment is due.	• Creditors clerk checks the payment terms before processing payment requests. • Creditors clerk reviews suppliers contracts before approving payment and certifies accordingly on payment form.
	Suppliers are paid the incorrect amount.	• Monthly creditors' reconciliations between supplier's statement and payments to suppliers are timeously performed independently of payment, ordering and receiving. • Outstanding reconciliation items are regularly followed up to resolve all reconciling items, especially long outstanding reconciling items. • Creditors reconciliations are regularly reviewed by an independent supervisor.
	Suppliers not paid.	• Monthly creditors' reconciliations between supplier's statement and payments to suppliers are timeously performed independently of payment, ordering and receiving to identify non-payments. • Outstanding reconciliation items are regularly followed up to resolve all reconciling items, especially long outstanding reconciling items. • Creditors reconciliations are regularly reviewed by an independent supervisor.

TRANSACTION	RISKS	CONTROL DETAILS
	Unrecorded liabilities.	• Outstanding creditors' reconciliation items are regularly followed up to identify any unprocessed items. Ensure that these items have been recorded in the ledger.
	Department fails to claim discount on timely payments.	• Suppliers invoices to be addressed to single point in the institution, then examined on receipt by a delegated official to identify the possibility of obtaining discounts. • Discounted payments are separated from other payments and are prioritised for payment. • A delegated official reviews a sample of invoices paid to ensure that discounts have been claimed or motivates why discounts could not be taken up.
	Late payments	• Supplier invoices to be addressed to a single point in the institution, then dated on receipt by a delegated official to ensure that it is paid timeously. • Cheque signatories should check date stamp of the invoice and the date of the invoice which should be evidenced by a signature if the payment is overdue. • Late payments are identified and corrective actions taken against the responsible persons.
	Service providers paid before proof of delivery of service is received.	• Cheque signatories/officials approving creditor payments review all documentation supporting the event.
Disposal Management	Goods are sold which are still required.	• A delegated official approves goods to be sold on the basis of documentation listing age, condition and reason no longer required.
	Goods no longer required are sold at less than market value.	• Responsibility for the sale of goods is independent of ordering and receiving goods. • A regular analysis of goods disposed off or scrapped at less than net book value is undertaken, independent of officials responsible for acquiring goods. • The analysis of goods disposed off or scrapped is reviewed by delegated official and evidenced.
	Payment is not received for goods sold.	• Suitable procedures are in place to ensure that goods sold are properly authorised and that formal documentation is prepared. • A delegated official performs credit checks before completion of a sale. • Responsibility for the collection of amounts due is independent of sales and invoicing. • Regular supervisory reviews are undertaken of outstanding debtors in relation to goods sold.
Monitoring, reviewing, improving management of goods and	Risks and controls are not analysed, reviewed and improved.	• A risk assessment of policies and procedures around goods and services is reviewed and updated annually by management.

TRANSACTION	RISKS	CONTROL DETAILS
services	Non-compliance with policies and procedures.	• There is evidence of an annual management review of policies and procedures relating to expenditure to ensure that suitable controls are in place to mitigate risks. • Deviations from policies and procedures are approved by the appropriately delegated official. • There is on-going training on policies and procedures related to expenditure. • There is evidence of management review and adoption of action plans arising from internal and/or external audit. • Actions agreed by the Audit Committee are implemented by Management and the results are reported back to the Audit Committee (if applicable).

3. PAYROLL CYCLE

Audit objectives

1.	**Completeness:**	To confirm that all payroll transactions that should have been recorded, and material liabilities are accrued.
2.	**Occurrence:**	To confirm that the payroll transactions have taken place during the financial period for the benefit of the entity.
3.	**Existence:**	To confirm that recorded payroll transactions and accrued liabilities are valid.
4.	**Measurement:**	To confirm that the accounting records and supporting schedules are mathematically correct.
5.	**Valuation:**	To confirm that recorded payroll liabilities are fairly stated.
6.	**Rights & obligations:**	To confirm that recorded payroll liabilities represent valid claims upon the business.
7.	**Presentation / disclosure:**	To confirm that all payroll cycle information have been appropriately disclosed in the financial statements.

Essential audit programs

1. Specific Analytical Review should always be performed prior to tests of detail.

2. The validity of casual labour could constitute significant audit risk, and substantive evidence must be obtained whenever the amount is material.

Example of the transaction life cycle or processes for payroll
Steps 1 to 6, set out hereunder, represent the human resource transaction life-cycle, from the context and governance aspects up to assessing how service delivery objectives can be improved which in turn should feed back into the strategic planning of the institution.

The risks and controls to mitigate risks are detailed hereafter for each transaction life cycle
1. Context Governance and Planning (Human Resource Management planning and budgeting);
2. Insourcing (Selection and Recruitment of employees);
3. Maintenance (Training, Development and Retention of employees);
4. Terminations (Resignations, Retirements and Dismissals);
5. Transaction Processing; and
6. Service Delivery Improvement (Monitoring, reviewing and improving human resource management).

TRANSACTIONS	RISKS	CONTROL DETAILS
Context Governance and Planning (Human Resource planning and budgeting)	Human Resource planning and budgeting is not linked to the institution's strategic plan and budget or is ineffective in terms of the institution being able to achieve its service delivery objectives.	• The institution has a Human Resource Management plan that devolves from the institution's strategic plan and is linked to service delivery objectives. • The Human Resource Management plan is reviewed annually and approved by management as evidenced (e.g. by an approved management minute or by signing the plan). • There is an approved organisational chart for the institution that includes every post, levels of authority and the reporting lines. An organisational chart also lays a foundation for segregation of duties so

TRANSACTIONS	RISKS	CONTROL DETAILS
		that no personnel members perform incompatible functions. • There is an approved written job description for each post in the institution. • All delegations and authorisations are in writing and incorporated in the job description, employment contract (where appropriate) and performance agreement of the official to whom the responsibility is delegated. • Management reviews and approves the annual Human Resource budget after ensuring that the staff complement and structure are appropriate to achieve service delivery objectives. • Evidence that sufficient budgeted funds are available for filling the post.
Insourcing (Selection and recruitment of employees)	Recruiting/retaining surplus, unsatisfactorily or unnecessary personnel.	• The main objectives of the post and the inherent requirements of the person needed to fill the post are considered and compared with the job description by a delegated official, prior to recruiting for a replacement or for new posts. • A job evaluation and job grading is performed/updated and independently approved prior to recruitment of new or replacement posts and the resultant information is updated on the HR system. • A selection committee is convened, where appropriate, to interview and assess possible candidates for the post. • Adequate recruitment and interview procedures should ensure that only competent, trustworthy personnel are engaged. • A recruitment checklist is completed and retained in each employee's personnel file. • The recruitment checklist must include the composition of the selection committee and all other relevant information (e.g. official responsible for verifying qualifications, security checklist, reference checking, etc, and all the relevant details updated on the HR system). • All requests for the employment or dismissal of employees should originate from the division making the request and should be in writing. • Requests should be signed by the delegated official and countersigned by the divisional head after reference to budget.

TRANSACTIONS	RISKS	CONTROL DETAILS
	Employees required to meet the institution's strategic objectives are not appointed.	• An annual review of all posts (**not** only vacant posts) is performed and independently considered by management. • There is evidence of management having considered the annual review in relation to the institution's strategic objectives. • Management assesses the average time taken to fill vacant posts and considers reasons for unreasonable delays. • There is documented evidence of management action in respect of repeated or unreasonable delays in the filling of vacant posts. • Management approval is required for additional posts necessary, within budgetary constraints.
Maintenance (Training, Development and Retention of employees)	Expected service delivery not attained, or service delivery never improves.	• Ongoing performance management of subordinates is obligatory for all officials who have employees reporting to them. • Written performance assessments are performed for all employees at least twice per annum and signed by the assessor and the employee being assessed. • Written development plans for individual employees, where appropriate, are prepared and reviewed annually. • Performance assessments and development plans are independently reviewed by a delegated official to ensure that suitable employee development is being performed on an ongoing basis. • Performance assessments and development plans are retained and filed in employees' personnel files. • Effective employee training is conducted to support employees' work performance and career development. • Management annually assesses the benefits obtained from performance management and development, and training relative to the cost thereof.
	Service delivery objectives are not achieved due to low employee morale.	• Annual Human Resource Planning includes elements relating to maintaining and improving employee morale. • Requirements for progression and promotion are clearly spelt out to all employees. • Where appropriate appointments, performance bonuses, promotions and transfers from other departments are timeously effected. • Staff grievances are appropriately and

TRANSACTIONS	RISKS	CONTROL DETAILS
		timeously resolved. • A schedule of employee grievances (number and nature) is regularly reviewed by a delegated official and suitable corrective action taken. The relevant grievance information should also be captured on the HR system.
	Service delivery objectives are not met because good employees leave the institution.	• The institution has a Code of Conduct that explains acceptable practices by employees, conflicts of interest, and standards expected from all employees and expected ethical and moral behaviour from all employees. • The institution has a formalized retention policy that is regularly reviewed by management to gauge its effectiveness. • The institution's Code of Conduct is understood by all employees and management abides by the Code of Conduct. • The institution has appropriate values to which management subscribes and adheres to constantly. • There is evidence of the Code of Conduct and the institution's values being explained and "rolled out" to all staff regularly. • There is evidence of employee relations (incorporating labour relations) being adhered to equitably and consistently. • There are financial and other incentive schemes (pay progression and performance bonus) that form part of the performance management system, where appropriate, which are clearly communicated to all employees participating in such schemes. • Criteria for performance bonuses are clearly defined and are aligned to pre-determined objectives.
	Incapacity of employees.	• Systematic remedial or developmental support is given in respect of all employees should their bi-annual performance assessment indicate that support is necessary. • If performance is unsatisfactory, following remedial/developmental support, steps are taken to demote or discharge employees for incapacity. • Timeously capturing of demotions and discharges on the HR system to prevent overpayment.
Terminations	Service delivery objectives	• The institution adheres strictly to the

TRANSACTIONS	RISKS	CONTROL DETAILS
(Resignations, Retirements and Dismissals)	are not met because of inappropriate employees (not developed, disciplined or replaced timeously).	relevant legislative prescripts in respect of disciplinary measures for transgressions by all employees. • An exit strategy is in place and adhered to for all resignations and dismissals (e.g. exit interview, exit control form returning institution assets, changing passwords and access controls, etc.). • There is evidence of timeous insourcing in respect of all terminations (e.g. recruiting for retiring employees ahead of their retirement date; immediately commencing the recruitment process to replace resigning or dismissed employees). Review the reports on the HR system relating to Officials who will be attaining the age of 65 years.
Transaction Processing	Employees are paid the incorrect remuneration, are not paid, or are paid for work not done.	• Officials responsible for capturing payroll information are independent of those responsible for appointing and dismissing employees and for granting remuneration increases. • Someone independent of payroll preparation should check payroll computations. • Officials responsible for capturing payroll information are independent of persons responsible for general ledger journal entries and handling employee payslips. • Letters of employment are prepared for all new employees (a copy of which is signed by the employee and retained by the institution) and signed by a delegated official, independent of payroll preparation. • Approvals for appointments, secondments, promotions, transfers and salary adjustments are timeously filed in personnel files. • A separate personnel file is maintained for each employee containing *inter alia* personal details, the signed letter of employment, remuneration increase authorisations, and disciplinary details. • Signed letters of employment are filed for every employee in their personnel file. • All staff appointments are independently checked to the payroll input and there is evidence of this independent check. • Pay sheets are verified on a monthly basis and signed by the delegated officials. • There is evidence that a delegated official

TRANSACTIONS	RISKS	CONTROL DETAILS
		ensures that resigning/retiring/dismissed employees are removed from the salary payments system. • A monthly reconciliation of gross salaries is performed by a delegated official (Gross salaries paid in previous month + appointments – employees leaving = gross salaries paid in current month). • There is evidence of the monthly reconciliation of gross salaries being reviewed by a delegated official. • All other salary inputs (e.g. overtime payments, leave pay, incentives, bursaries, travel claims, subsistence claims, loan repayments, garnishee orders, etc.) are confirmed as correct by a delegated official before it is entered, and the HR system updated accordingly. • Suitable mechanisms are implemented and properly maintained by managers in respect of employee’s leave and overtime. • The managers’ records are reconciled to the HR department’s records (at least twice annually). • Data in respect of payroll and human resource records is periodically reviewed by a delegated official (at least annually) and there is evidence of such review. • All overtime claim forms and expenditure claim forms (e.g. subsistence, travel, etc.) are authorised by a delegated official independent of payroll processing. • A monthly schedule of overtime (hours and rand amount) is reviewed and approved by the manager of the department and returned to HR department for safekeeping. • A monthly schedule of travel and subsistence re-imbursals is reviewed and approved by the manager of the department and returned to HR department for safekeeping. • Payments in respect of bonuses, commissions or incentives are captured on the HR system and must be independently approved by a delegated official after confirming amounts due. • Payments in respect of bursaries are captured on the HR system and independently approved by a delegated official prior to payment. • An annual schedule of bursaries paid is

TRANSACTIONS	RISKS	CONTROL DETAILS
		prepared for each department and followed up by the manager of the department regarding success or failure in the course of study by the bursary recipient. • The annual bursary schedule is signed by the manager of the department and returned to the HR department for safekeeping. • Where remuneration is based on time worked a suitable time recording or attendance system is in operation independent of payroll processing and updated accordingly. • A leave request form is completed by each employee prior to taking annual or special leave (e.g. maternity leave, family responsibility leave, etc.) reflecting leave due, number of days to be taken, and dates and number of days leave last taken. • The leave request form is approved by the employee's manager, prior to the leave taken, and furnished to the HR department for processing and filing in the employee's personnel file. • If an employee is unable to report for duty due to sudden illness, he or she must immediately notify his/her immediate supervisor of his or her inability to report for duty. • A sick leave form is completed by every employee immediately after returning to work from being off sick. • The sick leave form is approved by the employee's manager, a doctor's note attached where appropriate, and furnished to the HR department for processing and filing in the employee's personnel file. • A monthly leave schedule is produced for each department (for annual leave, sick leave, etc.) reflecting days due and days taken which is reviewed and approved by the manager of the department and returned to the HR department for safekeeping. • Individual utilisation of leave is communicated to employees. • There is evidence of all other salary input being independently checked. • The annual salary schedule of all employees (after annual increases) is reviewed and approved by a delegated

TRANSACTIONS	RISKS	CONTROL DETAILS
		official, and there is evidence of such approval. • The approved annual salary schedule is checked to the payroll system independently of the persons responsible for payroll capturing, appointing and dismissing employees and there is evidence of such review. • Probation reports are captured on the HR system and timeously approved and submitted to the HR department in respect of employees on probation who are permanently appointed. • Officials responsible for HR data input are independent of officials responsible for transactional input. • All changes to HR data require the independent approval of a delegated official. • A monthly system report is produced reflecting all HR data input and all changes to standing data. • The monthly HR data system report is reviewed by a delegated official and there is evidence of such review.
	Management information is unreliable.	• Monthly reconciliations are performed (for all salary accounts) from salary system to general ledger by the finance department– (e.g. gross salaries, overtime, bonuses, incentives, PAYE, UIF, COID, loans, etc.). • Monthly reconciliations are independently reviewed and there is evidence of such review. • A delegated official reviews the payroll (at least annually), and compares remuneration information to personnel files to ensure that all employees are being correctly paid and are bona fide employees of the institution. • Exception reports are produced detailing amounts in excess of expected costs and are independently investigated. • Large or unusual variances from the salaries budget are investigated monthly by a delegated official.
	Statutory requirements are contravened.	• A monthly schedule is prepared detailing all statutory monthly payments (e.g. PAYE, UIF, Pension, Medical aid, etc.), the due date, and the person responsible for furnishing the return or complying with the statutory requirements. • The monthly schedule is reviewed by a

TRANSACTIONS	RISKS	CONTROL DETAILS
		delegated official to ensure that all statutory requirements have been met, and there is evidence of such review. • A delegated official regularly reviews requisite knowledge of person(s) responsible for payroll processing by ascertaining their attendance at training courses and by assessing the type and frequency of payroll errors.
	Confidential information is divulged to 3rd parties.	• Officials responsible for payroll processing and retention of personnel records are in a separate, secure and secluded office area which is not accessible by unauthorised persons. • Sensitive and confidential information is not available on the public office network and is restricted to authorised persons only. • No information about any employee is divulged without the written approval of a delegated official.
	Non-compliance with policies and procedures.	• There is evidence of an annual management review of policies and procedures relating to human resources to ensure that suitable controls are in place to mitigate risks. • Deviations from policies and procedures are subject to approval by the Accounting Officer (AO) or by a delegated official. • There is on-going training on policies and procedures for Human Resource Management. • There is evidence of a management review and adoption of action plans arising from internal and/or external audits. • Actions agreed by the Audit Committee are implemented by Management and results reported back to the Audit Committee.
	Experience gained (lessons learned) is not input into Human Resource Management planning.	• Institution-wide Human Resource Management planning is reviewed annually, updated and approved by management. • Management considers prior experience in Human Resource Management when reviewing and updating the institution's annual review of the strategic plan, human resource planning and budgeting.
Service Delivery Improvement (Monitoring, reviewing and	Risks and controls are not analysed, reviewed and improved.	• A risk assessment of policies and procedures around the management of Human Resources is reviewed and updated annually.

TRANSACTIONS	RISKS	CONTROL DETAILS
improving Human Resource Management)		• Service Level Agreements are entered into, where appropriate, with other components within the institution that are regularly monitored and assessed. • Service Level Agreements (SLA) (or other documentation) reflects relevant statistical information such as turnaround times, number of errors, types of errors, etc. • There is evidence of appropriate action being taken regarding poor Human Resource Management service emanating from SLAs or other sources.

4. ASSET / INVENTORY CYCLE

Audit objectives (Assets and Inventory)

1.	**Completeness: (Including cut-off)**	To confirm that all assets and inventory that should have been recorded are recorded. E.g. no items of inventory or assets have been omitted from the records.
2.	**Occurrence:**	To confirm that the transactions and events have taken place in the name of the entity in the financial period and assets/inventory were acquired by the entity.
3.	**Existence:**	To confirm that inventory and asset balances represent real assets in possession of the entity and are not fictitious book entries.
4.	**Measurement (Accuracy):**	To confirm that the accounting records and supporting schedules are mathematically correct and transactions have been recorded accurately.
5.	**Valuation:**	To confirm that all assets and inventory are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
6.	**Rights & obligations:**	To confirm that all assets and inventory balances represent real assets in the possession of the institution, in respect of which the institution has the unrestricted rights of ownership and control.
7.	**Presentation & disclosure:**	To confirm that all information relating to assets and inventory has been appropriately disclosed in the financial statements.
8.	**Value for money:**	To confirm that a transaction or event relating to assets and inventory represents the economical acquisition as well as the efficient and effective use of resources.

