FINANCIAL AUDIT MANUAL

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Glossary, Templates and Case Study

2020

Preface

This volume accompanies the Financial Audit Manual to which reference should be made.

The volume comprises **Case Study** that shows how to identify examples of good international practice and the questions to ask when undertaking an **Annual Financial Statements (AFS) financial audit**.

Copyright statement

Disclaimer statements

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Version updates

It is important that records are kept of any major updates to the PASAI Regional Financial Audit manual

Version	Details of Updates made	Revised version issued	Signed off through GB approval (GP paper reference, dates, details)

Acronyms

	Detail
AFS	Annual Financial Statements
CTD	Currency Translation Difference
DST	Direct Substantive Testing
IDI	INTOSAI Development Initiative
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standard on Auditing
ISSAI	International Standards for Supreme Audit Institutions
PASAI	Pacific Association of Supreme Audit Institutions
PAYE	Pay As You Earn (Income tax)
PFM	Public Financial Management
PSE	Preliminary Systems Evaluation
RA	Revenue Authority
SAI	Supreme Audit Institution
SBA	Systems Based Approach
VAT	Value Added Tax

Introduction

This volume accompanies the Financial Audit Manual to which reference should be made.

The volume comprises three main parts:

- **Glossary:** a comprehensive glossary of Public Financial Management (PFM) terms;
- **Templates:** various templates to assist in the Audit Planning, Execution and Reporting Phases; and
- **Case Study:** a highly detailed two-part case study covering how to undertake a financial audit and determine the Audit Opinion and Report based there on.

The **Glossary** can be adapted by each Supreme Audit Institution (SAI) to suit their specific needs; this can be by deleting definitions which seem irrelevant and adding any that are missing. However, consideration should be given to retaining the whole glossary as it will "future proof" any developments in accounting and auditing in your country.

The **Templates** should also be adapted for use within your specific, unique jurisdictions. It is strongly recommended that, as you use the templates in your work, you keep copies at every stage and add them to your own customised volume of Templates. This will provide your staff with a highly tailored guide for future audit work. Many of the templates come from the INTOSAI Development Initiative e-Learning Course on the Risk Based Approach to Financial Auditing and reference should be made to the original source material.

The **Case Study** is by necessity generic in its nature. However, it does provide highly detailed guidance on how to audit each item of the Annual Financial Statements (AFS).

Glossary

NB See **International Standard for Supreme Audit Institutions** (**ISSAI) #2003** for Financial Audit Guidelines Glossary of Terms.

Abuse

Behaviour that is deficient or improper when compared with behaviour that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement. Abuse is a departure from the concept of propriety, which relates to the general principles of sound public sector financial management and conduct of public sector officials.

Accountability

A key concept in governance and management, which means that people are held responsible for carrying out a defined set of duties and for conforming with rules and standards applicable to their posts.

In relation to work carried out by government ministries and agencies, accountability may be:

- **Internal**: to a higher level of management, in which staff and managers are assessed on a regular basis on the way in which they have carried out the tasks set out in their job description; and
- **External**: to Parliament, to the public, or to central agencies such as the audit institution for their own performance (and, in the case of senior officials, for the performance of the organisation which they manage).

Accounting

The day-to-day classification and recording of financial transactions and events. Accounting records include:

- documents evidencing transactions and events (e.g. invoices, contracts, etc.),
- journals, ledgers and registers (often in the form of computer-based systems); and
- working papers containing information about revenues, expenses, assets, liabilities and other matters necessary to prepare financial reports.

Accounting Basis

The accrual or cash basis of accounting as defined in the Accrual Basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard.

Accounting Control System

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

Accounting Policies

The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accrual Accounting

Accounting method in which costs are recognised for the period in which they are incurred.

Accumulated Depreciation

The aggregate, at a given point of time, of depreciation expense made in respect of an asset(s).

Activities

Various actions of an overall programme for a common objective, required to achieve the programme and that make up a programme and objective. See also **Programme**.

Activity Based Costing

Assigns costs to outputs according to the consumption of each activity in the production of the outputs.

Administrative Control System

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

Advance

A loan from (or to) one part of the public sector to (or from) another.

Agency

A type of government or parliamentary organisation.

Allocating Costs

Assigning costs to anything for which a cost measurement is required. Can be an output, group of outputs, activity, process, project, or cost centre, etc.

Apportionment

After the approval of the annual budget by the Assembly, the approved budget for each budget organisation is broken down to the detailed level and apportioned over time (quarters or months).

Appraisal

An overall assessment of the relevance, feasibility, and potential sustainability of a series of interventions prior to a decision to undertake or fund them.

Appropriation

The maximum amount legally authorised by the Assembly to be spent in a specific period. Appropriations are usually contained in the annual budget law and are usually for one fiscal year.

Assets

Are 'future economic benefits (resources) controlled by an entity as a result of past transactions or other past events'

Assets (Current)

Are cash or other assets of the department that would, in the ordinary course of operations of the department, be consumed or converted into cash within twelve months after the end of the reporting period. Examples include debtors and inventories

Assets (Non-current)

All assets other than current assets. They are usually held for use rather than exchange and provide an economic benefit for periods greater than one year. Examples include land, plant and equipment, motor vehicles, heritage assets and buildings

Assumptions

Refer to the conditions most likely to exist inside and outside the department with effect upon the Department's performance plans.

Arrears

Payments which are due, but which are not yet made, with a longer-than-normal delay. Often this is caused by a lack of sufficient cash in the treasury to make the payments that are due within the normal amount of time.

Audited Entity

The organisation, programme, activity or function subject to audit by the SAI.

Audit Evidence

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

- **Competent**: information that is quantitatively sufficient and appropriate to achieve the auditing results; and is qualitatively impartial such as to inspire confidence and reliability;
- **Relevant**: information that is pertinent to the audit objectives; and
- **Reasonable**: information that is economical in that the cost of gathering it is commensurate with the result which the auditor or the SAI is trying to achieve.

Audit Mandate

The auditing responsibilities, powers, discretions and duties conferred on a SAI under the constitution or other lawful authority of a country.

Audit Objective

A precise statement of what the audit intends to accomplish and/or the question the audit will answer. This may include financial, regularity or performance issues.

Audit Organisation

An entity of professional accountants and other audit specialised professionals. In the private sector, the organisations may be a sole practitioner, partnership or corporation; in the public sector the organisation may be a Supreme Audit Institution.

Audit Procedures

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

Audit Scope

The framework or limits and subjects of the audit.

Auditing Standards

Auditing standards provide minimum guidance for the auditor that helps determine the extent of audit steps and procedures that should be applied to fulfil the audit objective. They are the criteria or yardsticks against which the quality of the audit results are valuated.

Authorities

Relevant acts or resolutions of the legislature or other statutory instruments, directions and guidance issued by public sector bodies with powers provided for in statute, with which the audited entity is expected to comply. (See also ISSAI 4200.)

Baseline

This is the basic amount of resources that are necessary to continue the current level of activity in a future period of time. It is often used for comparison purposes between programmes, or as the basis for projecting costs into the future (and when that is done, it is also necessary to adjust for inflation and other known changes in costs). This amount is sometimes referred to as the Current Services or Current Level amount.

Below the Line Items

These are revenue or expenditure items that are usually outside of the normal budget formulation process but which the government should consider in its decision-making about the year's budget.

Benchmark

This is a measurable indicator regarding a budget organisation's or a programme's performance or resources, which can be standardised and used in comparing with another budget organisation's or a programme's performance or resources.

Budget

Government expenditure aims at providing a variety of goods and services to the people of the country. The budget is the most potent instrument of the government in carrying its out policies. In countries with representative governance systems, the budget is the financial mirror of society's choices.

Budget Execution

This is the process of controlling, accounting for, monitoring, and reporting on the expenditure of resources, which have been received for specific purpose and time, in accordance with established policies and procedures.

Business Risk

Refers to the risk that activities – including relevant programs, program strategies, and objectives – will not be completed or achieved. In addition, risks related to issues such as the political climate, public interest, and program sensitivity or potential noncompliance with legislation or proper authority are relevant in the public sector context.

Capacity Building

A process leading to either (i) skill upgrading, (both general and specific), (ii) procedural improvements, and (iii) institutional strengthening. Capacity building refers to investment in people, institutions, and practices

Capital Budget or Capital Expenditure

Expenditure for acquisition of land, intangible assets, and non-financial assets, or for permanent structures and major purchases of more than a minimum value and to be used for more than one year in the process of production. All expenditures which are not capital are "current."

Capital Grants

Non-repayable, unreciprocated transfers received by one government from another government or international organisation, for the purpose of financing the acquisition of capital assets by the recipients.

Capital Revenue

Proceeds from the sale of capital assets, including land, intangible assets, stocks, and fixed capital assets of buildings, construction, and equipment of more than a minimum value and usable for more than one year in the process of production, and receipts of unreciprocated transfers for capital purposes from nongovernmental sources.

Capital Transfers

Non-repayable, unreciprocated payments designed to:

- finance the acquisition of non-financial capital assets by the recipient;
- compensate the recipient for damage or destruction of capital assets; and
- increase the financial capital or cover accumulated debts or losses of the recipient, or that are non-recurrent and distinctly irregular for donor or recipient.

Cash Accounting

An accounting method which records cash receipts, payments and balances. The cash basis of accounting recognises transactions and events only when cash has been received or paid.

Central Bank

The government-owned or controlled bank performing monetary policy functions in the issuance of currency, management of international reserves, and acceptance of deposit liabilities to other banks and acting as their lender of last resort, and, frequently, providing fiscal agent services for the central government.

Central Government

All governmental organisations that are agencies of the central authority of a country, whether covered in or financed through ordinary or extra-budgetary funds. This includes ministries, departmental enterprises, special-purpose funds maintained at the central level (such as pension funds or various social payment funds, and geographical extensions of central government authority that may operate at regional or local levels.

Commitments

A stage in the expenditure process at which the ministries or departments enter into contracts or other forms of agreement, within their allocations, for immediate purchase or future delivery of goods and services. The commitment stage occurs after the allocation has been made but before the actual goods and services have been finally paid for.

Compliance Audit

Compliance audit deals with the degree to which the audited entity follows rules, laws and regulation, policies, established codes, or agreed upon terms and conditions etc. Compliance auditing may cover a wide range of subject matters. In general, the purpose of a compliance audit is to provide assurance to intended users about the outcome of the evaluation or measurement of a subject matter against suitable criteria.

In performing compliance audits in the context of the INTOSAI Fundamental Auditing Principles, there are two concepts of significant relevance:

> (a) Regularity- the concept that activities, transactions and information which are reflected in the financial statements of an audited entity are in accordance with authorizing legislation, regulations issued under governing legislation and other relevant, laws, regulations and agreements, including budgetary laws and are properly sanctioned; and
>
> (b) Propriety- general principles of sound public sector financial management and conduct of public sector officials.

Depending of the mandate of the Supreme Audit Institution, a compliance audit may be an audit of regularity, or propriety, or both. Because propriety is not readily susceptible to objective verification, it may be difficult, and in some cases impossible to audit propriety to a level of reasonable assurance. There are often no clear and objective benchmarks against which to measure propriety –what may be acceptable in one part of the public sector may not be acceptable elsewhere.

Consolidated Fund

The main fund into which all receipts are deposited and from which all payments are made, unless otherwise legislated. See also Treasury Single Account (TSA).

Consolidation

The process of combining the financial statements of a parent entity and each of the entities it controls and presenting the aggregated information e as one financial report.

Constitutional

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

Contingency Fund

This is an amount of money that is included in the budget to be used for emergencies or other unforeseen requirements. It should be controlled carefully and used only under circumstances which conform to previously agreed criteria.

Contingent Liability

See **Liability.**

Contracting Out

An arrangement whereby a budget organisation enters into a commercial contract with an external supplier that provides specific goods and services. This is a commercial transaction only, and the fact that the external supplier receives government funds does not establish them as a governmental entity.

Corporate Plan

A plan defining the desired but achievable future state of the department, the objectives and major actions for goal achievement. It will contribute to the achievement of Government's priority development needs

Corruption

There are many different definitions of the concept. Some of there are associated with each country's or each culture's definitions, as well. However, a simple and broad definition is "the misuse of a public or private position for personal gain".

Cost

An expense incurred in the production of the outputs.

Cost Centre

An organisational unit identified in the "chart of accounts" for which a manager is held accountable for financial management. Within the structure of a budget organisation, this is usually the level at which costs can be associated. It is an organisational entity rather than a programmatic activity.

Cost-Benefit and Cost-Effectiveness Analyses

These analyses compare a programme's outputs or outcomes with the resources expended to produce them. They are considered as forms of programme evaluation. Cost-effectiveness analysis assesses the cost of meeting a single goal, and identifies the least costly alternative to meet that goal. Cost-benefit analysis seeks to identify all relevant costs and benefits associated with a project or process, and to provide ratios between costs and benefits in order to determine whether the costs of the project or process outweigh the benefits which are realised. Thus, cost effectiveness seeks to determine the extent to which policy and programme objectives are achieved at minimum economic cost: synonymous with value-for money.

Cost Driver

This is an item of expenditure which is related to some aspect of the target population or circumstances under which a programme is delivered, which has an impact on the costs of service delivery. For example, increases in the number of people who receive a certain service will drive the costs of the programme.

Current Assets

Are cash or other assets of the department that would, in the ordinary course of operations of the department, be consumed or converted into cash within twelve months after the end of the reporting period. Examples include debtors and inventories.

Current Expenditure

Expenditure that is associated with the present year.

Current Liabilities

Those liabilities of the department that would, in the ordinary course of operations of the department, be due and payable within twelve months after the end of the reporting period. Examples include creditors and employee entitlements such as annual leave.

Current Services (or Current Level)

See **Baseline**

Deficit

The overall fiscal position is defined as revenue plus grants, minus expenditures and minus net lending. If the result is negative, then a deficit exists; if it is positive, then a surplus exists. The deficit may be measured on a cash or commitment basis.

Depreciation

The normal financial provision made for the wearing out, consumption or other loss of value of assets. Depreciation estimated over the useful life of the assets is progressively deducted from the value of the assets each year.

Direct Costs

Are those which are directly traceable to the production of a specific output.

Discretionary

This is a type of expenditure which is controllable, and which the budget organisation (and the budget process) can make some decisions about, each year. It includes programmes and expenditure items which are subject to ongoing decision-making. It is the opposite of Mandatory expenditures.

Due Care

The appropriate element of care and skill which a trained auditor would be expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering and evaluating evidence, and forming opinions, conclusions and making recommendations.

Economic Categories

A classification of expenditure by the economic nature of the transaction. Sub-groupings of objects of expenditure used in the general economic classification of the budget.

Economy

Minimising the cost of resources used for an activity, having regard to the appropriate quality.

Effectiveness

The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.

Efficiency

The relationship between the output, in terms of goods, services or other results, and the resources used to produce them.

Equity

The fairness with which government money is spent.

Entitlement Programme

This refers to legally established programmes such as pensions or social assistance programmes, which provide for cash payments (or other types of transfers) to individuals who meet specific eligibility criteria. These are **Mandatory** payments and they generally involve a very large portion of most governments' budgets.

Estimated Out-turn

The best estimate of final expenditure and revenue figures for the year. It will usually comprise eight- or nine-months actual data and three or four months estimated expenditure for the remainder of the year.

Evaluation

A periodic assessment of the efficiency, effectiveness, impact, sustainability and relevance in the context of stated objectives.

Executive Branch of Government (Executive)

The branch of government which administers the law.

Expenditure

All non-repayable and non-repaying payments by government, whether reciprocated or unreciprocated and whether for current or capital purposes.

Expenses

Are the consumption or loss of service potential or economic benefits, in the form of reductions in assets or increases in liabilities of the entity during the reporting period.

External Auditors

The auditors of an organisation who are not under the direct or indirect control of the organisation and may not report to the organisation. External auditors are differentiated from internal auditors.

External Debt.

See **Foreign Debt.**

Extraordinary Items

Are items of revenue and expense that are attributable to transactions or other events of a type that are outside the ordinary operations of the entity and are not of a recurring nature.

Fair Value

Means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Feedback

The transmission of findings generated through the evaluation process to parties for whom it is relevant and useful so as to facilitate learning. This may involve the collection and dissemination of findings, conclusions, recommendations and lessons from experience.

Field Standards

The framework for the auditor to systematically fulfil the audit objective, including planning and supervision of the audit, gathering of competent, relevant and reasonable evidence, and an appropriate study and evaluation of internal controls.

Financial Asset

Any asset that is:

- cash;
- a contractual right to receive cash or another financial asset from another entity;
- a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or

- an equity instrument of another entity.

Financial Audit

An independent assessment, resulting in a reasonable assurance opinion, of whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with the financial reporting framework. (See Regularity Audit)

Financial Liability

Any liability that is a contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial instruments with another entity under conditions that are potentially unfavourable.

Financial Management

The legal and administrative systems and procedures put in place to permit budget organisations to conduct their activities so as to ensure correct usage of public funds which meets defined standards of probity and regularity. Financial management includes the raising of revenue, the management and control of public expenditure and financial accounting and reporting, and, in some cases, asset management.

Financial Reporting

The development, analysing, and communication of financial information by an entity to interested parties. It encompasses all reports that contain financial information based on data generally found in the financial accounting and reporting system.

Financial Statements

The accounting statements prepared by a reporting entity to communicate information about its financial performance and position. They include those notes and schedules that are needed to clarify or further explain items in the statements.

Financial Systems

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

Financing

The means by which a government obtains financial resources to cover a budget deficit or allocates financial resources arising from a budget surplus. It includes all transactions involving government liabilities.

Findings, Conclusions and Recommendations

Findings re the specific evidence gathered by the auditor to satisfy the audit objectives; **conclusions** are statements deduced by the auditor from those findings; **recommendations** are courses of action suggested by the auditor relating to the audit objectives.

Fiscal Transparency.

See **Transparency.**

Fiscal Year (or Financial Year)

The regular annual budget and accounting period for which plans and requests for revenue and expenditure are made, and for which expenditures are monitored and controlled.

Fixed Assets

Durable goods except land, mineral deposits, timber tracts and similar non-reproducible tangible assets.

Foreign Debt

Debt to individuals and organisations (including banks and investors) which are non-residents.

Forward Estimates

The years beyond the Budget Year in a Medium-Term Expenditure Framework are referred to collectively as Forward Estimates. These represent the Budget Year plus the years immediately following the Budget Year. The Budget Year forms the basis of the annual budget law and its appropriations, while the Forward Estimates are estimates only of future expenditures and are not usually binding on the government.

Fraud

The severest form of an irregularity regarding public resources. Regarding **expenditure**, it includes any intentional act or omission relating to:

- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds;
- non-disclosure of information in violation of a specific obligation, with the same affect; or
- the misapplication of such funds for purposes other than those for which they were originally granted with the same effect.

Regarding **revenue**, fraud includes any intentional act or omission relating to:

- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the illegal diminution of the resources of the budget;
- non-disclosure of information in violation of a specific obligation, with the same effect; or
- misapplication of a legally obtained benefit, with the same effect.

Full Cost

Is the total cost of all resources expense d in the production of an output. The total of direct and indirect costs.

Functional Classification of Expenditure

Classification of expenditure according to the purpose for which transactions are made. It is generally used to measure the allocation of resources by government to conducting various activities in order to accomplish those activities' objectives. It corresponds to a sectoral classification, i.e. "education", "transport", "health", etc., and is therefore easily reconciled with the administrative organisation of government.

Fundamental

A matter becomes fundamental (sufficiently material) rather than material when its impact on the financial statements is so great as to render them misleading as a whole.

General Government Sector

Includes those entities financed mainly through taxes, Commonwealth Government grants, and other compulsory levies. These entities typically provide products and services that are non-market in nature and/or are for the collective consumption of the community.

General Standards

The qualifications and competence, the necessary independence and objectivity, and the exercise of due care, which shall be required of the auditor to carry out the tasks related to the field and reporting standards in a competent, efficient and effective manner.

Goal

A statement concerning the successful realisation of an impact.

Government Business Enterprises

Include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. Government business enterprises are, in substance no different from entities conducting similar activities in the private sector; government business enterprises generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge.

Government business enterprises have all the following characteristics:

(a) Is an entity with the power to contract in its own name;

(b) Has been assigned the financial and operational authority to carry on a business;

(c) Sells goods and services, in the normal course of its business, to other entities at a profit or

full cost recovery;

(d) Is not reliant on continuing government funding to be a going concern (other than purchases

of outputs at arm's length); and

(e) Is controlled by a public sector entity.

Government Entity

A governmental office, unit, agency, bureau, department, ministry, or a consolidated group of such entities.

Government Outcomes

Are the Government's desired or intended impacts/effects on the community.

Governance

The way in which power and authority influence public life, especially economic and social development.

In the public sector, governance responsibilities may exist at several organisational levels as well as in several functions (i.e. vertically or horizontally). As a result, there may be instances where several distinct groups are identified as those charged with governance.

Furthermore, an audit in the public sector might involve both financial statement objectives as well as compliance objectives and in some cases that may involve separate governance bodies.

Grants

Unreciprocated, non-repayable, non-compulsory payments between governments or international institutions. The term is sometimes used also to refer to transfers of this nature made by government to all types of recipients.

Historical Cost

This is the amount representing the original cost of the asset.

Impact Evaluation

Impact evaluation attempts to assess the net effect of a programme by comparing programme outcomes with an estimate of what would have happened in the absence of the programme. This form of evaluation is employed when external factors are known to influence the programme's outcomes, in order to isolate the programme's contribution to achievement of its objectives.

Impact Indicators

Indicators of the extent to which a programme actually produced effects on client populations (usually based on more in-depth programme evaluations) or other targets of the programme.

Independence

The freedom of the SAI in auditing matters to act in accordance with its audit mandate without external direction or interference of any kind (The **Lima Declaration** – **INTOSAI P #1**)

Indirect costs

Are costs which are not directly traceable to the production of a specific output.

Inputs

Labour, materials and other resources used in order to produce outputs. Inputs are usually expressed as amount of expenditure or of resources themselves (such as number of employee/days). An input to an activity may also be the output of an earlier activity.

Intangible Assets

Financial assets, leases, mineral concessions, patents, copyrights and similar assets that are not of a physical nature.

Internal Audit

The functional means by which the managers of an entity receive an assurance from internal sources that the processes for which they are accountable are operating in a manner which will minimise the probability of the occurrence of fraud, error or inefficient and uneconomic practices. It has many of the characteristics of external audit but may properly carry out the directions of the level of management to which it reports.

Internal Control

The whole system of financial and other controls, including the organisational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information.

International Organisation of Supreme Audit Institutions (INTOSAI)

An international and independent body which aims at promoting the exchange of ideas and experience between Supreme Audit in the sphere of public financial control.

Inventory

Encompasses materials or supplies to be consumed in the production of outputs or services available for sale.

Joint Venture

A binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

Jurisdiction

The right and power to interpret and apply the law.

Key Management Personnel

Comprise:

- all directors or members of the governing body of the entity; and
- other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity.

Lease

Is an agreement conveying the right from a lessor to a lessee to use the leased items for a stated period of time in return for a series of payments by the lessee to the lessor.

Legislature

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

Liabilities

Arise from the existence of a present obligation which involves the sacrifice of economic benefits in the future to other entities and is the result of a past transaction or other past event.

- Liabilities (**Current**) are those liabilities of the department that would, in the ordinary course of operations of the department, be due and payable within twelve months after the end of the reporting period. Examples include creditors and employee entitlements such as annual leave.
- Liabilities (**Non-Current**) are all liabilities other than current liabilities, e.g. finance lease liabilities due after twelve months.

A **contingent liability** is one which depends on occurrence of a specific event to materialise (e.g., default by a guaranteed debtor.)

Line-item Classification.

See **Object Classification**.

Local Government/Local Administration

Governmental units exercising an independent authority and responsibility in the various rural and/or urban jurisdictions of a country's territory. All governmental units at the local level which are referred to in the definition of the generic term "government" should be included. For example, local government units may include municipalities, cities, towns, school districts, water and sanitation districts, combinations of contiguous local governments organised for various purposes, etc.

Management Audit

Analysis of public expenditure in the light of general principles of sound management.

Management Control

Or internal control, is the organisation, policies and procedures used to help ensure that government programmes achieve their intended results; that the resources used to deliver these programmes are consistent with the stated aims and objectives of the organisations concerned; that programmes are protected from waste, fraud and mismanagement; and that reliable and timely information is obtained, maintained, reported and used for decision making. It is the routine responsibility of an organisation's management to establish and monitor management control systems, not that of the external auditor (although an external auditor should comment on the presence/absence or adequacy/inadequacy of such systems).

Management Information Systems (MIS)

Those sources of data and records held within budget organisations which are designed as a common pool of information to assist managers in carrying out their responsibilities. MIS are generally understood to be based on information technology, although this is not always the case. Financial Management Information Systems (FMIS) are a sub-set of MIS and are widely regarded as essential for most governmental organisations to manage their resources better. Such systems may also assist in the evaluation of programme performance, in workload planning and in monitoring progress towards objectives. Management information systems form a key element of management controls and must themselves be efficient and cost-effective.

Management Plan

The Annual Management plan is a one-year plan describing how the inputs of the department (people, equipment, capital) are to be applied through activities for implementation of the programmes and sub-programmes presented in the corporate plan is closely aligned with the annual programme Budget.

The annual management plan can also be described as an annual operating plan, operations plan, business plan, and department plan.

Mandatory

This is a type of expenditure which is required by law, and which the budget organisation has little direct control over and little opportunity to change. In many countries, entitlement programmes are among the largest type of mandatory expenditure. It is the opposite of Discretionary expenditures.

Marginal Cost

The change in total cost resulting from a one-unit change in output produced.

Materiality and Significance (Material)

In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material--for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved.

In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to the overall view given by the accounts; the total of which it forms a part; associated terms; the corresponding amount in previous years. Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures.