Essential audit programs

1. The audited entity asset/inventory count must be observed by the auditor when inventory is material to the financial statements. If unable to attend the physical inventory count audit procedures on intervening transactions should be performed. The auditor should consider whether alternative procedures provide sufficient appropriate audit evidence of existence and condition to conclude that the auditor need not make reference to a scope limitation (ISSAI 1501.5, 6, 7).

2. The audited entity's asset/inventory count must take place at the year-end unless reliable inventory records are available.

3. If verification work is performed before the year-end, audit tests for completeness, accuracy and validity must be performed on transactions during the intervening period.

4. Cut-off tests on inventory, receivables and payables should be correlated.

5. Provisions for obsolete, slow-moving or damaged inventory must be followed from year to year to ensure that inventory which was previously depreciated is not taken into account at full value for the current year.

6. Specific Analytical Review must always be performed in respect of the completeness objective.

Example of the transaction life cycle or processes for assets
Steps 1 to 11, set out hereunder, represent the transaction life-cycle of assets, from planning to acquisition of assets in order to achieve the institution's strategic objectives to monitor and review the cost and effective use of assets which in turn can provide feedback into the strategic planning process of the institution.

The risks and controls to mitigate risks are detailed hereafter for each transaction life cycle
1. Asset planning and budgeting;
2. Acquisition of assets;
3. Commissioning/receiving of assets;
4. Recording of assets;
5. Payment for assets;
6. Maintenance of assets;
7. Safeguarding of assets;
8. Utilisation of assets;
9. Disposal of assets;
10. Scrapping of assets; and
11. Monitor, reviewing and improving asset management.

TRANSACTION	RISKS	CONTROL DETAILS
Asset planning and budgeting	Assets are acquired which were not planned and budgeted for.	• The institution has an asset management plan which devolves from the institution's strategic plan and is linked to the institution's service delivery objectives. • The asset management plan is reviewed annually and approved by management, as evidenced by an approved management minute or signature.
Acquisition of assets	Assets are acquired which were not planned and budgeted for.	• A delegated official verifies the purchase requisition for the asset against an approved asset management plan before the order is placed. • If the asset to be acquired is not included in the approved asset management plan then the purchase must be authorised by a delegated official only after the assessment of a motivation.
	Assets are purchased by an unauthorized person.	• Approvals for asset acquisition are authorised by a delegated official.
	Inappropriate supplier is chosen, as industry and/or commodity analysis has not been conducted.	• A process should be in place to show proof that industry and commodity analyses have been looked at in the acquisition planning phase. • A delegated official conducts an industry and commodity analysis to identify potential suppliers that can deliver value for money, confirmed by minutes of meetings.

TRANSACTION	RISKS	CONTROL DETAILS
Logistics management (Receiving of assets/inventory)	Theft by employees or third parties.	• Delivery of assets / inventory only authorised to secured areas. • The official receiving the assets / inventory should be independent of those ordering and paying for the assets / inventory. • There are management and supervisory checks on the ordering and receiving functions. • Isolation of responsibility for receiving and safe custody of assets / inventory.
	Incorrect assets are accepted.	• Copies of the purchase requisitions / order forms are sent to the section where the assets are received. • Goods received note (GRN) is completed when receiving an asset by the receiving official. • Officials receiving goods should only complete and sign a GRN when satisfied that goods match those that were ordered, e.g. on the purchase requisition.
	Goods delivered are damaged.	• Officials receiving the assets / inventory should complete and sign a goods received note (GRN) as evidence of having received and inspected the assets / inventory and of having checked it against the order. • Damaged or otherwise unsatisfactory assets / inventory should not be accepted or signed for and should be returned to the supplier (and documented on the invoice).
Logistics management (recording in the ledger)	All assets / inventory received are not recorded in the ledger.	• A delegated official, independent of officials ordering or receiving goods, ensures that all assets / inventory received are recorded timeously in the ledger.
	Inaccurate recording in the ledger (allocation, amounts, dates, etc.).	• The official responsible for recording in the ledger checks the supporting documents (the details of goods and services from the invoices to the inventory list and ledger in terms of cost price, allocation (classification), date, etc.).
Logistics management (recording in the asset register)	Assets are incorrectly recorded in the asset register.	• The asset register is reconciled monthly to the institution's general ledger (cost, annual depreciation to date, and accumulated depreciation) by a delegated official. • The monthly reconciliation of the asset register to the general ledger is independently reviewed by a delegated official. • Reconciling differences are independently approved and the asset register corrected where appropriate.

TRANSACTION	RISKS	CONTROL DETAILS
	Assets acquired are not recorded appropriately in the asset register.	• Assets are recorded in the asset register independently of the official ordering and receiving the assets. • The invoice number or payment number is recorded in the asset register. • The locality of the asset is recorded in the asset register.
		(for computerised systems) • Unique asset number in asset register should be stated on the Goods Received Note (GRN). *(for manual systems)* • Goods Received Notes are reconciled by an independent person (other than the person recording in the asset register) to the entries in the asset register.
	The asset register does not accurately reflect assets on hand (physical existence). Risk of loss of assets through fraud or theft.	• Annual physical asset count is independently performed. • Assets scrapped or disposed off are recorded in the asset register as disposed or scrapped and the general ledger entries are effected. • Physical asset count is reconciled to the asset register independently of parties writing up the asset register and performing the physical asset count. • Differences between the physical asset count and the asset register are identified and followed up. • Differences between the physical verification and the asset register are independently followed up and adjustments necessary are made after being approved (i.e. adjustments necessary in respect of bar-coding assets which have not been bar-coded or adjustments to the asset register).
Payment for assets		Refer to the Expenditure control table.
Maintenance of assets	Assets are measured at an incorrect value. (Assets have to be replaced before necessary, or do not operate as well as they should, due to poor maintenance)	• An annual asset maintenance plan is prepared and approved. • Deteriorating assets or assets that are not used, damaged or not working are identified during the asset count. • Spot-checks are carried out during the year on categories of assets prone to deterioration including the condition of assets (e.g. motor vehicles, computer equipment).

TRANSACTION	RISKS	CONTROL DETAILS
		• A delegated official is responsible for ensuring that deteriorating assets are repaired or replaced and there is evidence of this being done. • An independent assessment is performed by a delegated official in respect of assets with excessive maintenance or with lives ≤ expected useful lives. • The annual asset maintenance plan is implemented and regularly (at least annually) updated with new information. • There is evidence that management has reviewed the implementation of the annual asset maintenance plan.
Safeguarding of assets / inventory	Assets are stolen, lost or vandalized.	• Assets / inventory are physically safeguarded and protected as access to store-room is limited and monitored. • A delegated official authorises access to and issues asset / inventory from storeroom or other storage facility. • Insurance cover is in place, where appropriate, and regularly reviewed and updated. • A loss register is completed for all assets / inventory lost, stolen or vandalized. • Any asset / inventory losses are followed up by management and appropriate actions are taken. • Items lost or stolen are recorded in the asset register or inventory list. • The loss register is independently reviewed by a delegated official and there is evidence of such review. • A quarterly reconciliation is performed between the loss register and the asset register and reconciling differences are independently followed up and resolved by a delegated official who shall append a signature as evidence of the reconciliation. • Disciplinary action is taken against officials responsible for any loss or damage to assets. • Legal or other appropriate action is taken for the recovery or restoration of assets stolen, lost or vandalized.

TRANSACTION	RISKS	CONTROL DETAILS
Utilisation of assets	Utilisation of assets by unauthorised personnel.	• Assets are allocated to specific officials who are responsible for safeguarding all assets under their control. The officials must sign for the asset when receiving. • When assets are used by someone other than the official responsible for their safeguarding, this use is to be authorised by a delegated official. • Goods / inventory items returned are recorded in a register / listing, including reasons for return. Reasons for returns are followed up and reported to delegated official.
	Assets are not used for the purpose they were acquired (or are not used optimally).	• Independent check of utilisation of assets against the approved asset management plan and asset register. • Reasons for the under-utilisation of assets should be investigated and reported to the asset manager for action. • Appropriate actions are taken on the identified under-utilisations.
Disposal of assets	Assets no longer required are not sold.	• Assets not used or no longer required are identified during the asset count. • Assets which are surplus to requirements are authorised to be sold in terms of the formal set of delegations.
	Assets are sold at less than market value.	• The responsibility for sale of assets is independent of ordering and receiving assets. • A regular analysis of assets disposed off or scrapped at less than net book value is undertaken, independent of the official(s) responsible for acquiring or utilising assets and reasons assessed/documented for future reference. • The analyses of assets disposed of or scrapped are reviewed by management and such review is evidenced.
	Payment is not received for assets sold.	• Suitable procedures are in place to ensure that assets sold are properly authorised and that formal documentation is prepared for the buyer to acknowledge receipt. • Responsibility for the collection of amounts due is independent of the sale of assets and invoicing. • Regular supervisory reviews are undertaken of outstanding debtors in relation to assets sold.
	Assets are sold which are still required.	• Management approval is required before assets are sold and motivation for its sale is indicated and assessed prior to authorisation by management.

TRANSACTION	RISKS	CONTROL DETAILS
Scrapping of assets	Assets are scrapped which are still required.	• Obsolete assets are identified during the annual asset counts. • Management approval is required before assets are scrapped and motivation for scrapping is indicated and assessed prior to authorisation by management.
	Assets are scrapped which could have been sold.	• Management approval is required before assets are scrapped and motivation for scrapping is indicated and assessed prior to authorisation by management.
Monitoring, reviewing and improving asset management	Risks and controls are not analysed, reviewed and improved.	• A risk assessment of policies and procedures around asset management is reviewed and updated annually by management.
	Non-compliance with policies and procedures.	• There is evidence of an annual management review of policies and procedures relating to Asset Management to ensure that suitable controls are in place to mitigate risks. • Deviations from policies and procedures are approved by Accounting Officer or delegated official. • There is on-going training on policies and procedures relating to Asset Management. • There is evidence of management review and adoption of action plans arising from internal and/or external audit.
	Experience gained (lessons learned) is not input into Asset Management.	• Asset Management planning is reviewed, annually updated, and approved by management. • Management considers prior experience when planning and budgeting for assets.

ANNEXURE B – GENERIC SUBSTANTIVE AUDIT PROGRAMS FOR KEY COMPONENTS

SECTION A – REVENUE

A.1 AUDIT OBJECTIVES AND ERROR STATEMENTS

Assertions		Audit objectives / control objectives	Error statements
1.	Accuracy (Measurement):	Amounts and other data relating to recorded transactions, events and provisions have been recorded appropriately.	Inaccurate recording due to human errors or misstatements.
2.	Classification:	Transactions and events have been recorded in the proper accounts. Financial information is appropriately presented and disclosures are clearly expressed.	Transactions posted to an incorrect account. Inappropriate or non-understandable disclosure of financial information.
3.	Completeness:	All revenue received that should have been recorded has been recorded. All required disclosures have been included in the financial statements.	Revenue received is not recorded or disclosed. All required disclosures have not been included in the financial statements.
4.	Compliance:	Transactions have been effected in compliance with relevant laws, legislations or regulations. Compliance with prescribed standards in terms of disclosure of assets, inventory and liabilities.	Non-compliance with relevant laws and regulations relating to the transactions. Non-compliance with prescribed standards in terms of disclosure of revenue received.
5.	Cut-off:	Transactions and events have been recorded in the correct accounting period.	Transactions recorded in the incorrect period.
6.	Occurrence:	Transactions and events that have been recorded and disclosed have occurred and pertain to the entity.	Fictitious or fraudulent transactions have been effected and recorded (e.g. payments to fictitious accounts). Overstatement of other revenue/sales.
7.	Value for money:	Transactions and events relating to revenue received represent efficient, economical and effective conduct of business.	Inputs are not utilised in a way to maximise revenue received.

A.2 AUDIT PROGRAMS FOR REVENUE

Sample Source	Procedure	Assertion
Revenue received from government		
Compare a schedule of revenue received from government to the actual receipts and confirm that:	All budgeted revenue was requested and received.	Compliance, Completeness
	Revenue received was allocated to the correct accounts.	Classification
For a sample of revenue recorded in the ledger:	Trace transactions to the requisition forms (forms submitted to Treasury to request voted funds).	Occurrence
Other Revenue		
For a sample of other revenue recorded in the ledger obtain the sales invoice, order forms and delivery note and perform the following:	Compare details of the transactions recorded to the sales invoice copy and delivery note.	Occurrence
	Examine order form, invoice and delivery note for consistency of descriptions and quantities.	Accuracy
	Check whether prices charged are in line with approved price list for goods and services.	Accuracy
	Re-compute invoices and compare sales price to the purchase order.	Accuracy
Review whether the following documents are pre-numbered:	Order forms; Invoices; Delivery notes.	Completeness
For a sample of invoices:	Reconcile invoices to delivery notes and determine whether all invoiced items have been delivered.	Occurrence, VFM
For a sample of order forms:	Review the sequential numbering of order forms and identify long outstanding orders.	VFM
For selected period(s):	Account for the sequential numbering of invoices, delivery notes and credit notes.	Completeness
	Reconcile revenue received to budgeted revenue and obtain reasons for large unexplained differences.	Completeness
For a sample of invoices from the last month of the financial year and the first month of the following financial year:	Identify the last invoice prepared for the financial year and trace the invoices issued before and after to the ledger to establish whether the transactions were recorded in the correct periods.	Cut-off
For a sample of sales invoices for goods and services trace transactions to the ledger and determine whether:	The transaction was recorded.	Completeness
	The transaction was allocated to the correct accounts.	Classification

SECTION B – PERSONNEL EXPENDITURE

B.1 AUDIT OBJECTIVES AND ERROR STATEMENTS

Assertions		Audit objectives / control objectives	Error statements
1.	Accuracy:	Amounts and other data relating to recorded payroll transactions and events have been recorded appropriately.	Inaccurate recording due to human errors or misstatements.
2.	Classification:	Transactions and events have been recorded in the proper accounts. Financial information is appropriately presented and disclosures are clearly expressed.	Transactions posted to an incorrect account. Inappropriate or non-understandable disclosure of financial information.
3.	Completeness:	All payroll transactions that should have been recorded are recorded.	Transactions that have been effected are not recorded or disclosed. All required disclosures have not been included in the financial statements.
4.	Compliance:	Transactions have been effected in compliance with relevant laws, legislations or regulations. Compliance with prescribed standards in terms of disclosure of assets, inventory and liabilities.	Non-compliance with relevant laws and regulations relating to the transactions. Non-compliance with prescribed standards in terms of disclosure of assets, inventory and liabilities.
5.	Cut-off:	Transactions and events have been recorded in the correct accounting period.	Transactions recorded in the incorrect period.
6.	Occurrence:	To confirm that the payroll transactions have actually occurred and pertain to the entity. Payroll transactions are for employees actually employed by the entity.	Fictitious or fraudulent transactions have been effected and recorded.
7.	Value for money:	Transactions or events relating to assets, inventory or liabilities represent the economical acquisition as well as efficient and effective use of resources.	Costly acquisition of human resources. Personnel are not utilised / not available to derive full benefit. Resources are not utilised to achieve the objectives of the entity.

B.2 AUDIT PROGRAMS FOR PERSONNEL EXPENDITURE

Sample Source	Procedure	Assertion
Recruitments		
For a sample of recruitments during the year:	Inspect whether supporting documents relating to the appointment are on the personnel file including information on all the relevant role players in the appointment process e.g. the selection committee, the official verifying the qualifications, the employee responsible for updating the HR system, etc.	Occurrence, Compliance
	Confirm that there is a signed appointment letter on the personnel file.	Occurrence
For a sample of recently filled posts during the year:	Calculate the average time taken to fill the vacant post to identify long delays. Obtain explanations for long delays and determine whether they are reasonable.	VFM
Terminations		
For a selected sample of terminations during the year:	Compare dates on discharge documentation to the system and confirm that employees were removed from the HR system before the next pay-run and that no payment occurred after the employee was no longer in service.	Occurrence
	Recalculate the final payments made with respect to terminations.	Accuracy
	Confirm that the relevant documentation i.e. letter of resignation, approved application for retirement, etc. are on the employee's personnel file.	Occurrence
Salary payments		
For a sample of employees:	Compare the basic salaries to the latest approved salary schedule.	Accuracy
For a selected sample of appointments, resignations, dismissals and retirement documentation:	Confirm that the transactions were recorded appropriately and in the correct period on the payroll system.	Completeness
For a selected sample of employees who received the following payments:	Recalculate the salary payments of an employee.	Accuracy
	Verify physically that the employee exists.	Occurrence
	Confirm that a salary is not paid twice to one employee (i.e. by checking for duplicate bank account numbers).	Occurrence
	Recalculate S&T, bursaries, bonuses to test mathematical accuracy.	Accuracy
	Compare the detailed information of the payroll run to the appropriate and approved supporting documentation for all allowances, premiums, bonuses, salaries and wages paid in kind and any deductions effected.	Accuracy, Compliance
	Confirm that all payroll transactions have been recorded in the correct accounts.	Classification
	Determine whether the award and payment of allowances, premiums, bonuses, salaries and wages paid in kind was in line with policies and procedures.	Occurrence Compliance Accuracy

Sample Source	Procedure	Assertion
	Determine whether all leave taken was appropriately documented and approved.	Compliance, Completeness
	Recalculate the leave balances at the end of the period.	Accuracy
	Determine whether annual increases were approved and correctly calculated.	Accuracy
	Recalculate any deductions effected from the employee's salary.	Accuracy
	Verify that all amounts deducted from employees were paid over to the relevant third parties.	Occurrence, Cut-off
For a selected sample of monthly payroll:	Inspect documentation to confirm that an independent reconciliation was performed between the HR system and the ledger on a regular basis. Confirm that differences were explained and rectified.	Completeness
	Confirm that the departmental officials approved the list of employees and their salary details before salaries were paid.	Occurrence, Accuracy
	Calculate the following: Gross salaries paid in previous month + Salaries for appointments – Salaries for employees left = gross salaries paid in current month. Compare amount calculated to the actual salaries amount and obtain reasons for all significant differences.	Accuracy, Occurrence
For a sample of allowances, premiums, bonuses, salaries and wages in kind, subsidies etc. inspect the relevant forms or source documents and:	Evaluate whether there are appropriate and approved underlying documentation for the payments.	Occurrence
	Check mathematical accuracy of any calculations.	Accuracy
	Compare the information contained in the supporting documentation to the amounts recorded in the payroll. Determine whether the transactions are recorded and that it is in the correct period.	Completeness
For a sample of employees receiving remuneration based on time worked:	Compare the information on the time recording system to the payroll information relating to the same period and confirm the consistency thereof.	Accuracy
Obtain a list of disciplinary cases for the year. For a sample of cases:	Confirm that the appropriate procedures were followed in accordance with legislation and the institution's policies.	Compliance

SECTION C – EXPENDITURE

C.1 AUDIT OBJECTIVES AND ERROR STATEMENTS

Assertions		Audit objectives / control objectives	Error statements
1.	Accuracy (Measurement):	Amounts and other data relating to recorded transactions and events have been recorded appropriately.	Inaccurate recording due to human errors or misstatements.
2.	Classification:	Transactions and events have been recorded in the proper accounts. Financial information is appropriately presented and disclosures are clearly expressed.	Transactions posted to an incorrect account. Inappropriate or non-understandable disclosure of financial information.
3.	Completeness:	All transactions and events that should have been recorded have been recorded. All required disclosures have been included in the financial statements.	Transactions that have been effected are not recorded or disclosed. All required disclosures have not been included in the financial statements.
4.	Compliance:	Transactions have been effected in compliance with relevant laws, legislations or regulations. Compliance with prescribed standards in terms of disclosure of assets, inventory and liabilities.	Non-compliance with relevant laws and regulations relating to the transactions. Non-compliance with prescribed standards in terms of disclosure of compensation for goods and services.
5.	Cut-off:	Transactions and events have been recorded in the correct accounting period.	Transactions recorded in the incorrect period.
6.	Occurrence:	Transactions and events that have been recorded and disclosed have occurred and pertain to the entity.	Fictitious or fraudulent transactions have been effected and recorded.
7.	Value for money:	Transactions or events relating to the acquisition of goods and services represent the economical acquisition as well as efficient and effective use of resources.	Costly acquisition of human resources. Resources are not utilised to derive full benefit. Resources are not utilised to achieve the objectives of the entity.

C.2 AUDIT PROGRAMS FOR EXPENDITURE

Sample Source	Procedure	Assertion
For a selected sample of acquisitions:	Determine whether the selected supplier was listed on the approved suppliers' list / database.	VFM
	Confirm whether quotes, tenders were invited as per appropriate legislation or policy of the institution.	Compliance
	Determine whether all supporting documents are on file, including an order form, invoice, goods received note and payment advice.	Occurrence
	Match the details on the order form, invoice, goods received note and payment advice and check consistency of quantities, amounts, date and the name of the supplier.	Accuracy, Occurrence
	Trace payment advice to the actual payment on the ledger to ensure that payment was made.	Occurrence
	Confirm that the order form and the payment advice have the signature of the properly delegated person as approval.	Occurrence
	Compare the ledger entry to the amount on the invoice and confirm that the acquisition was recorded at the correct amounts.	Accuracy
	Confirm that the payment / acquisition was allocated to the correct ledger account.	Classification
	Compare the dates on the invoice and the recording on the ledger and determine whether the transaction was recorded in the correct period and whether payment was made within a reasonable time.	Classification
	Compare the date of payment and the date for the receipt of invoice and determine whether payment was made after the due date or within a 'reasonable' time from the receipt of invoice.	Compliance, VFM
For selected period(s):	Account for the numerical sequence of the goods received notes.	Completeness
	Trace goods received notes to the ledger and determine whether all goods received were recorded.	Completeness
Tenders / bids *[More detailed procedures for compliance should be developed to cover procurement]*		
For selected sample of acquisitions where tenders/bids were invited:	Confirm that the prescribed tender procedures were adequately followed.	Compliance
	Identify whether the bid specification was approved by the delegated official.	Occurrence
	Trace the names of officials involved in the bid process to the declaration of interest document and ensure that there was no conflict of interest.	Occurrence
	Inspect documentation to confirm that the performance of the contractor was evaluated and the performance evaluation checklist was completed.	VFM
	Confirm that poor performing contractors were removed from the list of potential suppliers.	VFM

SECTION D – ASSET MANAGEMENT

D.1 AUDIT OBJECTIVES AND ERROR STATEMENTS

Assertions		Audit objectives / control objectives	Error statements
1.	Existence:	Asset, liability and equity actually exist.	Misappropriation of assets and/or inventory.
2.	Completeness: (Including cut-off)	Assets, inventory and liabilities that should have been recorded are recorded and disclosed. E.g. no items of inventory or assets have been omitted from the records.	Transactions relating to assets, inventory and liabilities are not recorded / disclosed.
3.	Compliance:	Transactions or events relating to assets, inventory or liabilities have been effected in compliance with relevant laws, legislations or regulations. Compliance with prescribed standards in terms of disclosure of assets, inventory and liabilities.	Non-compliance with relevant laws and regulations relating to the transactions. Non-compliance with prescribed standards in terms of disclosure of assets, inventory and liabilities.
4.	Rights & obligations:	Asset and inventory balances represent real assets in the possession of the institution, in respect of which the institution has the unrestricted rights of ownership and control. Liabilities represent actual obligations for the entity.	Recorded assets, inventory and liabilities are not under the ownership and control of the entity.
5.	Valuation and allocation:	To confirm that all assets and inventory are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.	Assets, inventory and/or liabilities are stated at incorrect amounts due to lack of valuations, misstatements or human errors.
6.	Value for money:	Transactions or events relating to assets, inventory or liabilities represent the economical acquisition as well as efficient and effective use of resources.	Costly acquisition of assets, inventory and loans. Resources are not utilised to derive full benefit. Resources are not utilised to achieve the objectives of the entity.

D.2 AUDIT PROGRAMS FOR ASSETS

Sample Source	Procedure	Assertion
For selected asset additions (purchases) recorded during the financial year inspect supporting documentation and confirm whether:	Motivation for the acquisition of the asset was considered where applicable.	VFM
	All supporting documentation exist (Purchase order, GRN, invoice) and supporting documentation relates to the audited entity.	Rights and Obligations
	The purchase order was approved by the delegated person.	Validity
	Assets are recorded in the ledger at the correct amounts or as per invoice.	Allocation
	Assets are recorded in the asset register and determine whether they are recorded at correct amounts and allocated appropriately.	Compliance, Allocation, Valuation, Completeness
	Assets are posted against the correct account.	Allocation
	Assets are posted in the correct period.	Allocation
	For selected asset additions reconcile entries of assets between the asset register and the general ledger. Check whether cost price, depreciation and accumulated depreciation have been consistently recorded.	Completeness
For a sample of acquisitions of goods received / goods received notes:	Trace transactions to the ledger to determine whether assets purchased were recorded.	Completeness
	Trace transactions to the asset register to determine whether assets purchased were recorded.	Completeness
For selected period(s):	Account for the numerical sequence of the goods received notes.	Completeness
Asset register		
For a sample of assets recorded in the asset register:	Inspect assets to confirm that they exist and whether they are in the identified locations.	Existence
	Confirm that the person to whom the asset is allocated is actually in control of the asset.	Existence
	Confirm that any other person using the asset has the necessary approvals.	Existence
	Confirm that the person responsible for the asset was correctly identified and recorded in the asset register.	Existence
	Recalculate depreciation by using approved depreciation rates.	Accuracy
	Confirm that the assets are used and are still required. Determine whether any scheduled maintenance was identified for the asset.	Valuation
	Confirm that scheduled or due maintenance was performed during the financial year.	Valuation
	Confirm that any repairs in the action plans as identified have been performed.	Valuation
	Determine whether assets have been revaluated as required.	Valuation
	Confirm that the assets are used to their full potential.	VFM

Sample Source	Procedure	Assertion
Physical asset count		
For a sample of differences between the physical asset count and the asset register identify whether:	Adjustments to the asset register where necessary were correctly made.	Valuation and allocation
	Adjustments were appropriately effected and approved by the relevant persons.	Valuation and allocation
Asset count documentation:	Inspect documentation and confirm that a physical asset count is performed annually.	Existence
	Observe physical asset count.	Existence
	Inspect documentation to determine whether the quantities of the physical asset count and the asset register have been reconciled and differences identified were investigated and rectified.	Existence
Losses		
For selected items included/ identified as lost and/or in the loss register:	Trace transactions to the ledger and identify whether the losses were recorded accurately and in the correct period.	Completeness, Valuation and allocation
	Trace the transactions to the asset register / inventory listing to ensure that items have been removed from the asset register / inventory listing.	Existence
	Inspect supporting documentation and identify whether appropriate steps have been taken to recover the assets.	Valuation
Sale of assets		
For a sample of assets sold during the financial period:	Trace the transaction to the ledger to determine whether the journals relating to the sale of the asset(s) have been appropriately recorded.	Valuation and allocation
	Trace the transaction to the asset register and confirm whether the asset sold has been appropriately removed from the register.	Valuation and allocation
	Review the motivation and approval of sale by the delegated person.	VFM
	Review the motivation and approval of scrapping by the delegated person.	VFM
Debtors		
For a sample of debtors balances recorded:	Identify whether the credit transaction was approved and the transaction is within the approved credit limit amount.	Existence, VFM
	Reconcile the balances, names of debtors and aging to supporting documents such as sales invoices, credit notes, etc.	Accuracy
	Confirm debtors balances by sending out requests to the debtors.	Existence, Accuracy
	Inspect documentation and determine whether debtors' balances are regularly reconciled to supporting documents.	Existence, Accuracy
From a selection of debtors on the debtors list:	Trace the names and amounts of debtors from the debtors list to the ledger.	Completeness

Sample Source	Procedure	Assertion
Review the debtors aging and:	Determine whether long outstanding debtors have been written off.	Existence
Provision for doubtful debts		
For the provision of doubtful debts as stated in the annual financial statements:	Enquire and inspect any documented and approved policy on the preferred methods of raising the provision (for example % of debtors balances or credit sales).	Accuracy
	Compare the provision to those raised in previous year and identify inconsistencies in trends and application of policies.	Accuracy
	Recalculate the provision and compare to the actual provision raised.	Accuracy, Compliance
Investments		
For a selection of investments:	Inspect investment documentation / securities and identify whether it is in the name of the entity.	Existence, Rights and obligations
	Trace investment documentation to the ledger and determine whether all investments have been recorded.	Completeness
	Compare investment income month on month and the annual figure to that of prior year and obtain explanations to significant differences.	Accuracy
	Confirm interest rates and recalculate investment income and identify reasonableness.	Accuracy
	Verify dividend income by reference to published reports of dividends.	Accuracy
Review minutes of management meetings:	Identify decisions relating to the acquisition and sale of investments.	Completeness

SECTION E – CASH AND BANK

E.1 AUDIT OBJECTIVES AND ERROR STATEMENTS

Assertions		Audit objectives / control objectives	Error statements
1.	Existence:	Recorded bank and cash balances actually exist.	Misappropriation of cash.
2.	Completeness: (Including cut-off)	Cash and bank balances that should have been recorded are recorded and disclosed. E.g. no cash and bank balances have been omitted from the records.	Transactions relating to cash and bank balances are not recorded / disclosed.
3.	Compliance:	Transactions or events relating to cash and bank balances have been effected in compliance with relevant laws, legislations or regulations. Compliance with prescribed standards in terms of disclosure of cash and bank balances.	Non-compliance with relevant laws and regulations. Non-compliance with prescribed standards in terms of disclosure of cash and bank balances.
4.	Rights & obligations:	Cash and bank balances represent actual assets for the entity.	Recorded cash and bank balances are not under the ownership and control of the entity.
5.	Valuation and allocation:	To confirm that all cash and bank balances are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.	Cash and bank balances are stated at incorrect amounts due to misstatements or human errors.
6.	Value for money:	Transactions or events relating to bank and cash represent the efficient and effective use of resources.	Resources are not utilised to derive full benefit. Resources are not utilised to achieve the objectives of the entity.

E.2 AUDIT PROGRAMS FOR CASH AND BANK

Sample Source	Procedure	Assertion
Cash		
Cash on hand:	Count cash on hand and compare the amount counted to the records of the entity.	Existence
Bank		
For selected months/period(s):	Inspect proof that bank reconciliations are performed on a regular basis (at least monthly) by a person independent from the person handling cash.	Valuation and allocation
	Re-perform the bank reconciliation.	Valuation and allocation
	Identify long outstanding reconciling items and establish whether they should have been written off.	Valuation and allocation
At period end:	Confirm bank balances with the relevant banks.	Existence, Rights and obligations, Valuation
Obtain bank statements for immediately before and after the year end and:	Trace outstanding items and establish that cheques issued and deposits immediately before year end have cleared after year end.	Valuation and allocation

SECTION F - LONG AND SHORT TERM LIABILITIES

F.1 AUDIT OBJECTIVES AND ERROR STATEMENTS

Assertions		Audit objectives / control objectives	Error statements
1.	Accuracy:	Amounts and other data relating to recorded transactions, events and provisions have been recorded appropriately.	Inaccurate recording due to human errors or misstatements.
2.	Existence:	Liability actually exists.	Misappropriation of liabilities.
3.	Completeness: (Including cut-off)	Liabilities that should have been recorded are recorded and disclosed.	Transactions relating to liabilities are not recorded / disclosed.
4.	Compliance:	Transactions or events relating to liabilities have been effected in compliance with relevant laws, legislations or regulations. Compliance with prescribed standards in terms of disclosure of liabilities.	Non-compliance with relevant laws and regulations relating to the transactions. Non-compliance with prescribed standards in terms of disclosure of liabilities.
5.	Rights & obligations:	Liabilities represent actual obligations for the entity.	Recorded liabilities are not the obligation of the entity.
6.	Valuation and allocation:	To confirm that all liabilities are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.	Liabilities are stated at incorrect amounts due to lack of valuations, misstatements or human errors.
7.	Value for money:	Transactions or events relating to liabilities represent the economical acquisition as well as efficient and effective use of resources.	Costly acquisition of loans. Resources are not utilised to derive full benefit. Resources are not utilised to achieve the objectives of the entity.

F.2 AUDIT PROGRAMS FOR LIABILITIES

Sample Source	Procedure	Assertion
Long-term Liabilities		
For a sample of loans recorded:	Confirm that the loan agreement relates to the entity.	Rights and obligations
	Confirm that the loan agreement was authorised by the delegated official and in terms of prescribed laws and regulations.	Compliance
	Confirm that the loan agreement terms were economical in terms of interest rates, etc.	Value for money
	Inspect loan agreements and compare details of principle amounts and repayments to the amounts recorded.	Existence
	Confirm with lenders (or from bank confirmations) the amount of the transaction, due date, payment details, interest payable, balances outstanding, collaterals and other terms.	Existence, Valuation
	Agree details of the payments and the outstanding balance to the confirmations and loan agreement.	Accuracy, Valuation
	Compare interest paid month on month and the annual figure to that of prior year.	Completeness
Short term liabilities / creditors		
For selected periods reconcile suppliers' statements to the payments made to ensure that payments were made:	• To the correct supplier; • At the correct amounts; and • For all the invoices appearing on the statement.	Accuracy
For a sample of the reconciling items between suppliers' statements and payments made:	Identify whether the matter has been adequately dealt with (e.g. correcting journals or payments were made).	Accuracy
	Identify any unprocessed creditor's statements and review related invoices, purchase journals, bills payable books and files for these unprocessed transactions to determine whether creditor has been recorded for the transactions.	Completeness

SECTION G - DISCLOSURE

G.1 AUDIT OBJECTIVES AND ERROR STATEMENTS

Assertions		Audit objectives / control objectives	Error statements
1.	Accuracy (Measurement):	Amounts and other data have been recorded appropriately in the financial statements.	Inaccurate recording due to human errors or misstatements.
2.	Classification:	Financial information is appropriately presented and disclosures are clearly expressed.	Inappropriate or non-understandable disclosure of financial information.
3.	Completeness:	All required disclosures have been included in the financial statements.	All required disclosures have not been included in the financial statements.
4.	Compliance:	Compliance with prescribed standards in terms of disclosure of assets, inventory and liabilities.	Non-compliance with prescribed standards in terms of disclosure of financial information.
6.	Occurrence:	Transactions and events disclosed have occurred and pertain to the entity.	Transactions disclosed are fictitious or fraudulent. Over- or understatement of financial information.
6.	Valuation and allocation:	To confirm that all information included in the financial statements are disclosed at appropriate amounts and any resulting valuation or allocation adjustments are appropriately disclosed.	Financial information disclosed in the financial statements are stated at incorrect amounts due to lack of valuations, misstatements or human errors.

G.2 AUDIT PROGRAMS FOR DISCLOSURE

Sample Source	Procedure	Assertion
Disclosure		
Trial Balance, Financial \ Statements:	Cast and cross cast the financial statements and disclosure notes.	Accuracy
	Confirm that the format of the disclosures agree to the accounting standards prescribed.	Valuations, Compliance
	Compare the financial statements to the trial balance and confirm correct allocation of amounts from the trial balance to the financial statements.	Accuracy and valuation
	Agree amounts in the notes to the financial statements and confirm that they agree to the financial statements.	Accuracy
	Confirm that the notes to the financial statements contain all the prescribed disclosures.	Compliance
	Confirm that the headings and dates on the financial statements are correct.	Classification
	Confirm that the final trial balance was used to compile the financial statements and that all transactions were therefore included.	Occurrence, accuracy
	Confirm whether all disclosure that should have been included in the financial statements have been included.	Completeness
	Confirm that all material disclosures in the financial statements have been covered by the audit.	Completeness

SECTION H - BUDGET

H.1 AUDIT OBJECTIVES AND ERROR STATEMENTS

Assertions		Audit objectives / control objectives	Error statements
1.	Accuracy (Measurement):	Amounts and other data included in the budget have been correctly recorded and calculated.	Inaccurate recording due to human errors or misstatements.
2.	Completeness:	All required information and projects have been included and were budgeted for.	All required information and projects have not been included and were not budgeted for.
3.	Compliance:	Compliance with prescribed budget procedures.	Non-compliance with prescribed budget procedures.
4.	Validity:	The annual budget and any changes thereto were appropriately authorised.	The annual budget and any changes thereto were not authorised / not authorised appropriately.