Medium Term Expenditure Framework

A planning tool for government, the Medium Term Expenditure Framework (MTEF) consists of a top-down estimate of aggregate resources available for public expenditure, consistent with macroeconomic stability; coupled with bottom-up estimates of the cost of carrying out policies, both existing and new; within a framework that reconciles these costs with aggregate resources. It is called medium-term because it provides data on a prospective basis for the Budget Year and the following years.

Memorandum of Understanding (MOU)

This is a written and signed agreement between two or more governmental entities, to join together in ways that are specified in the MOU, under conditions that are specified in the MOU, in order to accomplish specific things during a specific period.

Ministry

Department of the government led by a minister.

Multi-year Budget

An approved budget for more than one year.

Net Assets

Is the residual interest in the assets of an entity after deduction of its liabilities

New Policy Proposal

New policies may be defined as activities or programmes which the government did not previously undertake. There are two categories of new policies: a) completely new policies; and b) major changes to existing policies. The former is often easier to identify and estimate resource requirements for, and examples include new capital investments such as a school, or the provision of free medication to all citizens over the age of 70. The new policies which are major changes or variations in scope to ongoing policies may be more difficult to estimate the costs for, because the changes may depend on factors which are difficult to forecast or control.

Object Classification

A display of expenditures within the budget formulation and execution systems that identifies the specific types of goods or services acquired or transfer payments made; often called "line-item" classification.

Opinion

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

Outcomes

What is ultimately achieved by an activity (generally, over a longer period), as distinct from its outputs which relate to more direct or immediate objectives. For example, the outcome of a random breath testing campaign conducted by the police may be a decline in drunk driving and in automobile accident fatalities, while one of the outputs could be an increase in the number of drivers charged with exceeding the legal alcohol limit.

Outputs

The products and services produced by an activity. Outputs are important for measuring work performance, but generally do not in themselves indicate the extent to which progress has occurred toward achieving the programme's purpose. Depending on their nature, outputs may, or may not be easy to measure, e.g. the number of hospital cases is easier to measure than the advice on a policy issue submitted by a health administrator.

Output Budgeting

This is the process of linking budgetary appropriations to specific outputs, more or less detailed, depending on the administrative capacity of the organisation in question. When aggregated, this detailed output-budgeting becomes similar to programme budgeting.

Objective

Objectives indicate the broad end results desired from a programme and contribute to the achievement of outcomes expressed in the National Strategic Development Plan.

Performance Appraisal

Assessment against a set of predetermined criteria of the efficiency and effectiveness with which an individual fulfils an agreed set of tasks.

Performance Audit

Audit covering economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities. Also called "value-for money" or “efficiency audit".

Performance Budgeting (or Programme Budgeting)

Budgeting which focuses on programmes and which is linked to measurable performance or outcomes. It is intended to focus attention on the results of the programmes, and not merely on the amount of resources used by the programme. Performance budgeting consists of: dividing government activities into functions, programmes, and activities; establishing performance indicators by activity; and measuring costs of activity outcomes or budgetary outputs. Programme budgeting is often defined as a form of performance budgeting focusing on the classification by programme defined along government objectives.

Performance Indicators

See **Performance Measurement.**

Performance Measurement

Assessment of programme results against a set of predetermined criteria of the economy, efficiency, effectiveness, and process with which an organisation carries out a particular activity or range of activities. Performance indicators are used in making these measurements. They may relate to:

- the use of specific types of resources (input indicators);
- the process by which resources are used or outputs produced (process indicators);
- the goods and services themselves produced (output indicators); and
- the results from those goods and services (outcome indicators).

Performance Measures (Targets)

Are output measures expressed in terms of quantity, quality, timeliness and budget cost (price to be paid) that will be used for Revenue Certification.

Performance Standards

These indicate a target that describes how well an output will be delivered to customers. The standard is the target to be achieved and it must be supported by appropriate quantitative measures.

Standards may address the **quality** of service delivery, the **capability** of employees, cost and the effectiveness of internal process

Planning

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

Principles

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

Prior Period Errors

Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorized for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Process Evaluation

This assesses a programme activities' conformance to specific procedures, statutory and regulatory requirements, due process, programme design, and professional standards, or customer expectations.

Programme

Set of activities intended to contribute to an identifiable government objective (e.g. crop development). It is an organised endeavour of an agency that has measurable objectives and a direct relationship to the agency's mission; it has a defined budget and staffing; and has an identifiable target population.

Programme Budgeting.

See **Performance Budgeting.**

Programme Evaluation

Programme evaluations are systematic studies conducted periodically or on an ad hoc basis to assess how well the programme outcomes are being achieved. They are often conducted by individuals external to the programme, either inside or outside the organisation concerned, but their results are of great importance to the organisation. Various types of programme evaluations can be identified and used, depending on the type of organisation and the type of programme. The results of programme evaluation should be used in the budget formulation process to suggest ways in which the programme could be changed.

Public Account

Is the Government’s official bank account. All the bank accounts of the State, maintained at various commercial banks, in which are held the moneys of the Consolidated Fund and the Trust Fund.

Public Accountability

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

Public Financial Corporations

Are government-controlled entities which perform central bank functions, accept demand, time or savings deposits and/or are authorised to incur liabilities and acquire financial assets in the market on their own account.

Public Investment Programme

This is multi-year aspect of the budget process which focused on identifying the need for, and then seeking funds for, capital items which can attract investment and help to build the economy or increase employment or otherwise help to accomplish the nation’s major goals. Public investment programmes should always be included as a part of the larger budget formulation process, especially regarding capital expenditures and the relationship between capital items and the recurrent costs of supporting them in future years.

Publicly Owned Enterprise

Any legal entity which is separate from the government, but where over 50 percent is owned by the state directly or indirectly.

Public Sector

General government, plus all public enterprises.

Quality Assurance Checklist

A checklist to ensure that output costings meet the information quality standards required for consideration in the budget process.

Reconciliation

The checking of one set of records with another, to ensure consistency. For example, the daily statement from the Central Bank should be reconciled (checked) against the spending unit's own records of transactions. The two documents should align, or any discrepancy should be checked and reported.

Recurrent Expenditure

These are the expenditure which is made on a regular basis to sustain the current activities of a budget organisation. They include salaries, utility costs, office supplies, transportation and similar items.

Reducing Balance Method (Depreciation)

The asset is depreciated by a set percentage each year. (Generally applied where an asset is expected to yield more service in earlier reporting periods than in later ones).

Regularity Audit

According to **ISSAI #2005** regularity audit embraces:

(a) attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;

(b) attestation of financial accountability of the government administration as a whole;

(c) audit of financial systems and transactions, including evaluation of compliance with applicable statutes and regulations;

(d) audit of internal control and internal audit functions;

(e) audit of the probity and propriety of administrative decisions taken within the audited entity; and

(f) reporting of any other matters arising from or relating to the audit that the Supreme Audit Institution considers should be disclosed.

The terms “regularity audit” and “financial audit” are often used interchangeably. Such references to audits include an audit of financial statements, and some or all of the elements set out in a) to f) above, depending on the mandate of the Supreme Audit Institution.

Report

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

Reporting Standards

The framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor's report.

Resources

The inputs that are necessary to perform the activities necessary for the successful delivery of an output to customers. Inputs refer to people costs, equipment cost, and capital cost.

The cost of inputs in the Management Plan must match with the costs shown in the budget output structure.

Restructuring

A programme that is planned and controlled by management, and materially changes either:

- the scope of an entity’s activities; or
- the manner in which those activities are carried out.

Results

The output, outcome or impact (intended or unintended, positive and/or negative) of a development intervention.

Results Chain

The causal sequence for an intervention that stipulates the necessary sequence to achieve desired objectives, beginning with inputs, moving through activities and outputs, and culminating in outcomes, impacts, and feedback.

Results-based Management (RBM)

A management strategy focusing on performance and achievement of outputs, outcomes and impacts.

Revenue

The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Revaluation

Is the act of recognising a reassessment of values of non-current assets at a particular date

Risk Analysis/Assessment

A systematic process for assessing and integrating judgments about probable adverse conditions and/or events, as a basis for the appropriate budgetary treatment of those conditions or events.

Sectoral Classification.

See **Functional classification.**

Spending Limits

An amount less than, or equal to, the allotment that is provided to a spending unit for a specified period of time. Spending limits may be varied during the course of the fiscal year in accordance with the results of monthly or quarterly reviews of budget performance.

Spending Unit

The lowest administrative division which controls a separate budget and has the authority to spend budgetary funds

Stakeholders

All of those who have an interest (either direct or indirect) in an institution, its activities and its achievements. These may include clients or customers, partners, employees, shareholders/owners, government or regulators.

State Enterprise.

See **Publicly Owned Enterprise.**

Statement of Assets and Liabilities

A financial statement that shows, at the end of each reporting period, each class of assets and liabilities of an organisation. The public sector equivalent of the **Balance Sheet** of private companies.

Statutory

Decided or controlled by law.

Straight Line (Depreciation)

Calculates depreciation charges for assets which expire at a constant rate over their useful lives. (Can also be referred to as Prime Cost).

Strategy

Synonymous with action - a set of related activities designed to achieve a specific medium-long term goal

Sub-national Governments

See **Local Government**

Supervision

An essential requirement in auditing which entails proper leadership, direction and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved.

Supreme Audit Institution (SAI)

The public body of a State which, however designated, constituted or organised, exercises by virtue of law, the highest public auditing function of that State. In some Supreme Audit Institutions there are a single appointed Auditor General who acts in a role equivalent to that of "engagement partner" and who has overall responsibility for public sector audits. Other Supreme Audit Institutions may be organised as a Court of Accounts or having a collegiate or board system.

Surplus

Results where operating revenue generated by a department is greater/less than the associated operating expenses for a particular accounting period. This is also known as the operating result.

Sustainability

The continuation of benefits from an intervention after the intervention has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Target (MTEF Target)

The final products, goods, or services produced over a given period of time, by an institution, in order to achieve its objectives. An MTEF target corresponds to an output.

Taxes

Economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law

Transfers-in

Inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Transparency

Transparency of fiscal and financial information is essential for an informed executive, legislature, and the public at large (normally through the filter of competent legislative staff and capable public media). It is essential not only that information be provided, but that it be relevant and in understandable form. Providing large amounts of unexplained financial information to the public does nothing to improve fiscal transparency. The IMF underlines the importance of clarity of fiscal roles and responsibilities; public availability of information; open processes of budget preparation, execution and reporting; and independent reviews and assurance of the integrity of fiscal forecasts, information and accounts.

Unit Cost

Is the full cost is divided by the number of output units produced.

Units of Use (Depreciation)

Allocates depreciation in terms of economic units of production or usage rather than on the basis of time.

User Charges

Payment directly by the consumer for goods and services provided by the public sector to individuals or organisations in the private sector (whether for partial or total recovery of costs of provision) as well as the internal pricing of goods and services (i.e. user charges between public institutions and agencies)

Value for Money

Value for money (with a focus on objectives, whole of life costs and risk management) is a key criterion for each output evaluation project. There are often also non-financial matters to be considered in evaluating value for money. Value for money is much more than mere efficiency since it relates to the achievement of departmental objectives and/ or delivery of outputs.

Values

The values/principles describe how the department conducts itself when carrying out its business. Generally, the best statements of principles/values express the departments' attitude and likely behaviour about three things:

- People: the way employees and customers are treated;
- Processes: the way things are managed in the department; and
- Performance: the expectations of quality.

Vision

The Vision is a compelling image of the desired state for the department in the long-term future

Warrant

An authorisation from the Ministry of Finance and Economy to a budget organisation to spend budgetary funds for a particular category of spending during the fiscal year. The funds are generally sub-divided by means of apportionments. Individual spending organisations may issue sub-warrants to their subordinate spending units.

Written Down Value (WDV)

This is the gross value of an asset (acquisition cost or current cost) less accumulated depreciation.

Template #1: Preliminary Engagement Activities

Purpose: To determine whether pre-conditions exist to facilitate the conduct of the audit by the Supreme Audit Institution (SAI)

Issues to Consider	Working paper reference	Describe the factors and events that were observed and noted	Evaluate the Impact on the overall audit strategy	Referenced to overall audit strategy
1. Relevant Ethical Requirements ***1.1 Integrity*** (a) Document whether auditors have complied with the SAI's procedures designed to ensure a high level of integrity. e.g. SAI has adopted a Code of Ethics				
1.2 Objectivity (a) Document the steps that the audit team has taken to ensure that objectivity is maintained throughout the audit e.g. - Declaration of relationships with audited entity or its management - Other independence/ ethical requirements of the SAI's Code of Ethics				
1.3 Independence **(a) SAI: Document the authority/ mandate of the SAI to carry out this audit.** (b) Staff • State whether all team members have signed their independence declarations/statements (if applicable) • Record any subsequent changes to the information submitted in the signed declarations. • Matters that would affect their independence in performing audit have been discussed among team members . Document results of discussion. Following factors could affect the independence of team members: 1. Conflict of Interest Are any family members employed at the entity to be audited (e.g. spouse, children, siblings, and any close relatives?)				