H.2 AUDIT PROGRAMS FOR BUDGET

Sample Source	Procedure	Assertion
Budget		
Budget and supporting documentation:	Confirm that the budget process was done in accordance to the prescribed procedures.	Compliance
	Recalculate the budget to confirm the accuracy thereof.	Accuracy
	Confirm that the budget was approved by the relevant legislature.	Validity
	Confirm that the supporting documentation to the budget agrees to the budgeted amounts.	Accuracy, Completeness
	Confirm that necessary approval was obtained for all over-expenditure (if applicable).	Validity
	Inspect the budget allocations and confirm that budgeted funds were not re-allocated to other programmes without the necessary approval.	Compliance

ANNEXURE C – STANDARD CONFIRMATION LETTERS

C.1 DEBTORS' CONFIRMATION

CONFIRMATION OF DEBTORS ACCOUNT

....

....

....
(Name and address of debtor)

Sir/Madam,

CONFIRMATION OF ACCOUNT FOR AUDIT PURPOSES

Kindly check the attached statement as at....................................... 20........ carefully.

Please indicate below if you agree with this balance and send this request in the enclosed envelope back to us.

Your co-operation will be highly appreciated.

Yours sincerely

....
AUDITOR GENERAL

===

CONFIRMATION OF ACCOUNT TO THE AUDITORS

Our records show a balance of ERN............................ on the above-mentioned date due to your audited entity. The difference (if any) between our records and the balance per attached statement is due to the following.

....

....

....

....	....	....
Signature	**Capacity**	**Date**

===

C.2 BANK CONFIRMATION

Audit Manager

Date

Dear Sirs,

BANK CONFIRMATION: (Name of entity)

Year/Period (specify) ended

For audit purpose, (and in terms of the authority attached/ annual authority/ standing authority (specify) from the above-mentioned entity dated ....) kindly complete the enclosed certificate relating to my above-mentioned audited entity as at the close of business on .... 20.....

Kindly return the attached certificate, duly completed, together with the relevant information, directly to this Office. In the event of the information requested not being applicable, please indicate as such in your reply.

This request is in accordance with Statement on Auditing Standards AU 252, issued by the South African Institute of Chartered Accountants, and is in the standardised format agreed with the Council of South African Banks.

Yours faithfully

Auditor General

Dear Sir,

BANK CONFIRMATION (Name of customer)____________________________

According to our records at the close of business on .... 20...... :

1. All balances on Cheque, Deposit, Savings Bank, Dividend, Loans, Advances and other accounts of the above-mentioned customer were:

(Balances favourable to the customer)

Balance	Type of Account	Account number	Interest where applicable		
			Rate	Period	Paid to (date)
	--------------------	--------------------		--------------------	
	--------------------	--------------------		--------------------	
	--------------------	--------------------		--------------------	
	--------------------	--------------------		--------------------	
	--------------------	--------------------		--------------------	

Details of <u>Pledged/Ceded</u> credit balances, deposits, etc. due are as follows:

____
____

____
____

____
____

(Balances favourable to the bank)

Balance	Type of Account	Account number	Indicate if Secured (see below)	Repayment Terms	Interest				
					Current Rate	Fac	Value	Period	Account Debited with interest
	---------------	---------------						----------	
	---------------	---------------						----------	
	---------------	---------------						----------	
	---------------	---------------						----------	
	---------------	---------------						----------	

The balances indicated above as being <u>secured</u>, were secured as follows:

Are you aware of any other bank accounts operated by the entity at the bank which has not been listed above?

YES/NO

If YES, please furnish details:

Balance	Type of Account	Account number	Interest where applicable		
			Rate	Period	Paid to (date)
	--------------------	--------------------		--------------------	
	--------------------	--------------------		--------------------	
	--------------------	--------------------		--------------------	
	--------------------	--------------------		--------------------	
	--------------------	--------------------		--------------------	

2. Are there

(i) any agreements between yourself and the borrower, limiting its total borrowings?

YES/NO

(ii) any other covenants restricting its ability to borrow or requiring it to adhere to certain prescribed balance sheet ratios?

YES/NO

If YES, specify.

3. Details of total facilities and the date for review thereof are as follows:

Details: ____

Date of review: ____________________

4. The following accounts were closed during the year/period (specify) ended on the above date:

Type of account	**Account number**	**Date of closure**
____________________	____________________	____________________
____________________	____________________	____________________

5. Details of and reasons for securities in safe custody for the customer and free of any known charge or liens are:

Details: ____

____

Reasons: ____

____

Details of and reasons for securities lodged by the customer in support of liabilities other than that indicated in Item 1, are:

Details: ____

____

Reasons: ____

____

The above securities were registered in the customer's name, with the exception of:

____

____

6. The total of bills held for collection, in safe custody for the customer or as security was ERN................ . We confirm that the total is made up in accordance with the schedule furnished to us by you, a copy of which we return to you herewith duly authenticated, and that no other bills are held in safe custody for the customer.

4/5

7. The bills, detailed in 6 above, were encumbered or pledged as security for:

____

____

8. The total contingent liabilities of the customer in respect of bills receivable, discounted but not yet due for payment was ERN................ . We confirm that the total is made up in accordance with the schedule furnished to us by yourselves, a copy of which we return herewith duly authenticated, and that the customer has no further contingent liabilities to the bank in respect of discounted bills receivable.

9. Other direct or contingent liabilities of the customer in respect of forward contracts entered into on his behalf amounted to ERN.............. , made up as follows:

FEC number	Amount in Rands	Amount in foreign currency	Period	Buying/Selling

Are you aware of any other forward contracts not listed above?

YES/NO

If YES, specify.

____

____

10. Other direct or contingent liabilities of the customer were as follows:

10.1 Guarantees, were as follows:

____

____

10.2 Acceptances undertaken on behalf of the client, amount to ERN.............. , made up as follows:

____

____

10.3 Derivative Positions, amounting to ERN.............. , made up as follows:

____

____

10.4 Other, amounting to ERN.............. , made up as follows:

____

____

11. The authorised signatories on the customer's accounts listed above were:

12. Does the customer operate a cash management system at the bank? If so, specify list of names and number of each account included in such system during the year.

Name	**Number**

13. Do you hold documentation with regard to power of attorney (other than for security) from the audited entity in your favour or in favour of a third party? If so, specify:

____

____

Yours faithfully,

Bank : ____________________________

Authorised Signatory : ____________________________

Date : ____________________________

The Manager

Date

Dear Sirs,

(Name of entity) ____

Year/Period (specify) ended ______________________

As an authorised signatory of the above entity, I hereby authorise .... (Name of Bank) to:

* Release the information as requested by the auditors.
* Debit the .... (specify) account of .... (Name of client) with the costs related to providing the information requested.

Yours faithfully

____

Authorised Signatory

C.3 CASH COUNT

1. Physical count

Particulars		ERN	c
ERN 200	X		
ERN 100	X		
ERN 50	X		
ERN 20	X		
ERN 10	X		
ERN 5	X		
ERN 2	X		
ERN 1	X		
50c	X		
20c	X		
10c	X		
5c	X		
2c	X		
1c	X		
	Total money:		
Plus:*			
Cheques			
Unrecorded expenses			
Money orders, postal orders and postage stamps			
Other			
	Total:		

Certificate of person in control of cash:

I agree with the cash count as set out above. All the cash and cash items were counted by me/in my presence and handed back to me in full. There are no other funds in my possession for which I am accountable / responsible.

Signed **Date**

Capacity

2. Analysis of miscellaneous cash items

(i) Particulars of cheques included in cash count

Name of drawer	Receipt No.	Date received	Amount
		Total ERN	

(ii) Particulars of unrecorded expenditure

Paid to	Reason	Date	Amount
		Total ERN	

(iii) Particulars of face value forms included in cash count

Type of form	No. from	No. to	Amount
		Total ERN	

(iv) Particulars of other funds included in count

Particulars	Amount

Total ERN	

3. Reconciliation of theoretical and actual cash on hand

	ERN	c
Theoretical cash		
Balance per petty cash book		
Cash advance		
Cash receipts not banked **		
Unrecorded cash receipts **		
Other (specify) **		
Total of theoretical cash		
Total of actual cash (see point 1 above)		
Difference		
Reason for difference:		
Adjusting action:		

** Give full particulars of these items with specific reference to receipt numbers of the last cash receipt banked and last receipt number recorded. Full particulars of any other funds taken into account with the reconciliation must also be furnished.

....

Signature responsible officer **Date**

....	....
Signature of person in control of cash	**Date**

ANNEXURE D – GUIDANCE ON THE AUDIT DIFFERENCES WORKING PAPER

What should be recorded on the Audit differences working paper?

- Planning materiality;
- Final materiality;
- Reason for adjusting overall materiality;
- Specific quantifiable errors and misstatements identified by the auditor for each audited component.
- Adjusting journal entries
- Other qualitative audit findings such as internal control weaknesses etc.
- Conclusions regarding the impact the audit findings have on the audit opinion.

How to complete the Audit Summary Memorandum working paper for individual components?

- Document the error as if an adjusting journal entry is processed; and
- Ensure that these journals are included and cross-referenced to the Audit differences working paper for the audit.

How to complete the Audit differences working paper?

- Document any changes to the planning (overall) materiality and reasons why it may be necessary to change overall materiality;
- Document the errors / misstatements found during the audit as per Audit Summary Memorandum of individual audit areas. Think of the adjusting journal entries and include a debit and credit for each error / misstatement. Accumulate errors / misstatements for audit components which have similar nature (expenditure, revenue, assets, liabilities etc.). As profit is not a meaningful figure in government we do not set off errors / misstatements between revenue and expenditure.
- Insert columns for each audited component with audit findings. You may group similar items such as revenues / expenditures etc. together. Insert components under the applicable income statement or specific balance sheet heading;
- Insert corrective journal entries passed by the auditee to correct errors on the financial statements.
- Adjusting journal entries are recorded in the Audit Summary Memorandum and brought over to the Audit differences working papers;
- Cross reference the adjusting journals to the supporting documentation;
- Calculate net effect after the adjustments on the individual components, the income statement and balance sheet items.
- Remember that journals may be passed to correct errors / misstatements, but they do not solve the problem of system weaknesses and non-compliance with laws and regulations. These issues may still be considered for the auditor's report.

Concluding on the impact audit findings may have on the auditor's report and audit opinion

- The aggregate of unadjusted errors and misstatements should be compared against the final overall materiality figure;
- Evaluate qualitative materiality factors against the findings;
- Indicate whether the audit finding is going to be included in the auditor's report and whether it is a qualification issue.

ANNEXURE E – FRAUD RISKS AND SUGGESTED CONTROLS FOR SELECTED AUDIT AREAS

Risks associated with assets

Risks in this area include use of assets for personal gain, or misappropriation of assets. This section suggests some controls, which should be in place to counter those risks.

How fraud could be committed	Examples of suggested controls
Theft or unauthorized use of assets	1. Asset register to be maintained up to date. 2. Inventories to be used, where possible, and assets assigned to individual budget centers 3. There is adequate definition of assets on the asset register 4. Asset marking to be carried out where possible 5. Physical security of assets to be maintained 6. Spot checks on existence of assets to be carried out on a regular basis 7. Details of proposed sales, expected price and date of sale and results are reviewed and approved prior to sale and results are followed up in terms of price achieved and prompt banking of income

Risks associated with sensitive information

The final section deals with some of the controls which should be in place to reduce the threat of fraud or other irregularities arising from access to sensitive information or misuse of information for private gain.

How fraud could be committed	Examples of suggested controls
Theft or sale of sensitive/restricted documentation or information	1. Controls over third party information held on computer should comply with the legal requirements; staff should be informed of the rules 2. Official documentation should be held securely 3. Vetting of staff should be of an appropriate level depending on the nature of the post held 4. Access to computer records should be logged and spot checks made to confirm that there were valid reasons for any unusual accesses

Risk situations in specific areas

Motor Vehicles & Fuel

Risks	**Possible Offence/s**	**Contributing Factors**	**Consequence s/Impact**
Unauthorized use of motor vehicles for private pur-poses Theft or exchange of accessories/	Theft, misappropriation or fraudulent conversion Unlawfully removing	Use of vehicles not properly recorded Incorrect details en-tered on log books/	Extra cost for early replace-ment of vehicle(s) and/or parts

Risks	Possible Offence/s	Contributing Factors	Consequence s/Impact
equipment, or tools Theft of vehicles from government or private pre-mises (home garaging) Theft of fuel (from government bowlers, vehicles) Use of government fuel-card to purchase fuel for personal use Installation or fitting of expensive and/or unnecessary accessories & parts prior to sale (with an interest in purchasing vehicle at auction) Temporary exchange of government licence plate with private plate (for personal use)	property False representation	running sheets Insufficient checks of log books/running sheets by Managers Insufficient monitoring (comparison) of vehicle usage and work commitments by Managers & Supervisors Insecure garaging of vehicles Culture of 'ownership' of vehicles by particular users Insufficient stock takes of vehicles and accessories Inadequate control and security of spare parts, accessories and tools Inadequate use of exception reporting for fuel purchases Poor reconciliation of fuel purchases against recorded official travel	Increased running costs (especially for tires and fuel) Staff down-time (time wasted on private business) Public and political criticism (waste and misuse of government resources) Possible injury (or death) sustained by unauthorized passenger Possible injury (or death) of offending driver or member of the public

Petty Cash

Risks	Possible Offence/s	Contributing Factors	Consequences/ Impact
Theft of cash Use of petty cash for private purposes Submission of false petty cash claims	Theft, misappropriation or fraudulent conversion Unlawful removal of property Fraud Falsification of books or records	Inadequate monitoring of claims by Managers Payment of claims without receipts Payment of claims without authorization Lack of independent reconciliation of petty cash claims and associated vouchers Inadequate physical security of petty cash	Financial loss to government

Materials, Stores, Tools & Equipment

Risks	Possible Offence/s	Contributing Factors	Consequences/ Impact
Unauthorized use of tools and equipment (includes 'borrowing') Use of tools or equipment for private purposes (including computers, facsimile machines & photocopiers) Theft of goods/stores (particularly portable and attractive items) Unauthorized sale of assets (including disposal) for personal gain Using agency postage facilities to send personal mail Misuse of Equipment/facilities	Unlawful removal of property False Representation Theft, fraudulent misappropriation or fraudulent conversion	Inadequate physical security Inadequate stock takes Nil or inadequate asset register/s Inadequate purchase and disposal records Poor control over usage – inadequate movement records Failure to brand or record identification details of asset Culture of 'borrowing' material, tools and equipment Lack of instructions regarding use of	Extra expenditure replacing lost or stolen items/equipment Disruption to agency activities when missing items are needed and have to be replaced Affects credibility/ reputation of agency Lost work time Increased expenditure (stationery/stamps/ telephone calls) Possible

Risks	Possible Offence/s	Contributing Factors	Consequences/ Impact
(computers, fax, phone, and mail)		assets Poor control over usage Inadequate monitoring of usage records	disruption to other users Increases cost of service provision (and affects life of product)

Revenue (Cash Collections)

Risks	Possible Offence/s	Contributing Factors	Consequences/ Impact
• Theft of cash • False invoices • False receipts • Borrowing money from a cash advance • Manipulating system information (includes false entries, altering data etc)	• False pretences • False representation • Fraud • Theft, misappropriation or conversion • Falsification of books or records by public employees • False returns or certificates by public employees • Damaging data in computers • Dishonest use of computers	• Inadequate procedures • Inadequate checking processes • Inadequate separation of duties • Failure to deposit cash quickly • Failure to restrictively endorse cheques on receipt	• Political and/or public criticism • Loss of revenue • Unwanted media attention • Investigation & prosecution costs

GLOSSARY

Term	Explanation
Access controls	Procedures designed to restrict access to on-line terminal devices, programs and data. Access controls consist of "user authentication" and "user authorization." "User authentication" typically attempts to identify a user through unique logon identifications, passwords, access cards or biometric data. "User authorization" consists of access rules to determine the computer resources each user may access. Specifically, such procedures are designed to prevent or detect: (a) Unauthorized access to on-line terminal devices, programs and data; (b) Entry of unauthorized transactions; (c) Unauthorized changes to data files; (d) The use of computer programs by unauthorized personnel; and (e) The use of computer programs that have not been authorized.
Accounting estimate	An approximation of the amount of an item in the absence of a precise means of measurement.
Accounting records	Generally include the records of initial entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers; journal entries and other adjustments to the financial statements that are not reflected in formal journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.
Accruals Accounts	A financial statement that discloses payments in the period they are incurred and income in the period it is earned.
Adverse opinion	(see Modified auditor's report)
Agreed-upon procedures engagement	An engagement in which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures may misinterpret the results.
Analytical procedures	Evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.
Annual report	A document issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor's report thereon.
Applicable financial reporting framework	The financial reporting framework adopted by management in preparing the financial statements that the auditor has determined is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulations.
Application controls in information technology	Manual or automated procedures that typically operate at a business process level. Application controls can be preventative or detective in nature and are designed to ensure the integrity of the accounting records. Accordingly, application controls relate to procedures used to initiate, record, process and report transactions or other financial data.
Appropriateness	The measure of the quality of evidence, that is, its relevance and reliability in providing support for, or detecting misstatements in, the classes of transactions, account balances, and disclosures and related assertions.
Assertions	Representations by management, explicit or otherwise, that are embodied in the financial statements.
Assess	Analyze identified risks of to conclude on their significance. "Assess," by

Term	Explanation
	convention, is used only in relation to risk. (also see Evaluate)
Assistants	Personnel involved in an individual audit other than the auditor.
Association	(see Auditor association with financial information)
Assurance	(see Reasonable assurance)
Assurance engagement	An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria (also see Subject matter information). Under the "International Framework for Assurance Engagements" there are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. *Reasonable assurance engagement* The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion. *Limited assurance engagement* The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.
Assurance engagement risk	The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.
Attendance	Being present during all or part of a process being performed by others; for example, attending physical inventory taking will enable the auditor to inspect inventory, to observe compliance of management's procedures to count quantities and record such counts and to test-count quantities.
Audit components	Types of transaction or account balance subject to similar internal controls or risks. For instance, "salaries", "purchases" and "income from fees and charges".
Audit documentation	The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).
Audit evidence	All of the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence includes the information contained in the accounting records underlying the financial statements and other information.
Audit firm	(see Firm)
Audit matters of governance interest	Those matters that arise from the audit of financial statements and, in the opinion of the auditor, are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. Audit matters of governance interest include only those matters that have come to the attention of the auditor as a result of the performance of the audit.
Audit of financial statements	The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. An audit of financial statements is an assurance engagement (see Assurance engagement).
Audit objectives	The specific objectives of an audit are to test "Audit Assertions".