How to Use Template 1

Column 1 - Issues to Consider

This column lists the factors to be considered in assessing the SAI's ability to carry out the audit engagement. It contains specific information to guide the auditors in determining the issues that can affect the preliminary engagement activities, impacting the overall audit strategy.

Column 2 - Working Paper Reference

The second column references the documentation that supports the observations related to the issues raised in Column 1. (*e.g.* completed and signed checklist, interview notes, copies of acts, legislation that may be retained in the permanent files).

Column 3 - Describe the Factors and Events that were Observed and Noted

This column requires a description of the factors and events that were observed and noted in relation to the issues identified in Column 1.

Column 4 - Evaluation of Impact on the Overall Audit Strategy

This column is used to document whether or not factors/ events identified in Column 3 have an impact on the overall audit strategy. The evaluation should clearly describe what the impact on the audit strategy could be (e.g. concerns about management's integrity or commitment to internal control will impact on the auditor's planned reliance on internal control; identification of complex accounting transactions may suggest the need to acquire specialized audit skills).

Column 5 - Referenced to Overall Audit Strategy

This column carries forward relevant considerations to the overall audit strategy based on the information in Column 3 and the evaluation in Column 4, and is referenced to the specific section of Template 2 to which it relates.

Issues to Consider	Working paper reference	Describe the factors and events that were observed and noted	Evaluate the Impact on the overall audit strategy	Referenced to overall audit strategy
ii Financial/Self Interest Does any team member or the above mentioned parties have financial or other interests (supplier or customer) in the entity to be audited iii Intimidation Indicate whether the independence of the audit team would be affected by the attitude of management and other staff of the client towards members of the present and previous audit teams. iv Self Review Has anyone in the audit team been				
2. Acceptance and Continuance 2.1 Assess whether there is a requirement for specialized skill or knowledge that the SAI may not possess and the availability of resources by considering the following: • Nature of the audited entity's business or operations • Experience, skills, qualifications of the audit staff • Staff availability • Experts required • Timing 2.2 Evaluate the reputation and integrity of management and those charged with governance by considering the following: • Management Letters • Public Accounts Committee minutes • Media Reports • Letters/Memoranda to the SAI 2.3 Are there any significant matters arising from the previous year's audit that could impact the current year's audit?				

Issues to Consider	Working paper reference	Describe the factors and events that were observed and noted	Evaluate the Impact on the overall audit strategy	Referenced to overall audit strategy
3. Terms of Engagement 3.1 Determine if the statements are prepared in accordance with the accepted financial reporting framework by assessing the following: (a) Nature of the entity (e.g. Government company, Central Government, non-profit organizations, Statutory Authorities, Internationally-funded Projects) (b) Purpose of the Financial Statements (e.g. General Purpose, Specific User e.g. Funding Agency, Parliament) (c) Nature of the Financial Statements e.g. • A complete set of financial statements, (e.g. statement of financial position, income statement, statement of cash flow, statement of changes in equity, notes to the accounts). • Single financial statement- Appropriation account. (d) Financial Accounting Framework (e.g. IFRS, IPSAS, Government directives etc.)				
3.2 Consider and document whether management aknowledges and understands its responsibilities in relation to the financial statements. E.g. a signed engagement letter including the following: • The preparation of financial statements in keeping with the applicable framework • Implementing internal controls relative to the financial statement that are adequate to ensure that they are free from material misstatement, whether due to fraud or error.				

Issues to Consider	Working paper reference	Describe the factors and events that were observed and noted	Evaluate the Impact on the overall audit strategy	Referenced to overall audit strategy
• To provide the auditor with access to information such as: (a) records (including electronic records), documentation, other matter relevant to the financial statements (b) Additional information that the auditor may request (c) Unrestricted access to persons within the entity from whom the auditor may need to obtain audit evidence. • The responsibilities of management to make available to the auditor draft financial statements and any other accompanying information in time to allow the auditor to complete the audit in accordance with the proposed timetable.				
3.3 Consider whether management acknowledges and understands the role and responsibilities of the auditor. 3.4 Scope of the audit engagement (a) Is the scope of the engagement clearly understood by management as detailed in the Terms of Engagement? (b) Are there any scope limitations identified? (c) Are there any changes to the scope?				
3.5 Recurring audits (a) Consider the need to revise the engagement letter or remind the entity of existing terms if: • There are indications that the entity misunderstood the objective and scope of the audit				

Issues to Consider	Working paper reference	Describe the factors and events that were observed and noted	Evaluate the Impact on the overall audit strategy	Referenced to overall audit strategy
• There is a recent change of senior management • A significant change in ownership, nature or size of the entity's business • Change in legal or regularity requirements • Change in the financial reporting framework • Change in other reporting requirements				
3.6 Acceptance of a change in the terms of the Audit Engagement where such discretion in deciding terms of appointment is possible: • Consider a request to change the terms of the audit engagement. (Review the justification given for the request)				
CONCLUSION: In our/my opinion, the pre-conditions exist to carry out the audit assignment, subject to any adjustments required as a result of information obtained when preparing the overall audit strategy.				

Conclusion of template 1

After completing this template, the SAI should be able to determine whether or not the necessary conditions exist to carry out the audit

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #1; IDI

Template #2: Sample of Audit Engagement Letter

Source: IDI FA Implementation Handbook

Engagement Reference No. **Dated: ………….**

The Head of the Entity (Head of Management or those charged with governance)
XYZ entity

Sir/Madam,

The objective and scope of audit

As required under the SAI Audit Act and …. *(other relevant laws),* the SAI of …. *(insert name of country)* will conduct the audit of the Financial Statement of the XYZ entity, which comprise Statement of Financial Position as at 31 December 20X1, Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies *(these are names of financial statements prepared on accrual basis, and names as provided in IFRS. In case of cash based accounting, the financial statement could comprise of Receipts and Payments Statements or Cash Receipts and Cash Payments, and Statement of Expenditure for the year ended 31 December 2016)*. This is a mandated audit as required by the Laws. We further confirm our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Responsibilities of the Auditors

We will conduct our audit in accordance with International Standards of Supreme Audit Intuitions (ISSAI). Those standards require that we comply with ethical requirements. As a part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to audit 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 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 ISSAI.

We will issue audit findings in the form of audit observations from time to time during audit requiring additional information, proper explanation and appropriate action from the management.

Responsibilities of the management

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:

a) For the preparation and fair presentation of the financial statements in accordance with applicable financial reporting framework *(in case where entity has used fair presentation framework)* Or preparation of the financial statements in accordance with applicable financial reporting framework or XYZ law of ABC jurisdiction *(in case where entity has used compliance framework)*;
b) For such internal control as [management] determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

i. To provide us with:
   ii. Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   iii. Additional information that we may request from [management] for the audit; and
   iv. 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. We look forward to full cooperation from your staff during our audit.

Audit Entry Conference

The Audit Entry Conference shall be conducted at the commencement of audit. Amongst others, the contents of the engagement letter will be discussed in the Entry Conference.

Disclosure of fraud and corruption

If the management is aware of fraud and corruption that took place in the entity, they should disclose to the auditors during the audit entry conference or during audit. It is the responsibility of the management to institute adequate system of internal controls to prevent and detect fraud and corruption.

Custody and control of documents

The responsibility for custody and control of documents shall rest with the management. The auditor shall not remove documents from the entity's premises without management's consent. At the end of the audit, the auditors shall handover all the documents to the management.

Audit Exit Meeting

An Audit Exit Meeting will be conducted within one month on completion of field audit. During the exit meeting, the auditor's report on the financial statements, audit findings along with management's responses will be discussed and finalised.

Reporting

On completion of audit, the auditor as designated by the SAI shall express an opinion as to whether or not the financial statements are prepared, in all material respect in accordance with financial reporting framework or gives a true and fair view of the financial performance of any entity.

Agreement of terms

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

___(signed)____

Head of SAI/Department/Division

Acknowledged and agreed on behalf of XYZ Entity by

(signed)

....

Name and Title Date

Template #3: Overall Audit Strategy

How to use template:

Column 1- Issues to Consider

This column contains a list of the specific issues to be considered in planning the audit. These issues have been grouped into the following categories:

a. Characteristics of Engagement
b. Reporting objectives
c. Significant factors
d. Resourcing

Details of the categories relating to issues that are to be considered are given below.

Column 2- Describe the Factors and Events that were observed and noted

The auditor is required to record observations made relating to the issues identified in column 1 including a reference to the source of the information documented.

Column 3-Implication for Detailed Audit Planning

In Column 3 the auditor should give a "yes" or "no" indication of any relationship between the issues considered and the risk assessment procedures for the audit, thus having an implication for detailed audit planning.

Column 4- Explain Implications for Detailed Audit Planning

The implications of the relationship indicated in Column 3 should be described and explained in Column 4. This should be cross-referenced to Risk Assessment Procedures. Any identified risk of material misstatements is also carried forward to Template 6-Risk Register.

Purpose: To identify preliminary decisions on the focus of the audit including the objective, scope, nature, timing, direction and materiality of the audit.

Issues to Consider	Describe the factors and events that were observed and noted	Implication for Detailed Audit Planning Yes/No	Explain implications for Detailed Audit Planning
1. Characteristics of Engagement 1.1 Reporting Framework (a) What is the financial reporting framework used to prepare the financial statements, (e.g. general purpose such as IFRS or IPSAS or specific purpose)? If a specific purpose framework is used, consider the evaluation of its suitability carried out in prior years. (b) Are there any regulations or laws which have an impact on the reporting framework?			
1.2 Reporting Requirements (a) Are there are any entity or industry specific reporting requirements set by law, regulation or other authority?			

Categories to be included in Column 1

(1) Characteristics of the Audit Engagement

Under this category the auditor will need to consider issues such as:

1.1 The Financial Reporting Framework for the Financial Statements

This refers to the source of accounting principles used to prepare the financial statements (e.g. IFRS, IPSAS, legislation, national accounting standards, government directives etc.). Knowledge of the basis of the financial reporting framework is fundamental to the auditor's understanding. The financial reporting framework establishes the criteria for preparation of the financial statements.

An example of a risk that can arise may be that the entity does not have staff who are knowledgeable about accrual accounting and the related financial reporting standards. The risk that the financial statements do not meet the standards is therefore increased and will have an impact at the financial statements level. Disclosure and recognition requirements for the financial statements may not be met.

1.2 The Reporting Requirements

The entity may also have reports which are required by regulators of their specific industry. Details of the reporting requirements should be documented in Column 2. The auditor should then indicate with a "yes" or "no" whether the observations of column will impact on risk assessment.

The nature of the public sector is such that it is rarely subject to industry-specific regulation. However, in the public sector there may be specific reporting requirements in legislation that the auditor must understand. For example, there may be regulation or policy that requires a government entity to report on actual results versus budget or appropriation. In addition, there may be government companies that operate on a competitive basis with similar companies on other countries, for example, in an export market. Regulatory reports may be required by those markets. Any implications for risk, such as incorrect reporting of typical industry indicators (production or sales volumes) must be documented. In developing the overall audit strategy the auditor would need to manage audit risk by gaining an understanding of industry benchmarks or indicators.

Issues to Consider	Describe the factors and events that were observed and noted	Implication for Detailed Audit Planning Yes/No	Explain implications for Detailed Audit Planning
1.3 Expected Audit Coverage (a) Does the entity have more than one division to be audited at separate locations? Consider significance, risk and extent or control exercised at those locations. (b) What is the control relationship between a parent and any components that might affect consolidation procedures? (c) Are components audited by other auditors? (d) Is there a need for specialized knowledge due to the nature of business or activities carried out?			
1.4 Reporting Currency (a) What was the reporting currency used? (a) (b) Is there a need for currency translation?			
1.5 Entity's use of service organisations (a) (a) Does the entity use any service organisations to process transactions (e.g. consider the impact of centralized government processing on the financial statements of the audited entity)? (b) How can the auditor obtain evidence concerning the design or operations of controls performed by these service (or external) organisations?			

1.3 Expected Audit Coverage

Factors to be considered under audit coverage include:

- Whether the entity has more than one division to be audited and their locations; in case of government organizations, there are often multiple locations where control over transactions is exerted locally.
- Whether the audit is an audit of stand-alone financial statements or is of consolidated statements
- Whether the entity utilizes segment reporting and/or there is need for specialized knowledge.
- The extent to which components of the entity are audited by other auditors.

All information gathered and observations made about these factors, and others which may be relevant here, should be documented in Column 2. The risk impact should be noted and the implications outlined.

1.4 Reporting Currency

The entity's reporting currency and the need for translation of financial information must be considered. Column 2 could indicate, for example, whether the accounting software being used includes tables or the mechanism used to translate foreign currency balances. The frequency with which such tables or conversion rates are updated should also be considered.

1.5 Entity's use of Service Organizations

Some entities outsource different parts of their operations. For example. Payroll processing may be done by a company offering such services. In other cases, the entire accounting process may be outsourced to the entity's parent ministry or department. While the latter case may not meet the technical definition of service organization, it does raise the same types of issues for auditors-i.e. how does the auditor gain an understanding of the processes and controls relevant to the audit, for transactions processed outside the audited entity?

The overall audit strategy must take into consideration the implications of such arrangements, particularly on audit risk. The auditor will have to consider how evidence relating to the design or operation of controls in those service organizations will be obtained. The specifics of any such arrangements should be documented in the relevant column in the template, as well as the correlation with risk assessment.

Issues to Consider	Describe the factors and events that were observed and noted	Implication for Detailed Audit Planning Yes/No	Explain implications for Detailed Audit Planning
1.6 Reliance on work of the internal Auditor: (a) Is there an internal audit function? (b) Are reports and working paper files prepared by the Internal Auditor? (c) Is there segregation of duties in relation to the Internal Audit function? (d) Is there an Audit Committee or other similar organisation that contributes to the independence of Internal Audit? (e) Is there the potential to place reliance on the work of Internal Audit?			
1.7 Reliance on audit evidence from prior years' audits: (a) Have previous audits been conducted on this entity? (b) Is there evidence from prior years' audits that can contribute to risk assessment procedures? (c) Does the audit team intend to rely on audit evidence from previous audits to reach conclusions on the effectiveness of internal control in the current audit?			

1.6 Reliance on the Work of Internal Auditors

Many ministries and government entities utilize internal audit as part of their control mechanism. The availability of the work of internal auditors and the level of reliance that is to be placed on such work should be considered in the overall audit strategy. Information to be documented about internal audit at this stage includes:

- The size and structure of internal audit and their work review process.
- Who internal audit reports to (i.e. to determine the degree of independence from management).
- The qualification and experience of the internal auditors.
- An outline of how their work is documented.

The ability to place reliance on the work of internal audit can reduce audit risk. The auditor may then be able to focus resources on areas not covered by internal audit. Total coverage in terms of audit review would then be increased. The work of internal audit could also help in focusing audit resources in areas of high risk identified in internal audit reports.

1.7 Matters Related to Audit Process

- Use of audit evidence from previous audits.
- The effects of information technology on the audit procedures.
- Possible reviews of interim financial information.

In doing the audit of the financial statements, the auditor may be able to use audit evidence gathered in previous audits. This may include evidence related to risk assessment procedures and test of controls. This will impact the overall audit strategy as it will affect the extent of substantive audit work that is required by the detailed audit plan. The template should indicate what information will be used from previous audit work and reference to working papers. It is important to remember that previous year's audit files are a source of information to plan the current year's audit but not a template that is necessarily followed for the current year's audit.

An indication could be given on whether the information to be audited will facilitate the use of computer-aided audit techniques (CAATs) and what those may be.

The entity may produce interim financial information which may be useful in devising the overall audit strategy. The extent of intended use of such information should be documented in the template.

Issues to Consider	Describe the factors and events that were observed and noted	Implication for Detailed Audit Planning Yes/No	Explain implications for Detailed Audit Planning
1.8 The effects of Information Technology: (a) Are the accounts prepared electronically or manually? (b) If records are electronic, how will the audit team access data or use computer assisted audit techniques?			
1.9 Availability of data and key personal: (a) Has the audit team ensured that key personnel and data of the entity will be available at the planned audit dates?			
2. Reporting Objectives 2.1 Entity's timetable for reporting (a) Is there is a statutory deadline for reporting the financial status of the audited entity? (b) If so, what is that date and when will the audit have to be completed to meet that date? (c) What is the timetable for completing the audit?			

1.8 The availability of client personnel and data

The strategy must also take into consideration the availability of client staff at key stages of the audit.

2. Reporting Objectives

Reporting objectives deal with the entity's reporting timetable, the timing of the audit and audit report and communication between auditors and management, those charged with governance and third parties, as well as among the audit team. Under this category the auditor will need to consider issues such as:

2.1 Timetable for Reporting

The auditor needs to document the deadlines for the preparation of the financial statements and the audit report. These deadlines are usually stated in the statutes governing the entity. There may be deadlines for interim and final reporting. The overall strategy will have to consider the availability of staff to meet those deadlines. This will be impacted by the results of the risk assessment procedures and the extent of work to be performed.

Issues to Consider	Describe the factors and events that were observed and noted	Implication for Detailed Audit Planning Yes/No	Explain implications for Detailed Audit Planning
2.2 Communication (a) Meet with management and those charged with governance to discuss the nature, timing and extent of audit work; Type and timing of reports and other communications. (Document expectations for communications to the entity). (b) Document expectations agreed to with management to communicate the status of audit work throughout the engagement. (c) Document expectations for communications among members of the audit team to discuss the expected types and timing of reports, nature and timing of team meetings and review of work performed. (d) Are there any expected communications with third parties including statutory or contractual reporting responsibilities arising from the audit?			
3. Significant Factors 3.1 Determine materiality (a) Determine overall planning materiality for the audit using the SAI's guidance. Document the process used and the materiality established for the audit. (b) Determine performance materiality for the audit using the SAI's guidance. Document the process used and the performance materiality established for the audit. (c) Identify significant components and material classes of transactions, account balances and disclosure that may require establishment of materiality below the overall planning materiality. Document those items and the related materiality and performance materiality. (d) Determine materiality for any components and where applicable communicate it to auditors of those components.			

2.2 Communication

The manner and timing of communications with management and those charged with governance concerning the nature, timing and extent of the audit work, auditor's report, management letters and other communications should be documented at this stage. For example, arrangements for entrance interviews and preliminary review of financial information can be made. Minutes of those meetings should be agreed and documented. References for those minutes can be included in the template.

Communication will also be taking place among the audit team and with auditors of other components, where relevant. Timelines for team meetings and agendas for those meetings and reviews can be listed at Column 2 with reference to the supporting documents.

3. Significant factors in planning the audit

In developing the overall audit strategy, the auditor should consider the following significant factors:

3.1 Materiality

The auditor should determine materiality for the financial statements as a whole, for specific classes of transactions, balances and events (if applicable) and performance materiality. Performance materiality is used in the planning stage for assessing the risk of material misstatements and the nature, timing and extent of further audit procedures.

Issues to Consider	Describe the factors and events that were observed and noted	Implication for Detailed Audit Planning Yes/No	Explain implications for Detailed Audit Planning
3.2 Material misstatement (a) Based on knowledge of the entity and information gathered to date, make a preliminary identification of areas that may be subject to high risk of material misstatement. (b) Assess and document the impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review of the audit. (c) Document the manner in which the engagement team is briefed on the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence. (d) Document discussion of matters that may affect the audit with other SAI personnel responsible for performing other engagements to the entity.			
3.3 Internal Controls (a) Consider the results of previous audits that involved evaluating the operating effectiveness of internal controls including the nature of identified deficiencies and action taken to address them. (b) Is there evidence that management seriously considers control deficiencies? (c) Consider evidence of management's commitment to the design, implementation and maintenance of sound internal controls, including evidence of appropriate documentation of such internal control. (d) Consider the impact of the volume of transactions which may determine whether it is more efficient for the auditor to rely on internal control. (e) Consider the importance attached to internal control throughout the entity to the successful achievement of its objectives.			

3.2 Material misstatements

In certain areas there is a higher risk of material misstatements based on the knowledge of the entity and information gathered. The auditor considers the likelihood and the impact of the risk of material misstatement-at the financial statement level and for those specific components, classes of transactions, balances and events for which a lower materiality has been set.

3.3 Internal control

Evidence of management's commitment to the design, implementation and maintenance of sound internal controls should be obtained. The auditor uses the results of previous audits as part of the evaluation of the operating effectiveness of internal controls. For example, auditors can note the nature of identified deficiencies and the action taken to address them.

Issues to Consider	Describe the factors and events that were observed and noted	Implication for Detailed Audit Planning Yes/No	Explain implications for Detailed Audit Planning
3.4 Significant issues (a) Consider the impact of significant organizational developments affecting the entity such as changes in information technology and business processes. (b) Consider significant developments such as changes in industry regulations and new reporting requirements. (c) Consider significant changes in the applicable financial reporting framework, such as changes in accounting standards. (d) Consider other significant relevant developments, such as changes in the legal environment affecting the entity.	***3.4 Other significant factors*** Significant changes in the business development such as changes in information technology and business processes and key management changes; in the industry, such as industry relations and new financial reporting; changes in the financial reporting framework, such as changes in the accounting standards; changes in the legal environment affecting the entity should be documented.		
4. Resourcing 4.1 Assigning Resources (a) Are there particular qualifications or levels of experience staff need to possess? (b) Are personnel with special skills/ expertise needed (e.g. IT, Finance, Engineering)? (c) What hardware and software resources are needed for the audit? (d) Are experienced team members assigned to the areas with the highest risk of material misstatement?	***4. Resources to be used in conducting the audit*** Issues such as the nature, timing and extent of resources need to be considered: ***4.1 Nature of Resources*** The resources required for specific audit areas should be determined, allowing for high risk areas to be assigned to experienced team members and for considering whether there is a need for experts.		
4.2 Amount of resources (a) How many staff members will be needed? (b) Was the previous year's allocation of staff sufficient? (c) How long did it take to complete the audit in the previous year? (d) Are the necessary IT resources available? (e) What additional costs might be incurred?	***4.2 Extent of Resources*** The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at the material locations, the extent of review of other auditor's work or the audit budget in hours to allocate to high risk areas.		
4.3 Timing (a) Are there sufficient and available resources to meet the timing requirements? (b) When will these resources be deployed? e.g. whether at an interim audit stage or at key cut-off-dates.	***4.3 Timing of Resources*** The overall audit strategy needs to take into consideration when these resources will be used.		

Issues to Consider	Describe the factors and events that were observed and noted	Implication for Detailed Audit Planning Yes/No	Explain implications for Detailed Audit Planning
4.4 Management of resources (a) Have you considered the allotment of time for the periodic review of audit work? (b) Will an engagement quality control review have to be completed? (c) How will resources be managed, directed and supervised? (d) When will team briefing and debriefing meetings be held?			
Conclusion: In my opinion, the overall audit strategy provides appropriate direction to focus the risk assessment procedures and design of further audit procedures			

4.4 Management of Resources

In order to have an efficient and effective audit, resources must be properly managed. This means that attention must be given to timeliness of reviews, field visits by senior officers, briefing and debriefing meetings. Meticulous planning based on risk assessment will save any wastage or inappropriate use of resources.

Conclusion of Template 2

The completion of this template will help the auditor to ensure that the focus of risk assessment and planned approach to the audit are clear.

The decisions and information compiled in template 2 should be summarized in an overall strategy document. The summary may include the following:

- Name of the entity, financial statements being audited, period and date.
- Basic information about the entity, including its operations, a high level summary of key information such as expenses, assets and liabilities.
- Financial reporting framework.
- Nature of audit opinion being given including whether it is a "presents fairly" or "compliance" opinion and whether there are any other reporting requirements set in law, regulation or other authority.
- Materiality and the basis for establishing the materiality, including overall materiality, materiality for components, specific classes of transactions, balances or events (if applicable) and performance materiality.
- Preliminary identification of risks of material misstatement, based on knowledge gathered to date, in order to guide risk assessment procedures.
- Preliminary identification of any areas of significant risk (e.g. fraud, inadequate control environment, new or unusual transactions, etc.)
- Statutory date for completion of the audit and timetable for achieving that date including planned visits to entity locations.
- Resources assigned to the audit engagement with budget assigned to key stages and areas along with the identification of any specialized skills and knowledge required.
- Identification of supervision and review responsibilities including any high risk areas and assignment of an engagement quality control reviewer, if applicable: and
- Any other information that may be useful to senior management and/or the audit team in understanding the overall strategy for the audit.

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #1; IDI

Template #4: The Entity in its Environment

Purpose: To document the auditor's understanding of the entity and its environment

Issues to Consider	Document Auditor's Understanding of the Business	Explain Implications for Risk of Material Misstatement. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
1. Relevant industry, regulatory and other factors		
1.1 Relevant industry factors: a. Consider what the business of the entity is (what it does). b. Consider other factors that may influence or affect the direction or operation of the entity such as: i. Whether the entity's business is a monopoly or competes with the private sector; ii. Changes in government; iii. Changes in government and/policies resulting in: • New geographic locations or closures of existing locations; • Reorganisations, including transfer of activities to other entities; • New programme areas; • Budgetary constraints or cut backs.		

How to use Template 3

Column 1: Issues to Consider

Column 1 contains a list of specific issues to be considered which the audit team should gain an understanding of in order to assess the risk of material misstatements.

Column 2: Document the Auditor's Understanding of the Business

For each of the issues considered in Column 1, the auditor should provide a description of his or her understanding of the relevant information about the entity and the environment in which the entity operates.

Column 3: Explain Implications for Risk of Material Misstatement

The auditor's description should clearly describe the risk and what can go wrong as a result. The column should describe the likelihood and impact of the risk (i.e. could it result in a material misstatement). In this column, the auditor should also state the type of risks (business risk, inherent risk, control risk) associated with events noted in Column 2.

Expected Result

In completing Template 3, the auditor would have obtained and documented his or her understanding of the entity and its environment to provide a basis for assessing risk. Any identified risk of material misstatement noted from Template 3 would also be carried to Template 6 - Risk Register.