Term	Explanation
Audit opinion	(see Opinion)
Audit Procedures	Instructions for auditors in order to gather evidence. Comprises of substantive procedures, analytical procedures and tests of controls.
Auditor's report	The auditors' opinion as to whether or not the financial statements, in all material respects, fairly present the results of operations of the audited entity in accordance with the prescribed accounting practice and in the manner required by the relevant act. An opinion is expressed as to whether or not anything came to the auditors' attention that causes them to believe that material non-compliance with laws and regulations, applicable to financial matters, had occurred.
Audit risk	Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risk of material misstatement (or simply, the "risk of material misstatement") (i.e., the risk that the financial statements are materially misstated prior to audit) and the risk that the auditor will not detect such misstatement ("detection risk").
Audit sampling	The application of audit procedures to less than 100% of items within an account balance or class of transactions such that all sampling units have a chance of selection. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can use either a statistical or a non-statistical approach. *Non-statistical sampling* Any sampling approach that does not have the characteristics of statistical sampling. *Population* The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions. A population may be divided into strata, or sub-populations, with each stratum being examined separately. The term population is used to include the term stratum. *Sampling risk* Arises from the possibility that the auditor's conclusion, based on a sample may be different from the conclusion reached if the entire population were subjected to the same audit procedure. *Sampling unit* The individual items constituting a population, for example checks listed on deposit slips, credit entries on bank statements, sales invoices or debtors' balances, or a monetary unit. *Statistical sampling* *[the approach in this manual does not deal with principles of statistical sampling]* Any approach to sampling that has the following characteristics: (a) Random selection of a sample; and (b) Use of probability theory to evaluate sample results, including measurement of sampling risk. *Stratification* The process of dividing a population into subpopulations, each of which is a group of sampling units which have similar characteristics (often monetary

Term	Explanation
	value). *Tolerable error* The maximum error in a population that the auditor is willing to accept. *Total error* Either the rate of deviation or total misstatement.
Audit trail	The means by which individual transactions can be traced from their origins to the general ledger and financial statements, and which allows figures in financial statement to be analysed into individual transactions. Establishing audit trails is the responsibility of management.
Auditee	The audited entity
Auditor	Auditor – "Auditor" is used to refer to the person or persons conducting the audit, usually the Auditor-General or person who is delegated to sign the auditor's report, the other members of the engagement team, or, as applicable, the entire Supreme Audit Institution (SAI). *Existing auditor* The auditor of the financial statements of the current period. *External auditor* Where appropriate the term "external auditor" is used to distinguish the external auditor from an internal auditor. *Incoming auditor* The auditor of the financial statements of the current period, where either the financial statements of the prior period have been audited by another auditor (in this case the incoming auditor also known as a successor auditor), or the audit is an initial audit engagement. *Internal auditor* A person performing an internal audit. *Other auditor* An auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component, which is included in the financial statements audited by the principal auditor. Other auditors include affiliated firms, whether using the same name or not, and correspondents, as well as unrelated auditors. *Predecessor auditor* The auditor who was previously the auditor of an entity and who has been replaced by an incoming auditor. *Principal auditor* The auditor with responsibility for reporting on the financial statements of an entity when those financial statements include financial information of one or more components audited by another auditor.
Auditor association with financial information	An auditor is associated with financial information when the auditor attaches a report to that information or consents to the use of the auditor's name in a professional connection.
Cash accounts	A kind of financial statement which discloses payments in the period they are

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	made and income in the period it is received. Different from accruals accounts.
Comparatives	Comparatives in financial statements, may present amounts (such as financial position, results of operations, cash flows) and appropriate disclosures of an entity for more than one period, depending on the framework. The frameworks and methods of presentation are as follows: (a) Corresponding figures where amounts and other disclosures for the preceding period are included as part of the current period financial statements, and are intended to be read in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). These corresponding figures are not presented as complete financial statements capable of standing alone, but are an integral part of the current period financial statements intended to be read only in relationship to the current period figures. (b) Comparative financial statements where amounts and other disclosures for the preceding period are included for comparison with the financial statements of the current period, but do not form part of the current period financial statements.
Comparative financial statements	(see Comparatives)
Compilation engagement	An engagement in which accounting expertise, as opposed to auditing expertise, is used to collect, classify and summarize financial information.
Component	A division, branch, subsidiary, joint venture, associated company or other entity whose financial information is included in financial statements audited by the principal auditor.
Component of a complete set of financial statements	The applicable financial reporting framework adopted in preparing the financial statements determines what constitutes a complete set of financial statements. Components of a complete set of financial statements include: a single financial statement, specified accounts, elements of accounts or items in a financial statement.
Comprehensive basis of accounting	A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support.
Computer-assisted audit techniques	Applications of auditing procedures using the computer as an audit tool (also known as CAATs).
Computer information systems (CIS) environment	Exists when a computer of any type or size is involved in the processing by the entity of financial information of significance to the audit, whether that computer is operated by the entity or by a third party.
Confirmation	A specific type of inquiry that is the process of obtaining a representation of information or of an existing condition directly from a third party.
Control activities	Those policies and procedures that help ensure that management directives are carried out. Control activities are a component of internal control.
Control environment	Includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment is a component of internal control.
Control Procedures	The policies and procedures adopted by an entity's management to protect against fraud, losses, illegality or error, and to achieve its objectives. Control procedures may prevent illegality or error (such as a requirement for two authorising signatures before the entity purchases items above a stated value), or enable the entity to detect and correct them (reconciliations for instance).
Control risk	(see risk of material misstatement)

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Corresponding figures	(see Comparatives)
Criteria	The benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria can be formal or less formal. There can be different criteria for the same subject matter. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. *Suitable criteria* Exhibit the following characteristics: (a) Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users; (b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure; (c) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners; (d) Neutrality: neutral criteria contribute to conclusions that are free from bias; and (e) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.
Current file	Includes all the working papers applicable to the current audit year. For instance, it includes the planning memorandum, audit programme, and the results of audit tests.
Current period figures	Amounts and other disclosures relating to the current period.
Database	A collection of data that is shared and used by a number of different users for different purposes.
Date of the financial statements	The date of the end of the latest period covered by the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.
Date of approval of the financial statements	The date on which those with the recognized authority assert that they have prepared the entity's complete set of financial statements, including the related notes, and that they have taken responsibility for them. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that a complete set of financial statements has been prepared, and specifies the necessary approval process. In other jurisdictions, the approval process is not prescribed in law or regulation and the entity follows its own procedures in preparing and finalizing its financial statements in view of its management and governance structures. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of the ISSAIs is the earlier date on which those with the recognized authority determine that a complete set of financial statements has been prepared.
Date of the auditor's report	The date selected by the auditor to date the report on the financial statements. The auditor's report is not dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on

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	the financial statements. Sufficient appropriate audit evidence includes evidence that the entity's complete set of financial statements has been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.
Date the financial statements are issued	The date that the auditor's report and audited financial statements are made available to third parties, which may be, in many circumstances, the date that they are filed with a regulatory authority.
Detection risk	The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
Disclaimer of opinion	(see Modified auditor's report)
Double entry accounting	An accounting practice that requires that for any accounting entry, there is a matching debit and credit recorded in the general ledger
Electronic Data Interchange (EDI)	The electronic transmission of documents between organizations in a machine-readable form.
Emphasis of matter paragraph(s)	(see Modified auditor's report)
Employee fraud	Fraud involving only employees of the entity subject to the audit.
Encryption (cryptography)	The process of transforming programs and information into a form that cannot be understood without access to specific decoding algorithms (cryptographic keys). For example, the confidential personal data in a payroll system may be encrypted against unauthorized disclosure or modification. Encryption can provide an effective control for protecting confidential or sensitive programs and information from unauthorized access or modification. However, effective security depends upon proper controls over access to the cryptographic keys.
Engagement documentation	The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are sometimes used). The documentation for a specific engagement is assembled in an engagement file.
Engagement letter	An engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.
Engagement quality control review	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement quality control reviewer	A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement team	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
Entity's risk assessment process	A component of internal control that is the entity's process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.
Environmental matters	(a) Initiatives to prevent, abate, or remedy damage to the environment, or to deal with conservation of renewable and non-renewable resources (such initiatives may be required by environmental laws and regulations or by contract, or they may be undertaken voluntarily); (b) Consequences of violating environmental laws and regulations;

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	(c) Consequences of environmental damage done to others or to natural resources; and (d) Consequences of vicarious liability imposed by law (for example, liability for damages caused by previous owners).
Environmental performance report	A report, separate from the financial statements, in which an entity provides third parties with qualitative information on the entity's commitments towards the environmental aspects of the business, its policies and targets in that field, its achievement in managing the relationship between its business processes and environmental risk, and quantitative information on its environmental performance.
Environmental risk	In certain circumstances, factors relevant to the assessment of inherent risk for the development of the overall audit plan may include the risk of material misstatement of the financial statements due to environmental matters.
Error	An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.
Evaluate	Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. "Evaluation," by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management's response to a risk. (also see Assess)
Existing auditor	(see Auditor)
Expected error	(see Audit sampling)
Experienced auditor	An individual (whether internal or external to the firm) who has a reasonable understanding of: (a) Audit processes; (b) ISSAIs and applicable legal and regulatory requirements; (c) The business environment in which the entity operates; and (d) Auditing and financial reporting issues relevant to the entity's industry.
Expert	A person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing.
External audit	An audit performed by an external auditor.
External auditor	(see Auditor)
External confirmation	The process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Financial Audit	An audit that aims to give an opinion on whether financial statements are complete and accurate, and on whether transactions are legal and regular (accord with relevant laws and regulations). Audit of entity's compliance with laws and regulations (regularity) is therefore part of financial audit.
Financial Control	Internal controls intended to help entities minimise their exposure to avoidable financial risks and ensure that financial information is reliable. Financial controls include control procedures intended to help the entity maintain proper accounting records, safeguard assets, and prevent and detect fraud.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework (such as IPSAS), but can also refer to a single financial

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	statement.
Firewall	A combination of hardware and software that protects a WAN, LAN or PC from unauthorized access through the Internet and from the introduction of unauthorized or harmful software, data or other material in electronic form.
Firm	A sole practitioner, partnership or corporation or other entity of professional accountants.
Forecast	Prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Two types of intentional misstatement are relevant to the auditor: misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets (also see Fraudulent financial reporting and Misappropriation of assets).
Fraudulent financial reporting	Involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users.
Financial reporting framework	The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation. The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and: (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.
General IT-controls	Polices and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General IT-controls commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.
General Ledger	An entity's accounting record that holds details of individual transactions processed. General ledger accounts typically group transactions e.g. salaries.
Going concern assumption	Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.
General purpose financial statements	Financial statements prepared in accordance with a financial reporting framework that is designed to meet the common information needs of a wide range of users.
Government business enterprises	Businesses that operate within the public sector ordinarily to meet a political or social interest objective. They are ordinarily required to operate commercially, that is, to make profits or to recoup, through user charges a substantial

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	proportion of their operating costs.
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Independence	Comprises: (a) Independence of mind—the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and (b) Independence in appearance—the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.
Information system relevant to financial reporting	A component of internal control that includes the financial reporting system, and consists of the procedures and records established to initiate, record, process and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities and equity.
Inherent risk	(see risk of material misstatement)
Initial audit engagement	An audit engagement in which either the financial statements are audited for the first time; or the financial statements for the prior period were audited by another auditor.
Inquiry	Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.
Inspection (as an audit procedure)	Examining records or documents, whether internal or external, or tangible assets.
Interim financial information or statements	Financial information (which may be less than a complete set of financial statements as defined above) issued at interim dates (usually half-yearly or quarterly) in respect of a financial period.
Internal audit	An appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.
Internal auditor	(see Auditor)
Internal control	The process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Internal control consists of the following components: (a) The control environment; (b) The entity's risk assessment process; (c) The information system, including the related business processes, relevant to financial reporting, and communication; (d) Control activities; and (e) Monitoring of controls.
Investigate	Inquire into matters arising from other procedures to resolve them.
IT environment	The policies and procedures that the entity implements and the IT infrastructure (hardware, operating systems, etc.) and application software that it uses to support business operations and achieve business strategies.
Limited assurance engagement	(see Assurance engagement)

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Limitation on scope	A limitation on the scope of the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). A scope limitation may be imposed by circumstances (for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed desirable.
Local Area Network (LAN)	A communications network that serves users within a confined geographical area. LANs were developed to facilitate the exchange and sharing of resources within an organization, including data, software, storage, printers and telecommunications equipment. They allow for decentralized computing. The basic components of a LAN are transmission media and software, user terminals and shared peripherals.
Management	The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board.
Management fraud	Fraud involving one or more members of management or those charged with governance.
Management representations	Representations made by management to the auditor during the course of an audit, either unsolicited or in response to specific inquiries.
Material	A matter is material if knowledge of it would be likely to influence the user of the financial statements.
Material inconsistency	Exists when other information contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.
Material misstatement of fact	Exists in other information when such information, not related to matters appearing in the audited financial statements, is incorrectly stated or presented.
Material weakness	A weakness in internal control that could have a material effect on the financial statements.
Materiality	Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cutoff point rather than being a primary qualitative characteristic which information must have if it is to be useful.
Misappropriation of assets	Involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more capable of disguising or concealing misappropriations in ways that are difficult to detect.
Misstatement	A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. Where 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 adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to

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	give a true and fair view
Modified auditor's report	An auditor's report is considered to be modified if either an emphasis of matter paragraph(s) is added to the report or if the opinion is other than unqualified: *Matters that Do Not Affect the Auditor's Opinion* Emphasis of matter paragraph(s)—An auditor's report may be modified by adding an emphasis of matter paragraph(s) to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph(s) does not affect the auditor's opinion. The auditor may also modify the auditor's report by using an emphasis of matter paragraph(s) to report matters other than those affecting the financial statements. *Matters that Do Affect the Auditor's Opinion* Qualified opinion—A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. Disclaimer of opinion—A disclaimer of opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements. Adverse opinion—An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.
Monetary Unit Sample	A method of sampling transactions for direct substantive procedures whereby a relatively high value item is more likely to appear in the sample than a lower value item.
Monitoring (in relation to quality control)	A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
Monitoring of controls	A process to assess the effectiveness of internal control performance over time. It includes assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions. Monitoring of controls is a component of internal control.
Non-compliance	Refers to acts of omission or commission by the entity being audited, either intentional or unintentional that are contrary to the prevailing laws or regulations.
Non-sampling risk	(see Audit sampling)
Non-statistical sampling	(see Audit sampling)
Objective	See Audit Objectives.
Observation	Consists of looking at a process or procedure being performed by others, for example, the observation by the auditor of the counting of inventories by the entity's personnel or the performance of control activities.
Opening balances	Those account balances which exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions of prior periods and accounting policies applied in

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	the prior period.
Opinion	The auditor's report contains a clear written expression of opinion on the financial statements. An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (also see Modified auditor's report)
Other auditor	(see Auditor)
Other information	Financial or non-financial information (other than the financial statements or the auditor's report thereon) included – either by law or custom – in the annual report.
Overall audit strategy	Sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.
PCs or personal computers (also referred to as microcomputers)	Economical yet powerful self-contained general purpose computers consisting typically of a monitor (visual display unit), a case containing the computer electronics and a keyboard (and mouse). These features may be combined in portable computers (laptops). Programs and data may be stored internally on a hard disk or on removable storage media such as CDs or floppy disks. PCs may be connected to on-line networks, printers and other devices such as scanners and modems.
Permanent file	Contains information about the audited entity of continuing interest and relevance from year to year. For instance, this file contains the entity's legal framework, and working papers setting out previous years' assessment of inherent risk and control risk.
Planning	Involves establishing the overall audit strategy for the engagement and developing an audit plan, in order to reduce audit risk to an acceptably low level.
Population	(see Audit sampling)
Principal auditor	(see Auditor)
Professional judgment	The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
Professional skepticism	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
Professional standards	IAASB engagement standards, as defined in the IAASB's "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services," and relevant ethical requirements, which ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants and relevant national ethical requirements.
Programming controls	Procedures designed to prevent or detect improper changes to computer programs that are accessed through on-line terminal devices. Access may be restricted by controls such as the use of separate operational and program development libraries and the use of specialized program library software. It is important for on-line changes to programs to be adequately documented, controlled and monitored.
Public sector	National governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions and enterprises).
Qualified opinion	(see Modified auditor's report)
Quality controls	The policies and procedures adopted by a firm designed to provide it with reasonable assurance that the firm and its personnel comply with professional

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	standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.
Reasonable assurance (in the context of quality control)	A high, but not absolute, level of assurance.
Reasonable assurance (in the context of an audit engagement)	A high, but not absolute, level of assurance, expressed positively in the auditor's report as reasonable assurance, that the information subject to audit is free of material misstatement.
Reasonable assurance engagement	(see Assurance engagement)
Recalculation	Consists of checking the mathematical accuracy of documents or records.
Reconciliations	Where entity officials compare two pieces of financial data, or financial and non-financial data, to ensure complete and accurate processing of transactions. For instance, comparing ("reconciling") a bank statement with internal records of payments made or money received, establishing the reasons for any difference, and making corrections where differences have been caused by incomplete or inaccurate processing. A kind of control procedure.
Regularity Audit	An audit that aims to assess whether transactions accord with relevant laws and regulations. Part of Financial Audit
Related party	A party is related to an entity if: (a) Directly, or indirectly through one or more intermediaries, the party: i. Controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); ii. Has an interest in the entity that gives it significant influence over the entity; or iii. Has joint control over the entity; (b) The party is an associate (as defined in IAS 28, "Investments in Associates") of the entity; (c) The party is a joint venture in which the entity is a venturer (see IAS 31, "Interest in Joint Ventures"); (d) The party is a member of the key management personnel of the entity or its parent; (e) The party is a close member of the family of any individual referred to in (a) or (d); (f) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or (g) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.
Related party transaction	A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
Related services	Comprise agreed-upon procedures and compilations.
Re-performance	The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal controls, either manually or through the use of CAATs.
Responsible party	The person (or persons) who: (a) In a direct reporting engagement, is responsible for the subject matter; or (b) In an assertion-based engagement, is responsible for the subject matter information (the assertion), and may be responsible for the subject matter.