(Note: Template 6 will be introduced in Module 3. Refer to the glossary for definition of risk register)

Issues to Consider	Document Auditor's Understanding of the Business	Explain Implications for Risk of Material Misstatement. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
1.2 Regulatory framework a. Consider the legal and regulatory framework in which the entity operates. Ascertain whether there have been any recent changes to existing laws that would affect the entity.		
1.3 Financial reporting framework a. Consider what the financial reporting framework is and the basis for accounting. b. Consider if the appropriateness of the framework has been previously assessed and update if necessary. c. Ascertain whether there have been any recent changes to existing laws that would affect the entity's reporting framework.		
1.4 Other external factors a. Consider the impact of current economic and other non-economic factors on the entity's operations. These may include interest rate movements, availability of financing, increasing demand or expectations for the services provided by the entity.		
2. Nature of the entity		
2.1 Understand and consider the nature of the entity's business and the relationships between owners and other entities: • Sources of revenue • Services provided • Organisational structure • Geographic dispersion • Key suppliers • Related party transactions		

<table>
<tr><th>Issues to Consider</th><th>Document Auditor's Understanding of the Business</th><th>Explain Implications for Risk of Material Misstatement.

(Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)</th></tr>
<tr><td>2.2 Understand and consider the ownership and governance structures:

a. Ownership
• Government owned (consider whether there are any special purpose entities)
• Statutory bodies
• Government shareholding
• Partnerships with the private sector

b. Governance Structure
• Parliament - Ministers - Permanent Secretaries
• Board of Directors

c. Accountability
• Consider who is the accountable officer
⇒ Ministry
⇒ Statutory Bodies - Board</td><td></td><td></td></tr>
<tr><td>2.3 Understand and consider investments and investment activities such as:
• Planned or recently executed acquisitions or divestitures.
• Investments and dispositions of securities and loans.
• Capital investment activities. (e.g. building of schools, highways and bridges).
• Investments in non-consolidated entities, including partnerships, joint ventures and special purpose entities.</td><td></td><td></td></tr>
<tr><td>2.4 Understand and consider financing and financing activities such as:
• Major subsidiaries and associated entities.
• Debt structure and related terms (domestic and external loans)
⇒ Off-balance-sheet financing arrangements.
⇒ Leasing arrangements.</td><td></td><td></td></tr>
</table>

Issues to Consider	Document Auditor's Understanding of the Business	Explain Implications for Risk of Material Misstatement. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
• Beneficial owners (whether they are local or foreign, their business reputation and experience) and related parties. This could include issues such as public private partnerships or joint financing arrangements • Use of derivative financial instruments or other complex financial transactions. (see glossary)		
2.5 Understand and consider financial reporting matters such as: • Accounting principles and industry specific practices, including industry-specific significant categories (for example, loans and investments for banks, or research and development for pharmaceuticals). • Accounting for fair values. • Foreign currency assets, liabilities and transactions. • Accounting for unusual or complex transactions including those in controversial or emerging areas. • Accounting for government funding such as appropriations. • Accounting for expenses, particularly if there are limits on budgets and appropriations (recognition in the correct period). • Revenue recognition practices: ⇨ At what point does the entity recognize revenue? ⇨ Are there any incentives to recognize revenue at particular points?		

Issues to Consider	Document Auditor's Understanding of the Business	Explain Implications for Risk of Material Misstatement. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
3. Selection and application of accounting policies		
3.1 Understand and consider the entity's selection and application of accounting policies. These may encompass such matters as: • The methods the entity uses to account for significant and unusual transactions. • The effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. • Changes in the entity's accounting policies. • Financial reporting standards and laws and regulations that are new to the entity and when and how the entity will adopt such requirements		
4. Entity's objectives, strategies and related business risk		
4.1 Understand and consider management's objectives such as: a. The overall mandate of the audit entity as defined in the governing laws, regulations and other authorities. (ISSAI 1315 A35) b. Whether the audit entity has a strategic/business plan to fulfil the requirements of the mandate? (ISSAI 1315 A35) c. Were there any changes in the operations of the entity during the period under review?		

Issues to Consider	Document Auditor's Understanding of the Business	Explain Implications for Risk of Material Misstatement. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
d. Understand and consider the entity's objectives, strategies and related business risks that may result in a risk of material misstatements. For example, consider the following: • Industry developments (Does the audit entity have the necessary resources to meet the requirements of the industry developments? (ISSAI 1315 A32) • New or expanded services • New government policies or regulations • Expansion of the business (or new operations) ⇨ New accounting requirements ⇨ Regularity requirements ⇨ Current and prospective financing requirements ⇨ Use of IT • The effects of implementing a business strategy that will lead to new accounting requirements. ⇨ Have any flaws been identified or reported in the products (programmes) and services provided? (ISSAI 1315 A30) ⇨ How has management addressed these deficiencies? (ISSAI 1315 A30) e. Consider the results of management's risk assessment procedures in identifying business risks that could lead to material misstatements in the financial statements? (ISSAI 1315 A31) *See Item 1 under Further Reading for examples of factors and conditions that may indicate a risk of material misstatements in the financial statements.*		

<table>
<tr><th>Issues to Consider</th><th>Document Auditor's Understanding of the Business</th><th>Explain Implications for Risk of Material Misstatement.

(Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)</th></tr>
<tr><td>5. Measurement and Review of the Entity's Financial Performance</td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>5.1 Is there a system in place to assess whether the entity is meeting the objectives set by management (or government). For example
• Key performance indicators (financial and non-financial) and key ratios, trends and operating statistics
• Period-on-period financial performance analyses
• Budgets, forecasts, variance analyses, segment information and divisional, departmental or other level performance reports
• Employee performance measures and incentive compensation policies
• Comparisons of an entity's performance with compensation policies</td></tr>
<tr><td>5.2 Does the measurement and review of financial performance create a risk of material misstatement?</td><td></td><td></td></tr>
<tr><td colspan="3">Conclusion:

In my opinion, sufficient information is available/ not available to assess the risks of material misstatements arising from the entity's environment.</td></tr>
</table>

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #2; IDI

Template #5: Risks and Controls at the Assertion Level

Purpose: the purpose of this template is to:

- Document the extent of the planned reliance on relevant controls to respond to the asserted risks of material misstatements; and
- Document any risks of material misstatements or assertions that can be addressed only through reliance on controls.

Account Area	All pervasive	For the period				For the Period End					Presentation and Disclosures				
	Regula-rity or Authority	Occur-rence	Existence	Rights and Obliga-tions	Complete ness	Valuation and Alloca-tion	Complete -ness	Accuracy	Cut-off	Classifica -tion	Occur-rence	Rights and Obliga-tions	Complete -ness	Classifica -tion and Unders-tandabi-lity	Accuracy
Is there a risk of material misstatement? From Template 6 (Risks) describe the risk in the appropriate box															
Is there is an assertion or risk of material misstatement that can only be addressed through reliance on internal control? Describe this risk or assertion															
Have controls relevant to the audit been identified that the auditor intends to rely on to reduce the extent of substantive testing? Ensure that sufficient evidence of the design and implementation of each control has been obtained. From Template 5 (Controls)															
Identify the degree of intended reliance on controls to address the risk of material misstatements and / or assertions (none, low or high). Extent of intended reliance is carried forward															

How to Use Template 7

For each selected account area or class of transactions, balances or events, presentation and disclosure the template is to be completed:

Row 1: For each assertion the auditor carries forward any of risk of material misstatement as assessed in Template 6. If there is such a risk, a description of the risk should be inserted under the relevant assertion.

Row 2: If there is an assertion or risk of material misstatement that can only be addressed through reliance on internal control, the auditor identifies it here.

Row 3: The auditor brings forward any relevant controls identified in Template 5, indicating whether reliance can be placed on them to reduce the extent of substantive testing. If the answer is yes, a description of the control existing should be provided.

Row 4: The auditor inserts whether the intended reliance on controls to address risk of material misstatements and/or assertions is none, low or high.

Expected Results of Template 7

After completing Template 7 the auditor is expected to be assured about the extent of planned reliance on relevant controls to respond to the assessed risks of material misstatement. Also, any risks of material misstatement or assertions that can only be addressed through reliance on controls have been documented; and the degree of intended reliance at the assertion level would be assured.

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #3; IDI

Template #6: Risks and Controls for Financial Statement as a Whole

Purpose: the purpose of this template is to document any risk of material misstatements that affect the financial statements as a whole and any controls relevant to the audit that addresses the identified risk of material misstatement for the financial statements as a whole.

The IDI Template #6 (Risk Register) appears as Template #12 in this manual. Template #9 (Further Audit Procedures) appears as Template #13 in this manual.

Column 1: Risk from Template 6	Column 2: Identification of Assertions Affected or Pervasive Risk	Column 3: Controls to address risk identified
Conclusion: In my opinion, the risks for financial statements and controls to respond to them have been identified, and carried forward to Template 9.		

How to use Template:

Column 1: Risk from Template 6: The auditor identifies if there is a risk of material misstatement at this level from Template 6 - Risk Register.

Column 2: Identification of Assertions Affected or Pervasive Risk: The control activities and monitoring activities identified on Template 5 that relate to the multiple assertions or the financial statements as a whole are brought forward.

Column 3: Controls to address risk identified carried forward to Template 9: The auditor then indicates whether the intended reliance on controls is none, low or high. These conclusions have implications for the nature and extent of testing of internal controls. Procedures must be designed that are responsive to the risk and the multiple assertions.

Expected Results:

- Risks of material misstatement for the financial statements as a whole have been identified and documented,
- Relevant controls to respond to the risks of material misstatements of the financial statements as a whole have been identified; and
- The identified risks and controls have been carried forward to Template 9 for the design of further audit procedures.

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #3; IDI

Template #7: Control Environment Questionnaire

Entity:	Prepared by:	
Audit Year:	Reviewed by:	

A. Senior Management Structure and Expertise	Result Yes/No	Remarks or reference to working paper
1. Is there a clearly defined senior management structure? For example, an oversight board, operating board, board committees etc.		
2. Are the responsibilities of senior management personnel clearly defined? (preferably in writing)		
3. Are senior management employment contracts reasonable (in terms of length, remuneration conditions etc.)?		
4. Are there appropriate checks and balances within senior management structure? For example: • non-executive directors • audit committees • separation of chairman and chief executive responsibilities • departmental oversight		
5. Does the board (or equivalent) have an appropriate range of expertise and experience? (As well as sales, procurement and operating expertise etc. There should be expertise in the areas of finance, accounting and controls.)		
B. Codes of Conduct		
1. Do management promulgate a written code of conduct, applicable to both management and staff, to act as a benchmark for management and staff attitude and behaviour?		
2. Does the code of conduct cover such areas as: acceptable practice, conflicts of interest, or expected standards of ethical and moral behaviour?		
3. Is the code communicated throughout the body? Is it periodically acknowledged by employees?		
4. Are employees informed of what they should do if they encounter improper behaviour?		
5. Are there written policies to regulate management's dealings with employees, suppliers, customers, creditors and insurers?		

	Result Yes/No	Remarks or reference to working paper
6. Is there a written policy in respect of declaring transactions with related parties?		
7. Is there a written policy in respect of the gifts and hospitality that may be accepted?		
8. Is there a written policy in respect of declaring pecuniary benefits and outside financial interest (including such things as directorships, sponsorships, and commission payments) by key officers?		
9. Are independent checks performed to reveal common ownership, directorships and family relationships before major contracts or orders are placed?		
C. Management's Attitude to Internal Controls		
1. Do management encourage and act on independent assessments of the control environment and internal controls? For example: • are our management letters reviewed and responded to at board level? • are internal audit reports on controls encouraged by senior management and responded to at board level?		
2. Is there an appropriately constituted audit committee with oversight of internal and audit arrangements, and a remit to consider the operation of controls?		
3. Does management respond robustly to breaches of codes of conduct and law? And is there communication throughout the organisation of disciplinary action taken as a result of the breaches?		
4. Does management ever override normal procedures, codes, internal controls for instance to pay urgent invoices or appoint personnel? Are such overrides documented and investigated?		
5. Does management provide adequate sources for an appropriate level of internal audit work? (Consider whether the internal audit function is of an appropriate size, quality and independence.)		

D. Recruitment, Retention and Remuneration of Senior Staff	**Result Yes/No**	**Remarks or reference to working paper**
1. Are vacant senior positions widely advertised within the pool of suitably qualified individuals (internally and/or externally)?		
2. Are promotion and appointment mechanisms transparent and based on objective and appropriate criteria so preventing undue patronage and nepotism?		
3. Is there an independent review of remuneration (including termination payments)? (ie. by the sponsoring department or sub-committee or remuneration board).		
4. Are integrity and ethical criteria included in performance appraisal?		
5. Is there an independent review of the function and competence of key officers (ie. by Internal Audit, External Audit, Work Study or Supervisory Board?)		
6. Are there job descriptions? If so, do they contain sufficient reference to control related responsibilities?		
7. Are executive functions reserved to appropriate levels of management?		
8. Do delegated authorities appear to be appropriate?		
E. Hiring and Training Employees		
1. Are recruitment policies set out in writing? And are these applied by suitably qualified staff? (Application screening and recruitment interviewing should be carried out by suitably trained management personnel who are aware of the requirements of the vacant job role and have appropriate skills.)		
2. Are there appropriate procedures to verify candidates' experience, qualifications and references?		
3. Do hiring policies require investigations for criminal record?		
4. Are new employees made aware of their responsibilities and management's expectations of them, preferably via a detailed written job description, which is kept up to date over the course of their employment?		
5. Is there a regular (at least six monthly) review of each employee's job performance by relevant line management (and reviewed by more senior management)?		