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	The responsible party may or may not be the party who engages the practitioner (the engaging party).
Review (in relation to quality control)	Appraising the quality of the work performed and conclusions reached by others.
Review engagement	The objective of a review engagement is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review procedures	The procedures deemed necessary to meet the objective of a review engagement, primarily inquiries of entity personnel and analytical procedures applied to financial data.
Risk assessment procedures	The audit procedures performed to obtain an understanding of the entity and its environment, including its internal control, to assess the risks of material misstatement at the financial statement and assertion levels.
Risk of material misstatement	Risk of material misstatement is the risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level: (i) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls. (ii) Control risk – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.
Sampling risk	(see Audit sampling)
Sampling unit	(see Audit sampling)
Scope of an audit	The audit procedures that, in the auditor's judgment and based on the ISSAIs, are deemed appropriate in the circumstances to achieve the objective of the audit.
Scope of a review	The review procedures deemed necessary in the circumstances to achieve the objective of the review.
Scope limitation	(see Limitation on scope)
Segment information	Information in the financial statements regarding distinguishable components or industry and geographical aspects of an entity.
Significance	The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgment about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.
Significant risk	A risk that requires special audit consideration.
Small entity	Any entity in which: (a) There is concentration of ownership and management in a small number of individuals (often a single individual); and

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	(b) One or more of the following are also found: i. Few sources of income; ii. Unsophisticated record-keeping; and iii. Limited internal controls together with the potential for management override of controls. Small entities will ordinarily display characteristic (a), and one or more of the characteristics included under (b).
Special purpose auditor's report	A report issued in connection with the independent audit of financial information other than an auditor's report on financial statements, including: (a) A complete set of financial statements prepared in accordance with a an other comprehensive basis of accounting; (b) A component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement; (c) Compliance with contractual agreements; and (d) Summarized financial statements.
Statistical sampling	(see Audit sampling)
Stratification	(see Audit sampling)
Subject matter information	The outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.
Subsequent events	International Accounting Standard (IAS) 10, "Events After the Balance Sheet Date," deals with the treatment in financial statements of events, both favorable and unfavorable, that occur between the date of the financial statements (referred to as the "balance sheet date" in the IAS) and the date when the financial statements are authorized for issue and identifies two types of events: (a) Those that provide evidence of conditions that existed at the date of the financial statements; and (b) Those that are indicative of conditions that arose after the date of the financial statements.
Substantive procedures	Audit procedures performed to detect material misstatements at the assertion level; they include: (a) Tests of details of classes of transactions, account balances, and disclosures; and (b) Substantive analytical procedures.
Sufficiency	Sufficiency is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the risk of misstatement and also by the quality of such audit evidence.
Summarized financial statements	Financial statements summarizing an entity's annual audited financial statements for the purpose of informing user groups interested in the highlights only of the entity's financial performance and position.
Supplementary information	Information that is presented together with the financial statements that is not required by the applicable financial reporting framework used to prepare the financial statements, normally presented in either supplementary schedules or as additional notes.
Supreme Audit Institution	The public body of a State which, however designated, constituted or organized, exercises by virtue of law, the highest public auditing function of that State.
Test	The application of audit procedures to some or all items in a population.
Tests of control	Tests performed to obtain audit evidence about the operating effectiveness of

Term	Explanation
	controls in preventing, or detecting and correcting, material misstatements at the assertion level.
Those charged with governance	The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity or an owner-manager.
Tolerable error	(see Audit sampling)
Total error	(see Audit sampling)
Transaction	An individual payment made by an entity, or an individual amount received by an entity.
Transaction logs	Reports that are designed to create an audit trail for each on-line transaction. Such reports often document the source of a transaction (terminal, time and user) as well as the transaction's details.
Trial Balance	An accounting record that summarises all debit and credit entries recorded in the general ledger, and which is the basis for producing the financial statements. The net value of transactions recorded in the Trial Balance should be zero.
Uncertainty	A matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.
Unqualified opinion	(see Opinion)
Walk-through test	Involves tracing a few transactions through the financial reporting system.
Wide Area Network (WAN)	A communications network that transmits information across an expanded area such as between plant sites, cities and nations. WANs allow for on-line access to applications from remote terminals. Several LANs can be interconnected in a WAN.
Working papers	The material prepared by and for, or obtained and retained by, the auditor in connection with the performance of the audit. Working papers may be in the form of data stored on paper, film, electronic media or other media.

OFFICE OF THE AUDITOR GENERAL

Internal control questionnaire for cash and bank balances

Auditee Ministry / Department: -________________________________ ___________________________

Completed by :-

Date completed :- ________________

Budget year under audit: - _____________________ ____________________________

Interviewee :-

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Existence ***The recorded cash at bank and in hand was in existence.***	• **Key control Question** Are there controls to prevent or detect receipts being recorded without the cash being banked or kept in a safe? **Controls/Questions** 1. Does the Ministry/Department have a safe? 2. Is there a limit on the amount of cash that can be held in the safe? How much? 3. Is the cash collected and deposited in bank compared daily with the corresponding receipts?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	4. Are security guards used to protect transfers of large amounts of cash from one location to another? 5. Is cash in hand regularly reconciled with the cash book balance by a person other than the cashier? 7. Is proper control exercised over cash collected by daily cash collectors? 8. Are all bank accounts reconciled on a monthly basis? 9. Is a bank account reconciliation reviewed, approved and signed by a responsible official who is not involved in the detail?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Regularity: ***The recorded cash transactions have taken place and are kept in accordance with the financial directives.***	• **Key control questions** Are there controls to prevent or detect violations of the financial directives or other rules? **Controls/questions** 1. Is cashier's safe adequately secured and keys including duplicated adequately safeguarded? 2. Does the Ministry/Department maintain a cash book,formF/AF/23-1? 3. Do collectors of cash hand over cash to the cashier every day? 4. Is handing over of cash done according to the instructions of MOF? 5. Is surprise cash count done by internal audit or others assigned by management? 6. Are all cash /cheque collections deposited in bank intact.				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	7. Are cash movements recorded in the cash book on a daily basis by the accounts section? 8. Are unused cheques properly kept in custody with the cashier? 9. Are regular bank reconciliation's done by someone other than the cashier?				

OFFICE OF THE AUDITOR GENERAL

Internal control questionnaire for Revenue and Receipts

Auditee: Ministry/ Department________________________________ Completed by :- _______________________________

Date completed: ____________________

Budget year under audit: __________________ Interviewee :-________________________

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Completeness ***All revenue and receipts relevant to the budget year have been recorded.***	• **Key control Question** Are there controls to prevent or detect amounts being received without being recorded ? **Controls/Questions** 1. Are receipts issued sequentially? 2. Are FA/F21-1 and FA/F21-2 the only receipts for cash collection? 3. Is all money received on properly completed official receipts? 4. Are daily collections duly recorded on form F/A/23-1 cash book?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	5. Are all cancelled receipts recorded in the cash book and all copies attached in the pad? 6. Are bank transfers listed and recorded? 7. Do bank deposit slips reach accounts section timely? 8. Are revenues, the source of which is not known cleared and recorded in the books? 9. Is proper control exercised over cash collected by daily cash collectors? 10. Are appropriate records kept for revenue in arrears?				
<u>Occurrence</u> ***The recorded receipts did infact happen and were relevant to the budget year.***	• **<u>Key control question</u>** Are there controls to prevent or detect amounts being recorded which have not been properly received?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	Controls/ questions 1. Are receipts issued at the time of cash collection? 2. Are receipts of cash and cheque banked intact and promptly? 3. Are collections reconciled with the value of receipts? 4. Are deposits recorded in the books checked against bank deposit slip? 5. Are bank reconciliation and follow up on outstanding items made by someone other than the cashier? 6. If cash is not deposited intact and payments are made from cash received, then is the cash on hand counted and agreed with the cash records daily by someone other than the cashier?				
Measurement: ***The recorded receipts are recorded at the correct value.***	• **Key control question** Are there controls to prevent or detect revenues being recorded at the incorrect amount?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
<u>Regularity</u> ***The recorded receipts arise from the relevant legislation and authorities.***	**<u>Controls/questions</u>** 1. Are the correct rates applied for receipts collected in respect of taxes, rents, interest, services, sale of property etc.? • **<u>Key control question</u>** Are there controls to prevent or detect the violation of the relevant legislation and authorities relating to the collection of revenues and receipts? **<u>Controls / questions</u>** 1. Are disbursements from direct income prohibited? 2. Are official receipts issued for all collections without delay? 3. Is cash collected only by the authorized cashier ? 4. Is cash collected by assistant cashier verified by appropriate person?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	5. Are receipts from taxes, rents, interest, sale of property etc. verified by an independent person to ascertain that they are in accordance with the current rates and tariffs ? 6. Are cheques only accepted for payment after confirming: • they are not post dated; • the cheque account has sufficient funds; • the bank to which the cheque is to be presented is in Eritrea ? 7. Are the following duties carried out by the accounts section? • Preparation of cash receipts; • Custody of receipts books. 8. Are receipts carbon copied when issued?				
Disclosure ***The recorded receipts are shown in their proper code.***	• **Key control question** Are all revenues recorded against the appropriate account code?				

OFFICE OF THE AUDITOR GENERAL

<u>Internal control questionnaire for payroll</u>

Auditee Ministry / Department :-_________________________________

Budget year under audit :- ______________________

Completed by :- ____________________________

Date completed :- ________________

Interviewee :- _____________________________

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
<u>Completeness</u> ***All expenditure on pay relevant to the budget year has been recorded..***	· **<u>Key control Question</u>** Are there controls to ensure that all payments to employees are recorded ? **<u>Controls/Questions</u>** 1. Are payments for salaries and allowances recorded as gross on form F/AF/23-1? 2. Are salaries and allowances not paid returned to Treasury on form FA/F23-1? 3. Are salaries and allowances recorded on form F/AF/23-1 based on the information on form F/AF/11-1? 4. Are personal records maintained in the personnel section?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
<u>Occurrence</u> ***The recorded transactions for pay did infact properly happen and were relevant to the budget year.***	☐ **<u>Key control questions</u>** • Are there controls to prevent or detect employees being paid for work not done? • Are there controls to prevent or detect payments being made to fictitious employees or employees who have left? **<u>Control questions</u>** 1. Are proper time records maintained? 2. Is a representative of the personnel section or unit present at the payment of salaries to independently identify staff receiving payment? (staff inspection). 3. Is form F/A/24-1 prepared for payment of salaries/wages? 4. Does every employee sign the payroll as evidence of payment? 5. Is proper authorization from personnel section available to confirm all employees added to or deleted from the payroll?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Measurement: ***The recorded transactions relating to pay are stated at the correct value.***	6. Is the accounts section notified on proper authorized forms about transferred employees, changes in salary, retirement and the like? 7. Are employees required to produce identification? · **Key control questions** • Are there controls to prevent or detect errors in calculation of pay? • Are there controls to prevent or detect payments being made at the wrong rates or for the wrong hours? **Controls/questions** 1. Are salaries/wages paid after all necessary deductions have been made? 2. Does the amount recorded on the payment voucher agree with that shown NET (after deductions) on the payroll? 3. Are payrolls checked and reviewed by persons other than those who prepared them? 4. Are changes to pay rates of daily workers authorized and amendments made to manuals?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Regularity ***The recorded transactions are in accordance with the relevant legislation, rules and regulations.***	5. Does the amount recorded on the payroll tally with that of time sheet? 6. Is an independent check made of the time sheet against the original time recorded? 7. Is it checked that a payment to contract and daily workers is according to the agreement? • **Key control question** Are there controls to prevent or detect salary/wage payments being made that are not in accordance with legislation and regulations? **Controls / questions** 1. Are unclaimed salaries and allowances returned to the Treasury within the specified period (10days)? 2. Is salary advance given to employees in accordance with the financial regulations? 3. Is an employee prohibited from advance payment before settling the previous one ? 4. Is advance payment allowed after the approval of designated person?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	5. Are deductions of salary advances made at the end of the month in accordance with financial regulations? 6. Are the following duties performed by different persons? ⇒ Personnel selection; ⇒ controlling time records; ⇒ payroll preparation; 7. Do procedures preclude the payment of salaries to persons other than beneficiaries without specific written authorization from the beneficiary? 8. Are deductions other than statutory deductions only made against written approval? 9. Is the person who certifies the time sheet of daily and contract employees different from the one who engaged the staff? 10. Are personnel files kept up to date for salary increments, promotions, transfers, annual leave etc.?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Disclosure ***The recorded transactions for pay are properly shown in the account in their proper code.***	**Key control question** Are salaries, allowance payments and deductions recorded against the appropriate expenditure codes in the financial records?				

OFFICE OF THE AUDITOR GENERAL

Internal control questionnaire for purchases

Auditee: Ministry/ Department________________________________ ________________________________

Completed by :-

Date completed: ____________________

Budget year under audit: __________________

Interviewee :- ____________________________

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Completeness ***All expenditure on goods and services relevant to the budget year have been recorded..***	• **Key control Questions** ⇒ Are there controls to prevent or detect payments being made without being recorded? ⇒ Are there controls to prevent or detect invalid payments being recorded? **Controls/Questions** 1. Are receiving reports pre-numbered and accounted for? 2. Are vouchers numbered sequentially and accounted for? 3. Are all bank transfers registered immediately? 4. Are all payment voucher forms completed and recorded in cash book properly and promptly?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
<u>Occurrence</u> ***The recorded transactions for goods or services purchased did infact occur and were relevant to the budget year.***	• **<u>Key control questions</u>** ⇒ Are there controls to prevent or detect payments being recorded which are for goods or services not received? ⇒ Are there controls to prevent or detect payments being made to other than the person(s) who provide the goods or services**?** **<u>Control/ questions</u>** 1. Is the quantity and amount indicated in the invoice checked against the purchase order before payment is effected? 2. Is it ascertained that the invoice is an official invoice of the supplier printed pre-numbered or that issued by the Inland Revenue? 3. Are payments for purchase made only to the person supplying the goods or his legal representative?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	4. Is a check made to ascertain that there is sufficient description in the invoice to identify clearly the items purchased? 5. Is it ensured that goods are received only after goods receiving note (GRN) has been prepared for them? 6. Does the person responsible for receiving goods sign the GRN after having checked the goods with accompanying documents 7. Is it ascertained that the invoice is addressed to the Ministry or Department? 8. Are all payments certified as correct before processing and recording? 9. Is it ensured that a GRN is attached to the payment voucher acknowledging receipts of the goods before effecting payment?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Measurement: ***The recorded payments for goods purchased or services rendered are stated at the correct value.***	• **Key control questions** ⇒ Are there controls to prevent or detect incorrect payments being made? ⇒ Are there controls to prevent or detect payment being recorded at incorrect amount? **Controls/ questions** 1. Is the correctness of price, quantity, total amount, etc. indicated in the invoice ascertained? 2. Is it verified that all possible discounts and allowances have been deducted? 3. Is it verified that the amount shown on the payment voucher is the same as that on the supporting documents? 4. Is the type and quantity of the goods checked against the sample of such goods, where appropriate? 5. If purchases were made without adhering to the financial regulations as urgent, were these justified by higher officials?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Regularity ***The recorded payments for goods and services are in accordance with the relevant legislation, rules and regulations.***	• **Key control questions** ⇒ Are there procedures to prevent or detect payments for goods purchased and services rendered which are outside legislation and regulations? ⇒ Are there procedures to ensure that standing orders and financial regulations have been complied with? **Controls / questions** 1. Is requisition for goods raised by the user department? 2. If so, is it made out before purchase is effected? 3. Is the requisition approved and signed by an authorized official and a purchase order raised accordingly? 4. Is purchase made on tender basis or by collecting necessary proforma invoices from suppliers as per government financial regulations? 5. If tenders(quotations)/ Proforma are obtained: ♦ Is the lowest price always accepted? ♦ If not, is an appropriate explanation made by the committee and this is approved by higher officials?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	6. Is necessary follow up made for long outstanding orders especially for which payment has been made in advance? 7. Is a register maintained for follow up on purchases ? 8. Are there any prolonged and undue delays in either rendering of invoices or passing for payment? 9. Is it ensured that the quantity ordered is not: ♦ excessive with regard to requirements or existing stocks? ♦ sufficient having regard to possible bulk purchase savings? 10. Is a claim and a follow up made for missing or damaged goods?				
Disclosure ***The accounting code relating to purchases and services are properly allocated.***	• **Key control question** Are all payments for purchases or services recorded against the appropriate expenditure codes in the financial records?				

OFFICE OF THE AUDITOR GENERAL

Internal control questionnaire for contractual works

Auditee: Ministry/ Department________________________________
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Completed by :-

Date completed: ____________________

Budget year under audit: __________________

Interviewee :- ____________________________

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Completeness ***All expenditure on contracts relevant to the budget year have been recorded.***	• **Key control Questions** ⇒ Are there controls to prevent or detect payments being made without being recorded? ⇒ Are there controls to prevent or detect invalid payments being recorded? **Controls/Questions** 1. Are payment voucher forms completed and recorded in cash book properly and promptly? 2. Is it verified that invoices are addressed to the Ministry/Department? 3. Are all payments certified as correct before processing and recording?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Measurement*:** ***The recorded payments for contract works are stated at the correct value.	• **Key control questions** ⇒ Are there controls to prevent or detect incorrect payments being made? ⇒ Are there controls to prevent or detect payment being recorded at incorrect amount**?** **Control/questions** 1. Is the correctness of price, quantity, total amount, etc. given in the invoice ascertained? 2. Is it verified that the amount shown on the payment voucher is the same as that on the supporting documents? 3. Are certificates of payment checked and authorized as to their correctness of the rates used?				
Regularity ***The recorded payments for contracts are in accordance with rules and regulations.***	• **Key control question** ⇒ Are there controls to ensure that the relevant legislation and other regulations have been adhered to when entering into construction contracts? **Controls / questions** 1. Is there a committee that studies the need for construction projects?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	2. If yes, is the necessity and prioritization of a project deemed and justified by the committee? 3. Are detailed specifications, drawings and bills of quantities prepared by a consultant in advance? 4. Is the consultant appointed from the approved list of the Ministry of Public Works(MoPW)? • Are the terms of employment clearly defined? • Is the performance of the consultant monitored by the MoPW? 5. Does the consultant prepare feasibility study? 6. Are the details prepared by the consultant at the design stage approved by the MoPW before the commencement of the work? 7. Is the design started only after the requirements are absolutely clear and budget set? 8. Are changes to requirements allowed during the design stage and if so, are they monitored properly? 9. Is there a properly set-up tender evaluating committee to follow up the tender process in the organisation?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	10.Are tender documents prepared in a standard form, which is approved by the MoPW? 11.Are the closing and opening date of tender communicated clearly? 11.Do you inform all tender participants the extension of closing tenders, if any? 12.Is it ensured that ambiguities and contradictions do not occur in the related tender documents? 13.Is dispatch of the tender documents done by a person different from the one who receives tenders? 14.Are contractors who are in the approved list of the MoPW the only tender participants? 15.Are tenders opened at the same time, after the time prescribed for their receipt, by authorized persons not otherwise involved in the tender process and a representative from the MoPW? 16.Are the key pages of the tender documents signed by the tender openers?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	17. Is every tender checked arithmetically by the tender evaluating committee? 18. Does the evaluating committee consider the financial capability of the contractors? 19. Is there regular site supervision by responsible person to ensure that the contractor carries out work in accordance with the requirements of the contract? 20. Are additional bill of quantities prepared for additional work and/or variations, if any? 21. Are all interim payments fully supported by signed and dated certificates from the MoPW as per the standing instructions? 22. Is penalty provision stated in the contract for any delay by the contractor according to the MoPW instructions? 23. Is provisional handing-over of the project done only after the approval of the MoPW?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
<u>Disclosure</u> ***The accounting code relating to contractual works are properly allocated.***	24. Is the necessary retention money held at the time of provisional handing-over? 25. Are there claims for unforeseen (force majeure) circumstances? 26. Is the retention held released after the MoPW approves that there is no defect in the construction? • **<u>Key control question</u>** Are all payments for construction works recorded against the appropriate expenditure codes in the financial records?				

OFFICE OF THE AUDITOR GENERAL

Internal control questionnaire for payments other than payroll and purchases

Auditee Ministry / Department :-_________________________________ Completed by :- ____________________________

Date completed :- ________________

Budget year under audit :- _____________________ Interviewee :- _____________________________

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Completeness ***All expenditure on other payments relevant to the budget year has been recorded..*** ***Occurrence*** ***The recorded transactions for other payments did infact happen in the budget year.***	• **Key control Questions** ⇒ Are there controls to ensure that all other payments are recorded ? ⇒ Are there controls to prevent or detect invalid payments being recorded? **Controls/Questions** 1. Are all expenditure items recorded on form F/AF/23-1? 2. Are supporting documents for payments cross referenced to payment vouchers? • **Key control question** Are there controls to prevent or detect invalid payments being made to other than the person(s) who provided the services?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Measurement: ***The recorded transactions relating to other payments are stated at the correct value.***	**Control questions** 1. Are all supporting documents attached to the payment voucher? 2. Are all payments certified by authorized personnel as being proper and correct? 3. Are all bills/ invoices paid by the Ministry/ Department verified to ascertain that they belong to the same? 4. Are the receipts used to record other payments initialed by the providers of these services as evidence of payment? 5. Are payments made only to the providers of these services or their legal representatives? • **Key control question** Are there controls to prevent or detect payments being made at the incorrect amount?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Regularity ***The recorded other payments are in accordance with the relevant legislation, rules and regulations.***	**Controls/questions** 1. Is the amount of payment voucher verified as being the same as that on the supporting document? 2. Are all per diem payments calculated at their proper rates? • **Key control questions** Are there procedures to prevent payments being made that are not in accordance with legislation and regulations? **Controls / questions** 1. Are all payments made against the presentation of original invoices/bills ? 2. Are advance payments for per diem allowances settled within the specified period of time(seven days) after the employee returns from his/her field work? 3. Are there controls to prevent per diem allowances being advanced to individuals who have outstanding balances?				

Audit objective	Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
<u>Disclosure</u> ***The recorded other payments are shown in the account in their proper code.***	4. Are all per diem payments over one month and up to two months authorized by designated officials? 5. Are any per diem allowances issued for a period consequentively exceeding two months? • **<u>Key control question</u>** Are other payments recorded against the appropriate expenditure codes in the financial records?				

OFFICE OF THE AUDITOR GENERAL

General assessment of internal control for payments

Auditee: Ministry/Department _________________

Completed by:____________

Date completed _____________

Budget year audited:______________________

Interviewee:_________________

Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Controls/Questions 1. Are cheques stored in a safe custody? 2. Are cheques registered when they are purchased? 3. When a cheque is cancelled is it still maintained in the cheque book? 4. Are cheque books issued to authorized personnel and acknowledged in writing? 5. Is signing blank cheque strictly prohibited?				

Control questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
6. Is there a limit for which designated persons are responsible to authorize payments?				
7. Are the existence and compliance of amount limitations on the authority of signatories duly verified?				
8. Is there a limit above which payments are effected by cheque? How much?				
9. Are cheques prepared in the name of the payee only?				
10. Are the amount and the purpose of payments described on the cheque-stub?				
7. Are cheques co-signed by at least two signatories including the cashier?				
8. Are accounts recorded by personnel other than signatories?				
9. Do the signatories sign the cheque-stub as well?				

OFFICE OF THE AUDITOR GENERAL

Internal control questionnaire for budget

Auditee: Ministry/Department ____________________________

Budget year audited:________________________

Completed by:________________________________

Date completed ______________

Interviewee:________________________________

Controls questions	Yes/No N/A	Audit risk assessment	Audit implication
Control questions 1. Does the Ministry/Department carefully study the budget proposal before its preparation? 2. Is the budget proposal signed by the Minister or by the highest authority? 3. Does the Ministry/Department keep budget register to control expenses not to exceed the approved budget? 4. If payment is done directly through the MOF, is this recorded in the budget register?			

Controls questions	Yes/No N/A	Audit risk assessment	Audit implication
5. Is there a constant check to ensure that expenditures/ payments are made within the budget limit? 6. Is transfer of budget from one title to another done only with the approval of MOF? 7. Is transfer from other account title in the regular budget to salaries prohibited? 8. Is transfer from capital budget to the recurrent budget done only with the approval of MOF? 9. Is proposed budget reconciled with actual budget at the end of the budget year? 10. Is the variance, If any, analyzed and used as a base for proposal of budget to the coming year?			

N.B. There is no need for a separate audit programme for this section. The answers given to the questions listed can be confirmed or otherwise by simple observation of the various activities.

OFFICE OF THE AUDITOR GENERAL

Internal control questionnaire for stocks and stores

Auditee: Ministry/ Department________________________________

Completed by :- _______________________________

Date completed: ____________________

Budget year under audit: __________________

Interviewee: _______________________________

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Completeness ***All stocks owned by the audited body at the end of the budget year have been recorded.***	• **Key Control Questions** Are there controls to prevent or detect stocks being received without being recorded? **Controls/Questions** 1. Are goods received notes completed for all receipts of stocks ? 2. Are all stock items received promptly recorded in the stores records ? 3. Are all stock items issued recorded in the stores records?				

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Existence ***The recorded stocks represent actual items of stock at the end of the budget year.***	• **Key control Questions** Are there controls to prevent stores being lost or stolen ? **Controls/Questions** 1. Are there controls over access to the stock records and documents? 2. Are there controls over access to the stores ? 3. Are there physical controls and security in place ? 4. Are regular independent stock checks carried out ? 5. Are differences with records investigated and reported ? 6. Is the store keeper the only person allowed to receive and issue store items?				

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	7. Does the recipient sign for all items received ? 8. Are stock items kept in store properly, i.e. categorized, given identification numbers, stacked properly, easily accessible etc.?				
<u>Measurement</u> ***Stocks have been accurately stated and valued in accordance with the financial directives.***	• **<u>Key control Questions</u>** Are there controls to prevent or detect stores receipts being recorded in the records at an incorrect amount ? **<u>Controls/Questions</u>** 1. Are there checks between the Goods Received Note totals and the entries in the stock records ? 2. Are copies of invoices attached with GRNS ?				
<u>Regularity</u> ***The receiving and issuance of stock is in accordance with legislation.***	• <u>Key control Questions</u> Are there controls to prevent or detect stores transactions which did not conform with legislation and other authorities?				

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	<u>Controls/Questions</u> 1. Are official requisitions used for stores items in all cases ? 2. Are verbal requisitions permitted in an emergency only and that written confirmation follows ? 3. Is the person signing orders independent of the store keeper and is authorized to do so ? 4. Is store keeping and recording done by independent persons ? 5. Are all deliveries checked against purchase orders /invoice/ etc. before acceptance ? 6. Are all purchased stores counted or weighed before acceptance ? 7. Are goods receiving notes prepared ?				

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	8. Are there adequate procedures for return of goods to suppliers and claims for shortages, breakage's, incorrect delivery and partial deliveries ? 9. Is the storekeeper the only key holder ? 10. Does the storekeeper initiate requisitions for order ? 11. Are requisitions examined for reasonableness of quantities by designated officers ? 12. Is there proper documentation for goods return ? 13. Is regular stock taking carried out independently of the store keeper ? 14. Are all items checked at least once a year ? 15. Are requisitions and issue notes authorized by persons who are not storekeepers ?				

OFFICE OF THE AUDITOR GENERAL

Internal control questionnaire for properties

Auditee Ministry / Department: -________________________________

Budget year under audit: - _____________________

Completed by :- ___________________________

Date completed :- ________________

Interviewee :- ____________________________

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
Completeness ***All fixed assets owned by the audited body have been recorded.***	• **Key Control Question** Are there controls to prevent or detect fixed assets being purchased without being recorded? **Controls/Questions** 1. Are all fixed assets purchased or received as grant recorded on a fixed asset register ?				
Existence ***The recorded fixed assets were in existence and used by the audited body.***	• **Key control Questions** Are there controls to prevent or detect items being removed from the fixed asset records which have not been authorized for disposal by scrap or sale ?				

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	⇒ Are there controls to prevent or detect additions to fixed assets being recorded in the fixed asset records which are not authorized additions ? ⇒ Are there controls to prevent fixed assets being lost or stolen ? **Controls/Questions** 1. Are periodic physical checks made on assets? 2. Are fixed asset records maintained up-to-date ? 3. Are physical check findings compared to asset records ? 4. Are any differences reported investigated and a report produced ? 5. Are all additions to fixed assets properly authorized ?				

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	6. Are all disposals of fixed assets authorized ? 7. Are the fixed assets physically held checked and compared to the records regularly or at least once in a year ? 8. Are all fixed assets properly secured and protected from theft, misuse and fire ? 9. Are there procedures restricting access to areas containing valuable fixed assets such as computers etc. ? 10. Are there procedures for reporting lost or damaged fixed assets to management ? 11. Do these procedures include action to be taken to account for loss or damage ?				
<u>Measurement</u> ***Fixed assets have been accurately stated and***	• **<u>Key control Questions</u>** ⇒ Are there controls to prevent or detect assets being recorded in the records at an				

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
valued in accordance with government financial regulations.	incorrect amount ? ⇒ Are there controls to prevent or detect disposals of fixed assets being recorded at an incorrect amount ? **<u>Controls/Questions</u>** 1. Are all fixed assets recorded at their full purchase price ? 2. Are all proceeds from the disposal of fixed assets recorded ? 3. Are all valuations for assets to be sold determined by an independent valuer(s) ?				
<u>Regularity</u> ***The receiving and issuance of fixed assets is in accordance with legislation.***	• **<u>Key control Questions</u>** Are there controls to prevent or detect fixed assets transactions which did not conform with legislation and other authorities?				

Audit objective	Controls/Questions	Yes/No N/A	Audit risk assessment	Audit implication	Cross Ref. to AP
	<u>Controls/Questions</u> 1. Is a fixed asset register maintained for the fixed assets owned by the Ministry/Department ? 2. Are all fixed assets given identification codes ? 3. Are fixed asset records amended when assets are sold or scrapped? 4. Is it checked that property given out to employees are carefully kept ? 5. Is property that can not be used by the Ministry/Department sold/ given to another Ministry/Department ? 6. Is property issued out of store when requisition and issuance forms of property are signed by the concerned head? 7. Is regular stock taking carried out independently of the store keeper ? 8. Are all items checked at least once a year ? 9. Are requisitions and issue notes authorized by persons who are not storekeepers ?				

GLOSSARY

Term	Explanation
Access controls	Procedures designed to restrict access to on-line terminal devices, programs and data. Access controls consist of "user authentication" and "user authorization." "User authentication" typically attempts to identify a user through unique logon identifications, passwords, access cards or biometric data. "User authorization" consists of access rules to determine the computer resources each user may access. Specifically, such procedures are designed to prevent or detect: (f) Unauthorized access to on-line terminal devices, programs and data; (g) Entry of unauthorized transactions; (h) Unauthorized changes to data files; (i) The use of computer programs by unauthorized personnel; and (j) The use of computer programs that have not been authorized.
Accounting estimate	An approximation of the amount of an item in the absence of a precise means of measurement.
Accounting records	Generally include the records of initial entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers; journal entries and other adjustments to the financial statements that are not reflected in formal journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.
Accruals Accounts	A financial statement that discloses payments in the period they are incurred and income in the period it is earned.
Adverse opinion	(see Modified auditor's report)
Agreed-upon procedures engagement	An engagement in which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures may misinterpret the results.
Analytical procedures	Evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.
Annual report	A document issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor's report thereon.
Applicable financial reporting framework	The financial reporting framework adopted by management in preparing the financial statements that the auditor has determined is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulations.
Application controls in information technology	Manual or automated procedures that typically operate at a business process level. Application controls can be preventative or detective in nature and are designed to ensure the integrity of the accounting records. Accordingly, application controls relate to procedures used to initiate, record, process and report transactions or other financial data.
Appropriateness	The measure of the quality of evidence, that is, its relevance and reliability in providing support for, or detecting misstatements in, the classes of transactions, account balances, and disclosures and related assertions.
Assertions	Representations by management, explicit or otherwise, that are embodied in the financial statements.
Assess	Analyze identified risks of to conclude on their significance. "Assess," by

Term	Explanation
	convention, is used only in relation to risk. (also see Evaluate)
Assistants	Personnel involved in an individual audit other than the auditor.
Association	(see Auditor association with financial information)
Assurance	(see Reasonable assurance)
Assurance engagement	An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria (also see Subject matter information). Under the "International Framework for Assurance Engagements" there are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. *Reasonable assurance engagement* The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion. *Limited assurance engagement* The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.
Assurance engagement risk	The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.
Attendance	Being present during all or part of a process being performed by others; for example, attending physical inventory taking will enable the auditor to inspect inventory, to observe compliance of management's procedures to count quantities and record such counts and to test-count quantities.
Audit components	Types of transaction or account balance subject to similar internal controls or risks. For instance, "salaries", "purchases" and "income from fees and charges".
Audit documentation	The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).
Audit evidence	All of the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence includes the information contained in the accounting records underlying the financial statements and other information.
Audit firm	(see Firm)
Audit matters of governance interest	Those matters that arise from the audit of financial statements and, in the opinion of the auditor, are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. Audit matters of governance interest include only those matters that have come to the attention of the auditor as a result of the performance of the audit.
Audit of financial statements	The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. An audit of financial statements is an assurance engagement (see Assurance engagement).
Audit objectives	The specific objectives of an audit are to test "Audit Assertions".

Term	Explanation
Audit opinion	(see Opinion)
Audit Procedures	Instructions for auditors in order to gather evidence. Comprises of substantive procedures, analytical procedures and tests of controls.
Auditor's report	The auditors' opinion as to whether or not the financial statements, in all material respects, fairly present the results of operations of the audited entity in accordance with the prescribed accounting practice and in the manner required by the relevant act. An opinion is expressed as to whether or not anything came to the auditors' attention that causes them to believe that material non-compliance with laws and regulations, applicable to financial matters, had occurred.
Audit risk	Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risk of material misstatement (or simply, the "risk of material misstatement") (i.e., the risk that the financial statements are materially misstated prior to audit) and the risk that the auditor will not detect such misstatement ("detection risk").
Audit sampling	The application of audit procedures to less than 100% of items within an account balance or class of transactions such that all sampling units have a chance of selection. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can use either a statistical or a non-statistical approach. *Non-statistical sampling* Any sampling approach that does not have the characteristics of statistical sampling. *Population* The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions. A population may be divided into strata, or sub-populations, with each stratum being examined separately. The term population is used to include the term stratum. *Sampling risk* Arises from the possibility that the auditor's conclusion, based on a sample may be different from the conclusion reached if the entire population were subjected to the same audit procedure. *Sampling unit* The individual items constituting a population, for example checks listed on deposit slips, credit entries on bank statements, sales invoices or debtors' balances, or a monetary unit. *Statistical sampling* *[the approach in this manual does not deal with principles of statistical sampling]* Any approach to sampling that has the following characteristics: (c) Random selection of a sample; and (d) Use of probability theory to evaluate sample results, including measurement of sampling risk. *Stratification* The process of dividing a population into subpopulations, each of which is a group of sampling units which have similar characteristics (often monetary

Term	Explanation
	value). *Tolerable error* The maximum error in a population that the auditor is willing to accept. *Total error* Either the rate of deviation or total misstatement.
Audit trail	The means by which individual transactions can be traced from their origins to the general ledger and financial statements, and which allows figures in financial statement to be analysed into individual transactions. Establishing audit trails is the responsibility of management.
Auditee	The audited entity
Auditor	Auditor – “Auditor” is used to refer to the person or persons conducting the audit, usually the Auditor-General or person who is delegated to sign the auditor’s report, the other members of the engagement team, or, as applicable, the entire Supreme Audit Institution (SAI). *Existing auditor* The auditor of the financial statements of the current period. *External auditor* Where appropriate the term “external auditor” is used to distinguish the external auditor from an internal auditor. *Incoming auditor* The auditor of the financial statements of the current period, where either the financial statements of the prior period have been audited by another auditor (in this case the incoming auditor also known as a successor auditor), or the audit is an initial audit engagement. *Internal auditor* A person performing an internal audit. *Other auditor* An auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component, which is included in the financial statements audited by the principal auditor. Other auditors include affiliated firms, whether using the same name or not, and correspondents, as well as unrelated auditors. *Predecessor auditor* The auditor who was previously the auditor of an entity and who has been replaced by an incoming auditor. *Principal auditor* The auditor with responsibility for reporting on the financial statements of an entity when those financial statements include financial information of one or more components audited by another auditor.
Auditor association with financial information	An auditor is associated with financial information when the auditor attaches a report to that information or consents to the use of the auditor’s name in a professional connection.
Cash accounts	A kind of financial statement which discloses payments in the period they are