	Result Yes/No	Remarks or reference to working paper
6. Do performance reviews cover the achievement of developmental and training needs, and the future developmental and training requirements of employees?		
7. Are there appropriate disciplinary or remedial procedures for ineffective performance?		
F. Management Oversight of Operations		
1. Is there a clearly defined management / organisation structure with clear reporting lines encompassing all of the organisation's function and staff?		
2. Are there up to date procedure manuals covering both operational and financial/ accounting procedures?		
3. Do senior management meeting minutes indicate that management accounts and other management reports receive an appropriate amount of attention and are acted on?		
4. Do the accounting records appear to be well ordered and complete, and are financial reconciliations carried out on a regular basis, for example: • bank reconciliations • sales ledger reconciliations • purchase ledger reconciliations • stock ledger reconciliations • payroll • fixed assets register		
5. Is the budget setting process: • set out in a procedural manual? • carried out by suitable personnel? • accepted by line managers and those personnel who have operational responsibility? • subject to senior management approval • conducive to budget discipline		
6. Are there mechanisms in place to ensure that senior management is informed in a timely manner of: • impending budget/cash overruns (or significant under runs) • losses or fraud • breakdowns in internal control.		

	Result Yes/No	Remarks or reference to working paper
7. Are there relevant and reliable performance measures/indicators in place? Matters to consider here are: • frequency of reporting • reconciliation to / deliverability from the accounting records/management accounts or other reliable records • verification procedures, by, for example, internal audit, external audit, management. Is there any evidence of management manipulation of performance reporting, so as to enhance results, performance related pay etc?		
8. Do senior management give appropriate consideration to the process and results of external audit and the published accounts?		
G. Management Policies to Safeguard Against Losses, Fraud and Illegal Acts		
1. Is there a written policy on dealing with fraud and other illegal acts that has been brought to the attention of all staff?		
2. Are there physical safeguards in place to protect against: • stock and fixed asset losses and misappropriation, • unauthorized access to computer equipment, records and software, • loss of accounting and other records, • loss through fire, flood, accident etc.		
3. Is there a specific officer responsible for physical security of the premises and assets?		
4. Is there adequate division of duties within the accounting function?		
5. Is the internal audit department independent of the accounting and operating function?		
6. Are staff encouraged to seek advice on ethical matters and is there an independent source of such advice?		

Overall conclusion

Based on the above evaluation, are you satisfied that the overall control environment will ensure that the control procedures will operate effectively in practice?

Yes/No

Note: The auditor should report any deficiencies in the control environment to the management of the entity.

Template #8: The Entity's Control Environment, Risk Assessment, Monitoring and Communications Considerations

Purpose: To document an understanding of the entity's control environment, risk assessment procedures, monitoring and communicating of financial reporting responsibilities, and identify and document any risks of material misstatement.

Issues to Consider	Document Auditor's understanding of elements of internal control	Explain Implication for risk of potential material misstatements. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
1. CONTROL ENVIRONMENT *1.1 Communication and enforcement of integrity and ethical values within the entity.* Communication a. Consider how issues of integrity and ethics are communicated. Enforcement b. Consider mechanisms for monitoring adherence to the integrity and ethical values. (e.g. Whistle-blowing, signed declaration document).		
1.2 Commitment to competence a. Ascertain management consideration of the competence level for particular jobs and how those levels translate into requisite skills and knowledge.		
1.3 Participation by those charged with governance. a. Consider whether those charged with governance actively oversee the entity's accounting policies and procedures.		

How to use Template 4

Column 1: Issues to Consider
Column 1 lists the factors affecting key elements of internal control, namely: the entity's control environment, risk assessment process, communication of financial reporting roles and responsibilities and monitoring of controls as they relate to a financial statement audit, in order to provide a basis for the identification and assessment of risks of material misstatements.

Column 2: Document Auditor's Understanding of Elements of Internal Control
In this column the auditor documents knowledge and understanding of the consideration listed in Column 1. In doing this, it is expected that the auditor becomes aware of the effectiveness of controls and their impact on the control environment.

Column 3: Explain Implication for Risk of Potential Material Misstatements
The auditor records his/her evaluation of the implications of risk of potential material misstatements, if any, at Column 3. The potential misstatement should be carried forward to the Risk Register at Template 6.

Expected Results/Decisions
The expected results on completing Template 4 are:
i. The auditor's understanding of the entity's control environment, entity's risk assessment procedures, monitoring controls and process for communication of financial reporting responsibilities have been documented;
ii. Potential risks of material misstatements identified during the process of gaining an understating of the entity's control environment, entity's risk assessment procedures, monitoring and communication of financial reporting responsibilities have been documented; and
iii. A decision is made as to whether the entity's control environment is conducive to a 'controls reliant audit approach' (i.e. it appears likely that subject to further audit procedures, reliance can be placed on individual processing controls) which will form a basis for designing further audit procedures.

Issues to Consider	Document Auditor's understanding of elements of internal control	Explain Implication for risk of potential material misstatements. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
1.4 Management's philosophy and operating style. a. Document your understanding of management's philosophy and operating style by considering the following factors: • Attitudes and actions toward financial reporting.(e.g. Is adherence to financial reporting standards encouraged?) • Attitudes toward information processing and accounting functions. b. Does management support efforts to safeguard information and data? (For example: Is management willing to budget for IT support or do they consider it unnecessary expenditure?)		
1.5 Organisational structure a. Document the entity's organisational structure: • Review documented or approved establishment as approved by Parliament/ Cabinet (Approved Policy-maker in the case of Central Govt.) • Structure approved by the Board of Statutory bodies and other entities. b. Consider whether the structure shows: • Key areas of authority • Key areas of responsibility • Appropriate lines of reporting		

Issues to Consider	Document Auditor's understanding of elements of internal control	Explain Implication for risk of potential material misstatements. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
c. Consider whether the structure of the organisation is adequate based on: • The size of the organisation - e.g. few high level managers and large staff to supervise; • The nature of the activities - e.g. a company in the IT industry may need a structure that can respond readily to technological changes. d. Consider whether management has employed staff in keeping with the approved structure.		
1.6 Assignment of authority and responsibility a. Document whether authority and responsibility for operating activities are clearly assigned and key personnel are aware of, and adhere to reporting relationships and authorisation hierarchies. b. Consider whether all personnel understand the entity's objectives, their role and responsibilities towards those objectives and recognize how and for what they will be held accountable.		
1.7 Human resource policies and practices a. Assess whether the entity has clearly documented and approved policy and procedures for: • Recruitment of qualified and skilled staff • Training and Orientation • Performance Evaluation • Compensation		

Issues to Consider	Document Auditor's understanding of elements of internal control	Explain Implication for risk of potential material misstatements. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
2. ENTITY'S RISK ASSESSMENT PROCESS *2.1 Determine whether a formal risk assessment process exists.*		
2.2 If a formal system exists, document an understanding of the process and the results (what measures has management identified for managing those risks)		
2.3 If a formal risk management process does not exist ask management how they address the risks related to key business processes. a. Document and assess risks identified by management; b. If no formal processes exist, consider reporting this as a material control deficiency.		
3. MONITORING OF CONTROLS *3.1 Management's system of monitoring controls* a. Document the system that management has in place to monitor internal controls. These may involve: • Ongoing activities (e.g. supervisory and management activities); • Separate evaluations (e.g. communications from external parties such as customer complaints, regulator reports, comments etc.) b. Determine if the data used for monitoring is accurate by gaining an understanding of: • the sources of the information used in the entity's monitoring activities; and • the basis upon which management considers the information to be sufficiently reliable for the purpose.		

Issues to Consider	Document Auditor's understanding of elements of internal control	Explain Implication for risk of potential material misstatements. (Any identified risks of material misstatement are also carried forward to Template 6 - Risk Register)
3.2 Internal Audit Function a. Document your understanding of the internal audit function and its status within the organisation. b. Does internal audit contribute to effective internal control?		
4. COMMUNICATION OF FINANCIAL ROLES AND RESPONSIBILITIES *4.1 Obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:* a. Communications between management and those charged with governance; b. External communications, such as those with regulatory authorities or central government.		
4.2 Determine if personnel understand how their activities in the financial reporting information system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity. This can be done by: • Establishing that there is a clearly defined organisational structure; • Determining if staff is aware of the reporting lines of communication within the organisation; • Reviewing the formal directives to staff such as: ⇒policy manuals and ⇒financial reporting manuals		
Conclusion: I have gained sufficient understanding of the entity's control environment and in my opinion, there is sufficient evidence to conclude that the entity's control environment is /is not conducive to a controls-reliant approach.		

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #2; IDI

Template #9 Internal Audit Checklist

MINISTRY/DEPARTMENT: ______________________________

DATE OF REVIEW: ________ ____________________

Internal Audit Sections Quality Control Checklist

Control Objective: To what extent does the Internal Audit Section conform to accepted best practice?

Instructions: Answers to all questions to be by way of a tick (□) in the Yes/No column with comments as required.

	Yes	No	Comments	Schedule Number
1. Role and Objectives				
1.1 Have the responsibilities of the internal audit division/section been properly determined and set out formally?				
1.2 Is it the responsibility of internal audit to review, appraise and report on: (a) The soundness, adequacy and application of financial and other management controls? (b) The extent of compliance with, relevance and financial effect of established policies, plans and procedures? (c) The extent to which the organisation's assets and interests are safeguarded from losses of all kinds arising from: (i) Fraud and other offences?; (ii) Waste, extravagance and inefficient administration, poor value-for-money or other cause? (d) The suitability and reliability of financial and other management data developed within the organisation?				
1.3 Does the division/section operate independently of line management?				

	Yes	No	Comments	Schedule Number
1.4 Is audit activity restricted by management policy to the detriment of audit's effectiveness?				
1.5 Does the chief internal auditor have direct access to the ministry/departmental head, if required?				
1.6 Is the division/section free from obligation to undertake duties within the organisation other than audit?				
2. Liaison with Audit Division				
2.1 Are regular meetings held with the Audit Division?				
2.2 Are the ministry/departmental audit plans co-ordinated with those of the Audit Division?				
2.3 Is there an interchange of all reports issued?				
2.4 Has it been agreed that ministry/department auditors will notify the Audit Division at an early stage of any major fraud or loss?				
3. Organisation and Staffing				
Obtain and attach an organisational chart for the audit division/section, together with a statement of strength, divided between qualified, non-qualified and clerical staff.				
3.1 Is the overall strength of the division/section big enough for the work to be covered?				
3.2 Is the head of internal a qualified, experienced auditor?				

	Yes	No	Comments	Schedule Number
3.3 Is the proportion of professionally qualified and experienced staff adequate?				
3.4 Is there an adequate number of specialist staff in areas such as computers, contract, etc.?				
3.5 Are audit staff arranged into appropriate teams, each headed by a suitably experienced team leader?				
3.6 Do the members of the division/section have regular meetings for exchange of views and information?				
3.7 Have job descriptions been prepared for all staff?				
4. Training Arrangements				
4.1 Is there a designated audit training officer?				
4.2 Is there an in-service training programme and, if so, is the syllabus adequate?				
4.3 Are all new and inexperienced staff members expected to participate in the programme?				
4.4 Is there provision for staff to take external courses and is the method of selection of these courses satisfactory?				
4.5 Is a training record kept for each member of staff which records courses and lectures attended, examinations passed, practical experience acquired etc.? And, if so, is it in a formalised competency framework?				
4.6 Is there feedback on courses from participants to enable the effectiveness and relevance of subjects to be assessed?				

	Yes	No	Comments	Schedule Number
4.7 Are all staff given an opportunity to take part in all aspects of auditing including drafting reports, flowcharting, preparing audit programmes etc.?				
5. Planning and Control of Audits				
5.1 Is there a long-term plan designed to ensure that all objectives are attained over a period?				
5.2 Is an annual plan, based on the resources available, prepared in accordance with the requirements of the long-term plan?				
5.3 Does the plan give adequate cover, especially in high risk areas?				
5.4 Is any formal system of risk analysis employed?				
5.5 Is progress against the annual plan monitored at regular intervals and reported to the ministry/departmental head?				
5.6 Is audit time recorded and analysed to show how audit resources have been employed to enable comparisons with targets to be made?				
6. Quality Control of Audits				
6.1 Are planned visits made routinely by senior staff to auditors in the field to undertake on-the-spot inspections of work being carried out?				
6.2 Are in-depth checks carried out by senior staff on completed files and working papers to assess the quality of work carried out?				
6.3 Is any other system of quality control in force?				
7. Conduct of Audits				
7.1 Have audit programmes been prepared in respect of each service or department subject to audit and are they adequate?				