Term	Explanation
	made and income in the period it is received. Different from accruals accounts.
Comparatives	Comparatives in financial statements, may present amounts (such as financial position, results of operations, cash flows) and appropriate disclosures of an entity for more than one period, depending on the framework. The frameworks and methods of presentation are as follows: (c) Corresponding figures where amounts and other disclosures for the preceding period are included as part of the current period financial statements, and are intended to be read in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). These corresponding figures are not presented as complete financial statements capable of standing alone, but are an integral part of the current period financial statements intended to be read only in relationship to the current period figures. (d) Comparative financial statements where amounts and other disclosures for the preceding period are included for comparison with the financial statements of the current period, but do not form part of the current period financial statements.
Comparative financial statements	(see Comparatives)
Compilation engagement	An engagement in which accounting expertise, as opposed to auditing expertise, is used to collect, classify and summarize financial information.
Component	A division, branch, subsidiary, joint venture, associated company or other entity whose financial information is included in financial statements audited by the principal auditor.
Component of a complete set of financial statements	The applicable financial reporting framework adopted in preparing the financial statements determines what constitutes a complete set of financial statements. Components of a complete set of financial statements include: a single financial statement, specified accounts, elements of accounts or items in a financial statement.
Comprehensive basis of accounting	A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support.
Computer-assisted audit techniques	Applications of auditing procedures using the computer as an audit tool (also known as CAATs).
Computer information systems (CIS) environment	Exists when a computer of any type or size is involved in the processing by the entity of financial information of significance to the audit, whether that computer is operated by the entity or by a third party.
Confirmation	A specific type of inquiry that is the process of obtaining a representation of information or of an existing condition directly from a third party.
Control activities	Those policies and procedures that help ensure that management directives are carried out. Control activities are a component of internal control.
Control environment	Includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment is a component of internal control.
Control Procedures	The policies and procedures adopted by an entity's management to protect against fraud, losses, illegality or error, and to achieve its objectives. Control procedures may prevent illegality or error (such as a requirement for two authorising signatures before the entity purchases items above a stated value), or enable the entity to detect and correct them (reconciliations for instance).
Control risk	(see risk of material misstatement)

Term	Explanation
Corresponding figures	(see Comparatives)
Criteria	The benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria can be formal or less formal. There can be different criteria for the same subject matter. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. *Suitable criteria* Exhibit the following characteristics: (f) Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users; (g) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure; (h) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners; (i) Neutrality: neutral criteria contribute to conclusions that are free from bias; and (j) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.
Current file	Includes all the working papers applicable to the current audit year. For instance, it includes the planning memorandum, audit programme, and the results of audit tests.
Current period figures	Amounts and other disclosures relating to the current period.
Database	A collection of data that is shared and used by a number of different users for different purposes.
Date of the financial statements	The date of the end of the latest period covered by the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.
Date of approval of the financial statements	The date on which those with the recognized authority assert that they have prepared the entity's complete set of financial statements, including the related notes, and that they have taken responsibility for them. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that a complete set of financial statements has been prepared, and specifies the necessary approval process. In other jurisdictions, the approval process is not prescribed in law or regulation and the entity follows its own procedures in preparing and finalizing its financial statements in view of its management and governance structures. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of the ISSAIs is the earlier date on which those with the recognized authority determine that a complete set of financial statements has been prepared.
Date of the auditor's report	The date selected by the auditor to date the report on the financial statements. The auditor's report is not dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on

Term	Explanation
	the financial statements. Sufficient appropriate audit evidence includes evidence that the entity's complete set of financial statements has been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.
Date the financial statements are issued	The date that the auditor's report and audited financial statements are made available to third parties, which may be, in many circumstances, the date that they are filed with a regulatory authority.
Detection risk	The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
Disclaimer of opinion	(see Modified auditor's report)
Double entry accounting	An accounting practice that requires that for any accounting entry, there is a matching debit and credit recorded in the general ledger
Electronic Data Interchange (EDI)	The electronic transmission of documents between organizations in a machine-readable form.
Emphasis of matter paragraph(s)	(see Modified auditor's report)
Employee fraud	Fraud involving only employees of the entity subject to the audit.
Encryption (cryptography)	The process of transforming programs and information into a form that cannot be understood without access to specific decoding algorithms (cryptographic keys). For example, the confidential personal data in a payroll system may be encrypted against unauthorized disclosure or modification. Encryption can provide an effective control for protecting confidential or sensitive programs and information from unauthorized access or modification. However, effective security depends upon proper controls over access to the cryptographic keys.
Engagement documentation	The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are sometimes used). The documentation for a specific engagement is assembled in an engagement file.
Engagement letter	An engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.
Engagement quality control review	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement quality control reviewer	A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement team	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
Entity's risk assessment process	A component of internal control that is the entity's process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.
Environmental matters	(e) Initiatives to prevent, abate, or remedy damage to the environment, or to deal with conservation of renewable and non-renewable resources (such initiatives may be required by environmental laws and regulations or by contract, or they may be undertaken voluntarily); (f) Consequences of violating environmental laws and regulations;

Term	Explanation
	(g) Consequences of environmental damage done to others or to natural resources; and (h) Consequences of vicarious liability imposed by law (for example, liability for damages caused by previous owners).
Environmental performance report	A report, separate from the financial statements, in which an entity provides third parties with qualitative information on the entity's commitments towards the environmental aspects of the business, its policies and targets in that field, its achievement in managing the relationship between its business processes and environmental risk, and quantitative information on its environmental performance.
Environmental risk	In certain circumstances, factors relevant to the assessment of inherent risk for the development of the overall audit plan may include the risk of material misstatement of the financial statements due to environmental matters.
Error	An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.
Evaluate	Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. "Evaluation," by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management's response to a risk. (also see Assess)
Existing auditor	(see Auditor)
Expected error	(see Audit sampling)
Experienced auditor	An individual (whether internal or external to the firm) who has a reasonable understanding of: (e) Audit processes; (f) ISSAIs and applicable legal and regulatory requirements; (g) The business environment in which the entity operates; and (h) Auditing and financial reporting issues relevant to the entity's industry.
Expert	A person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing.
External audit	An audit performed by an external auditor.
External auditor	(see Auditor)
External confirmation	The process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Financial Audit	An audit that aims to give an opinion on whether financial statements are complete and accurate, and on whether transactions are legal and regular (accord with relevant laws and regulations). Audit of entity's compliance with laws and regulations (regularity) is therefore part of financial audit.
Financial Control	Internal controls intended to help entities minimise their exposure to avoidable financial risks and ensure that financial information is reliable. Financial controls include control procedures intended to help the entity maintain proper accounting records, safeguard assets, and prevent and detect fraud.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework (such as IPSAS), but can also refer to a single financial

Term	Explanation
	statement.
Firewall	A combination of hardware and software that protects a WAN, LAN or PC from unauthorized access through the Internet and from the introduction of unauthorized or harmful software, data or other material in electronic form.
Firm	A sole practitioner, partnership or corporation or other entity of professional accountants.
Forecast	Prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Two types of intentional misstatement are relevant to the auditor: misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets (also see Fraudulent financial reporting and Misappropriation of assets).
Fraudulent financial reporting	Involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users.
Financial reporting framework	The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation. The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and: (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.
General IT-controls	Polices and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General IT-controls commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.
General Ledger	An entity’s accounting record that holds details of individual transactions processed. General ledger accounts typically group transactions e.g. salaries.
Going concern assumption	Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.
General purpose financial statements	Financial statements prepared in accordance with a financial reporting framework that is designed to meet the common information needs of a wide range of users.
Government business enterprises	Businesses that operate within the public sector ordinarily to meet a political or social interest objective. They are ordinarily required to operate commercially, that is, to make profits or to recoup, through user charges a substantial

Term	Explanation
	proportion of their operating costs.
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Independence	Comprises: (c) Independence of mind—the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and (d) Independence in appearance—the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.
Information system relevant to financial reporting	A component of internal control that includes the financial reporting system, and consists of the procedures and records established to initiate, record, process and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities and equity.
Inherent risk	(see risk of material misstatement)
Initial audit engagement	An audit engagement in which either the financial statements are audited for the first time; or the financial statements for the prior period were audited by another auditor.
Inquiry	Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.
Inspection (as an audit procedure)	Examining records or documents, whether internal or external, or tangible assets.
Interim financial information or statements	Financial information (which may be less than a complete set of financial statements as defined above) issued at interim dates (usually half-yearly or quarterly) in respect of a financial period.
Internal audit	An appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.
Internal auditor	(see Auditor)
Internal control	The process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Internal control consists of the following components: (f) The control environment; (g) The entity's risk assessment process; (h) The information system, including the related business processes, relevant to financial reporting, and communication; (i) Control activities; and (j) Monitoring of controls.
Investigate	Inquire into matters arising from other procedures to resolve them.
IT environment	The policies and procedures that the entity implements and the IT infrastructure (hardware, operating systems, etc.) and application software that it uses to support business operations and achieve business strategies.
Limited assurance engagement	(see Assurance engagement)

Term	Explanation
Limitation on scope	A limitation on the scope of the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). A scope limitation may be imposed by circumstances (for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed desirable.
Local Area Network (LAN)	A communications network that serves users within a confined geographical area. LANs were developed to facilitate the exchange and sharing of resources within an organization, including data, software, storage, printers and telecommunications equipment. They allow for decentralized computing. The basic components of a LAN are transmission media and software, user terminals and shared peripherals.
Management	The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board.
Management fraud	Fraud involving one or more members of management or those charged with governance.
Management representations	Representations made by management to the auditor during the course of an audit, either unsolicited or in response to specific inquiries.
Material	A matter is material if knowledge of it would be likely to influence the user of the financial statements.
Material inconsistency	Exists when other information contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.
Material misstatement of fact	Exists in other information when such information, not related to matters appearing in the audited financial statements, is incorrectly stated or presented.
Material weakness	A weakness in internal control that could have a material effect on the financial statements.
Materiality	Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cutoff point rather than being a primary qualitative characteristic which information must have if it is to be useful.
Misappropriation of assets	Involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more capable of disguising or concealing misappropriations in ways that are difficult to detect.
Misstatement	A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. Where 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 adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to

Term	Explanation
	give a true and fair view
Modified auditor's report	An auditor's report is considered to be modified if either an emphasis of matter paragraph(s) is added to the report or if the opinion is other than unqualified: *Matters that Do Not Affect the Auditor's Opinion* Emphasis of matter paragraph(s)—An auditor's report may be modified by adding an emphasis of matter paragraph(s) to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph(s) does not affect the auditor's opinion. The auditor may also modify the auditor's report by using an emphasis of matter paragraph(s) to report matters other than those affecting the financial statements. *Matters that Do Affect the Auditor's Opinion* Qualified opinion—A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. Disclaimer of opinion—A disclaimer of opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements. Adverse opinion—An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.
Monetary Unit Sample	A method of sampling transactions for direct substantive procedures whereby a relatively high value item is more likely to appear in the sample than a lower value item.
Monitoring (in relation to quality control)	A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
Monitoring of controls	A process to assess the effectiveness of internal control performance over time. It includes assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions. Monitoring of controls is a component of internal control.
Non-compliance	Refers to acts of omission or commission by the entity being audited, either intentional or unintentional that are contrary to the prevailing laws or regulations.
Non-sampling risk	(see Audit sampling)
Non-statistical sampling	(see Audit sampling)
Objective	See Audit Objectives.
Observation	Consists of looking at a process or procedure being performed by others, for example, the observation by the auditor of the counting of inventories by the entity's personnel or the performance of control activities.
Opening balances	Those account balances which exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions of prior periods and accounting policies applied in

Term	Explanation
	the prior period.
Opinion	The auditor's report contains a clear written expression of opinion on the financial statements. An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (also see Modified auditor's report)
Other auditor	(see Auditor)
Other information	Financial or non-financial information (other than the financial statements or the auditor's report thereon) included – either by law or custom – in the annual report.
Overall audit strategy	Sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.
PCs or personal computers (also referred to as microcomputers)	Economical yet powerful self-contained general purpose computers consisting typically of a monitor (visual display unit), a case containing the computer electronics and a keyboard (and mouse). These features may be combined in portable computers (laptops). Programs and data may be stored internally on a hard disk or on removable storage media such as CDs or floppy disks. PCs may be connected to on-line networks, printers and other devices such as scanners and modems.
Permanent file	Contains information about the audited entity of continuing interest and relevance from year to year. For instance, this file contains the entity's legal framework, and working papers setting out previous years' assessment of inherent risk and control risk.
Planning	Involves establishing the overall audit strategy for the engagement and developing an audit plan, in order to reduce audit risk to an acceptably low level.
Population	(see Audit sampling)
Principal auditor	(see Auditor)
Professional judgment	The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
Professional skepticism	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
Professional standards	IAASB engagement standards, as defined in the IAASB's "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services," and relevant ethical requirements, which ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants and relevant national ethical requirements.
Programming controls	Procedures designed to prevent or detect improper changes to computer programs that are accessed through on-line terminal devices. Access may be restricted by controls such as the use of separate operational and program development libraries and the use of specialized program library software. It is important for on-line changes to programs to be adequately documented, controlled and monitored.
Public sector	National governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions and enterprises).
Qualified opinion	(see Modified auditor's report)
Quality controls	The policies and procedures adopted by a firm designed to provide it with reasonable assurance that the firm and its personnel comply with professional

Term	Explanation
	standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.
Reasonable assurance (in the context of quality control)	A high, but not absolute, level of assurance.
Reasonable assurance (in the context of an audit engagement)	A high, but not absolute, level of assurance, expressed positively in the auditor's report as reasonable assurance, that the information subject to audit is free of material misstatement.
Reasonable assurance engagement	(see Assurance engagement)
Recalculation	Consists of checking the mathematical accuracy of documents or records.
Reconciliations	Where entity officials compare two pieces of financial data, or financial and non-financial data, to ensure complete and accurate processing of transactions. For instance, comparing ("reconciling") a bank statement with internal records of payments made or money received, establishing the reasons for any difference, and making corrections where differences have been caused by incomplete or inaccurate processing. A kind of control procedure.
Regularity Audit	An audit that aims to assess whether transactions accord with relevant laws and regulations. Part of Financial Audit
Related party	A party is related to an entity if: (h) Directly, or indirectly through one or more intermediaries, the party: i. Controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); ii. Has an interest in the entity that gives it significant influence over the entity; or iii. Has joint control over the entity; (i) The party is an associate (as defined in IAS 28, "Investments in Associates") of the entity; (j) The party is a joint venture in which the entity is a venturer (see IAS 31, "Interest in Joint Ventures"); (k) The party is a member of the key management personnel of the entity or its parent; (l) The party is a close member of the family of any individual referred to in (a) or (d); (m) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or (n) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.
Related party transaction	A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.
Related services	Comprise agreed-upon procedures and compilations.
Re-performance	The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal controls, either manually or through the use of CAATs.
Responsible party	The person (or persons) who: (c) In a direct reporting engagement, is responsible for the subject matter; or (d) In an assertion-based engagement, is responsible for the subject matter information (the assertion), and may be responsible for the subject matter.

Term	Explanation
	The responsible party may or may not be the party who engages the practitioner (the engaging party).
Review (in relation to quality control)	Appraising the quality of the work performed and conclusions reached by others.
Review engagement	The objective of a review engagement is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review procedures	The procedures deemed necessary to meet the objective of a review engagement, primarily inquiries of entity personnel and analytical procedures applied to financial data.
Risk assessment procedures	The audit procedures performed to obtain an understanding of the entity and its environment, including its internal control, to assess the risks of material misstatement at the financial statement and assertion levels.
Risk of material misstatement	Risk of material misstatement is the risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level: (i) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls. (ii) Control risk – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.
Sampling risk	(see Audit sampling)
Sampling unit	(see Audit sampling)
Scope of an audit	The audit procedures that, in the auditor's judgment and based on the ISSAIs, are deemed appropriate in the circumstances to achieve the objective of the audit.
Scope of a review	The review procedures deemed necessary in the circumstances to achieve the objective of the review.
Scope limitation	(see Limitation on scope)
Segment information	Information in the financial statements regarding distinguishable components or industry and geographical aspects of an entity.
Significance	The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgment about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.
Significant risk	A risk that requires special audit consideration.
Small entity	Any entity in which: (c) There is concentration of ownership and management in a small number of individuals (often a single individual); and

Term	Explanation
	(d) One or more of the following are also found: i. Few sources of income; ii. Unsophisticated record-keeping; and iii. Limited internal controls together with the potential for management override of controls. Small entities will ordinarily display characteristic (a), and one or more of the characteristics included under (b).
Special purpose auditor's report	A report issued in connection with the independent audit of financial information other than an auditor's report on financial statements, including: (e) A complete set of financial statements prepared in accordance with a an other comprehensive basis of accounting; (f) A component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement; (g) Compliance with contractual agreements; and (h) Summarized financial statements.
Statistical sampling	(see Audit sampling)
Stratification	(see Audit sampling)
Subject matter information	The outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.
Subsequent events	International Accounting Standard (IAS) 10, "Events After the Balance Sheet Date," deals with the treatment in financial statements of events, both favorable and unfavorable, that occur between the date of the financial statements (referred to as the "balance sheet date" in the IAS) and the date when the financial statements are authorized for issue and identifies two types of events: (c) Those that provide evidence of conditions that existed at the date of the financial statements; and (d) Those that are indicative of conditions that arose after the date of the financial statements.
Substantive procedures	Audit procedures performed to detect material misstatements at the assertion level; they include: (c) Tests of details of classes of transactions, account balances, and disclosures; and (d) Substantive analytical procedures.
Sufficiency	Sufficiency is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the risk of misstatement and also by the quality of such audit evidence.
Summarized financial statements	Financial statements summarizing an entity's annual audited financial statements for the purpose of informing user groups interested in the highlights only of the entity's financial performance and position.
Supplementary information	Information that is presented together with the financial statements that is not required by the applicable financial reporting framework used to prepare the financial statements, normally presented in either supplementary schedules or as additional notes.
Supreme Audit Institution	The public body of a State which, however designated, constituted or organized, exercises by virtue of law, the highest public auditing function of that State.
Test	The application of audit procedures to some or all items in a population.
Tests of control	Tests performed to obtain audit evidence about the operating effectiveness of

Term	Explanation
	controls in preventing, or detecting and correcting, material misstatements at the assertion level.
Those charged with governance	The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity or an owner-manager.
Tolerable error	(see Audit sampling)
Total error	(see Audit sampling)
Transaction	An individual payment made by an entity, or an individual amount received by an entity.
Transaction logs	Reports that are designed to create an audit trail for each on-line transaction. Such reports often document the source of a transaction (terminal, time and user) as well as the transaction's details.
Trial Balance	An accounting record that summarises all debit and credit entries recorded in the general ledger, and which is the basis for producing the financial statements. The net value of transactions recorded in the Trial Balance should be zero.
Uncertainty	A matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.
Unqualified opinion	(see Opinion)
Walk-through test	Involves tracing a few transactions through the financial reporting system.
Wide Area Network (WAN)	A communications network that transmits information across an expanded area such as between plant sites, cities and nations. WANs allow for on-line access to applications from remote terminals. Several LANs can be interconnected in a WAN.
Working papers	The material prepared by and for, or obtained and retained by, the auditor in connection with the performance of the audit. Working papers may be in the form of data stored on paper, film, electronic media or other media.