	Yes	No	Comments	Schedule Number
7.2 Are adequate audit files maintained for each service or department audited which contain details such as flowcharts, audit programme, working papers and correspondence relating to previous audits?				
7.3 Are files reviewed by senior staff on a planned basis in order to ensure that the audit programmes in use remain relevant to current systems and that other information is up to date?				
7.4 Before an audit is undertaken is the team fully briefed on any areas requiring special attention?				
7.5 Are systems in operation documented on audit files and are audit staff required to update this information on each audit visit?				
7.6 Are adequate audit working papers maintained for each audit so that the extent of audit work carried out can be established, the conclusion (drawn by the auditor from tests carried out) shown and any information relating to the audit readily obtained?				
7.7 Is audit work not carried out for any particular reason noted for follow up later?				
7.8 Are there standing instructions to audit staff that, if they become aware of a serious breakdown of control, this should be reported at once to the head of the division/section?				
7.9 Are there standing instructions to the chief internal auditor to make an immediate review when such a situation is reported and to report to the head of the ministry/department in order that corrective action can be taken?				

	Yes	No	Comments	Schedule Number
8. Audit Reports				
8.1 Is a satisfactory form of audit report in use for the reporting of audit findings, system weaknesses, control failures, losses or irregularities and for the submission of recommendations to management?				
8.2 Are proposed findings and recommendations discussed with the head of department concerned before conclusion of the audit?				
8.3 Are completed audit reports reviewed by team leaders and the chief internal auditor before being submitted to management?				
8.4 Are all reports issued countersigned by the chief internal auditor?				
8.5 Does the chief internal auditor report to the highest level of management within the organisation: (a) In all cases?; (b) Only for serious matters?				
8.6 Is there a satisfactory system of follow up on recommendations made to ensure that appropriate action is taken?				
9. Audit Techniques				
9.1 Is use made of the following techniques: (a) Flow Charting?; (b) Internal Control Questionnaires?: (c) Computer Assisted Audit Techniques?; (d) Statistical Sampling?				

Subject to the satisfactory resolution of any major points noted in the audit report, in my opinion we have met the overall audit objectives.

__________________________ ________________

Signed Date

Template #10: Preliminary Systems Evaluation

Components of the Evaluation

The structure of the evaluation involves four important stages:

- Assessment of Inherent Risk;
- Assessment of the Control Environment;
- Assessment of the Accounting Systems; and
- Assessment of the Property Systems.

The **Preliminary Systems Evaluation (PSE) Form** sets out the judgements that the auditor needs to make by the end of the PSE process, in two stages. In the first stage, the auditor should examine the overall control environment (Overall Preliminary Systems Evaluation) of the audited body and in the second, he/she should evaluate the adequacy of the individual systems (Preliminary Systems Evaluation – Individual Systems).

The higher the level of inherent risk, the more audit work is required to provide assurance to management on the application of accounting, financial and operational controls.

#	Questions	Assessed Inherent Risk (H/M/L)	Comments/References
A	**Standards of Behaviour**		
1	Do senior management set high standards of behaviour and encourage staff to adhere to such standards?		
2	Has management established and implemented codes of conduct promoting integrity, openness and accountability?		
B	**Organisational Structure**		
1	Are relationships between the Minister, Accounting Officer and Senior Management open and professional?		
2	Does the organisation have a formally-agreed, communicated and observed reporting structure?		
C	**External Perceptions**		
1	Have there been any notable allegations of fraud or corruption in the past year?		
2	Is the organisation subject to a high degree of public scrutiny which reduces the scope for fraud, corruption and the manipulation of information?		
3	Is the organisation obliged to publish external reports requiring a high degree of assurance regarding the integrity of management information systems?		
D	**Management**		
1	Is management excessively involved in day-to-day operations?		

2	Are there financial or performance incentives for management to manipulate information and/or records?		
3	Does management have significant opportunities to manipulate records?		
4	Does management rely on Internal Audits to maintain an adequate internal control framework?		
E	**Staff**		
1	Does the organisation have a high level of staff turnover?		
2	Do recruitment and training procedures yield staff with sufficient competencies to perform their duties?		
3	Is there evidence of significantly low staff morale within the organisation?		
4	Are staff under significant time pressure in carrying out their duties?		
5	Do salaries and allowances provide staff with an acceptable standard of living?		
6	Are salaries and allowances linked to performance measures, which could provide staff with an incentive to manipulate financial information?		
F	**Systems**		
1	Does the complexity of major systems require increased audit scrutiny?		
G	**Past Experience**		
1	Did the prior year's internal audit work reveal any material weaknesses in the systems or procedures?		
2	Does the report from the Controller and the Auditor General reveal any significant weaknesses in the systems or procedures?		
H	**Revenue Collection / Expenditures**		
1	Do the organisation's activities involve a high level of revenue collection / expenditures, which could provide incentives for fraud, corruption and misappropriation?		
2	Are revenue collection / expenditure systems largely manually operated?		
I	**Assets**		
1	Do the organisation's activities involve handling large volumes of cash in numerous locations?		
2	Does the organisation own moveable inventory or property of a high value, which could be open to misappropriation?		

	Good	Reasonable	Poor
Inherent risk at the organisational level is considered: (Enter on the risk assessment summary)			

Note: Inherent risk at the organisational level should only be assessed as good (i.e. low risk) if a full review of Governance Arrangements supports this assessment.

Audit Manager: **Date:**

Head of the SAI: **Date:**

Overall Preliminary Systems Evaluation

This form provides for a preliminary review of the organisation's systems, in order to better inform future planning, to assess whether the control environment will support systems-based auditing, and to ensure proper accounting records are maintained that can provide sufficient, relevant and reliable evidence. It is also used to make note of any unusual activities, specific weaknesses or other risks that need to be addressed by substantive tests.

Conclusions

#	Audit Procedure	Assessment
A	Assessment of Materiality by Nature	High / Moderate / Low (Enter on risk assessment summary)
B	Assessment of Inherent Risk at the System Level	High / Moderate / Low (Enter on risk assessment summary)
C	Evaluation of the specific control environment	Satisfactory / Poor (Enter on risk assessment summary)
	Are proper accounting records maintained which could provide sufficient, relevant and reliable evidence?	Yes / No
	Selected audit approach based on the evaluation of the specific control environment (systems-based auditing or direct substantive testing)	SBA / DST (Enter on risk assessment summary)
D	Assessment of the system's control risk	High / Moderate / Low (Enter on risk assessment summary)
E	Has the examination revealed any unusual activities, specific weaknesses or other risks?	Yes / No
If yes, please state their nature and their effects on the different account areas.		

Audit Manager: **Date:**

Head of the SAI: **Date:**

A. Assessment of Materiality by Nature

#	Objective	Result (H/M/L)	Comments/ References
1	Are the transactions and operations processed by the system subject to high-level Political Scrutiny?		
2	Are the transactions and operations processed by the system subject to scrutiny by the public or the media?		
3	Would errors or a lack of transparency in the system damage perceptions of the organisation?		
4	Are the transactions processed by the system governed by statutory (legal) responsibility? E.g. tax assessments, procurement regulations, etc.		
5	Is the Ministry required to publicly report on the processing of transactions by the system?		
6	Is the information produced by the system used to produce public reports?		
7	Is the system subject to scrutiny from, and conditions imposed by, domestic or international financial lending institutions or donor agencies?		

B. Assessment of Inherent Risk at the System Level

#	Objective	Result (H/M/L)	Comments/ References
1	Have there been any allegations of fraud or corruption in the processing of transactions within the system?		
2	Is management excessively involved in the system's day-to-day operations?		
3	Are staffing levels and competencies sufficient to ensure that transactions are properly processed in accordance with the established procedures?		
4	Does the system involve manual revenue collection without a known total of the expected revenue?		
5	Does the system involve handling large volumes of cash?		
6	Does the system involve moveable inventory or property which could be susceptible to theft?		
7	Is the system excessively complicated, so as to present a risk of transactions being incorrectly processed?		
8	Did the prior year's audit work reveal any major errors or weaknesses in the system?		

C. Evaluation of the Specific Control Environment

#	Objective	Result (H/M/L)	Comments/ References
1	Are there defined, approved procedures for processing transactions?		
2	Do transactions require authorisation?		
3	Is there an adequate separation of duties between the system's initiation, authorisation and processing phases?		
4	Are there procedures for ensuring the completeness of processing functions (e.g. management reviews, internal audits, etc.)?		
5	Are bank reconciliations performed periodically to ensure the completeness of processing actions?		
6	Are there supervisory checks to ensure processing accuracy (e.g. management checks of invoice accuracy)?		
7	Are cheques, receipt vouchers, etc., properly controlled?		
8	Is there an adequate audit trail?		

D. Assessment of the System's Control Risk - Transactions

#	Objective	Result (H/M/L)	Comments/ References
	Organisational Controls		
1	Do transactions require authorisation?		
2	Do the pre-authorisation checks conform to expectations?		
3	Are all the transactions subject to the same authorisation procedure?		
4	Does someone check that all transactions have been properly authorised before processing them?		
	Completeness and Measurements		
5	Are forms relating to each type of transaction clear, making it simple to record transactions correctly?		
6	Do the procedures involve extracting information from one form and entering data onto another for subsequent processing? If so, is it possible to redesign the form so that this transcription is avoided? (If so, please highlight this fact.)		
7	Where documents are pre-numbered, are sequential checks performed to ensure that each has been processed?		
8	Where documents are compared with another document before processing, does this adequately ensure they all get processed?		
9	When control totals are used, is the person checking the post-processing total against the pre-processing total different from the person who launched the original control total?		

10	Where transactions are processed in batches, is the person checking the post-processing batch against the pre-processing batch different from the one who launched the original batch?		
11	Where a person checks completeness by replicating a process or calculation, is this person different from the one who performed the original process or calculation?		
	Occurrence and Propriety		
12	Is there a check to ensure the regularity of transactions after they have been initiated, by a person different from the person who initiated them?		
	Security		
13	Are transactions secure from unauthorised access during processing?		

E. Assessment of the System's Control Risk - Property

#	Objective	Result (H/M/L)	Comments/ References
	Records		
1	Is there a clear record of all property of this type?		
2	Are there clear instructions on maintaining these records and are they up to date?		
3	Are the records periodically checked against the physical property?		
4	Is the person checking the record someone other than the custodian?		
	Accountability		
5	Is there a clear record of the person who has custody of the property?		
6	Are there clear guidelines defining the persons who are authorised to have access to the property?		
7	Is there adequate information on which custodians can base their decisions about the use of the property?		
	Security		
8	Is the property stored under lock and key?		
9	Is security adequate to prevent access by unauthorised persons?		
10	Is the property used in accordance with MoF policies and directives in relation to this type of property?		

Template #11: Misstatements and the Audit Opinion

During the course of the audit, the SAI may identify misstatements which are other than trivial. The trivial ones can be identified and communicated if the mandate so requires. Thee template below is used to record all misstatements and the responses thereto. Any misstatements not corrected by management are carried forward for further evaluation (see other templates below).

Template 11: Misstatements Accumulated During the Audit
Purpose: To accumulate all material misstatements identified during the audit engagement

Column 1 Financial Statement Item Record Misstate-ments on this template	Column 2 Income Statement impact Over/ (Under) [i]	Column 3 Balance sheet impact Over/ (Under) [ii]	Column 4 Events, Presentati ons and disclosures	Column 5 Description of Misstatement [iii] (including whether it is a known, judgmental or projected error and assertion(s) affected)	Column 6 Known error - corrected by Management? [iv] Projected error- Additional work to ascertain extent of misstatement? Indicate if misstatement relates to a class of transactions, balance or event for which a separate materiality below overall financial statement materiality has been set [v]	Column 7 Working Paper (ref)

Conclusion

All uncorrected misstatements have been carried forward to Template 12 or 13 for evaluation of the impact on the opinion in the auditor's report. The impact of uncorrected misstatements on the nature and extent of further audit procedures has been considered and (a) no additional audit procedures were considered necessary or (b) additional audit procedures were carried out as reference on the working paper referenced above.

[i] *Describe the monetary value of items considered to be clearly not trivial that are included in this template.*
[ii] *Financial statement titles can be adjusted to reflect the financial reporting framework used.*
[iii] *Describe any factors that suggest known or projected misstatements are more extensive than those identified and provide a reference to consideration of the impact on the audit strategy and/or detailed audit planning.*
[iv] *If management refuses to correct known misstatements, provide the reasons why and provide a reference to consideration of the impact on the audit strategy and/or detailed audit planning, particularly consideration if there is any management bias.*
[v] *Carry forward uncorrected misstatements in this category directly to Template 12.*

Purpose: To evaluate the impact of uncorrected misstatements on the Balance Sheet and Income Statements

Column 1 Description of uncorrected misstate-ment	Column 2 Uncorrected income statement misstatement s of the current period - entry to correct misstatement	Column 3 Misstate-ments of prior periods that affect the current year income statement - entry to correct	Column 4 Subtotal - total of uncorrected misstatements affecting the Income Statement - effect on net income	Column 5 Balance Sheet misstate-ments of the current period (known and projected misstatement) - entry to correct	Column 6 Misstate-ments of prior periods that affect the current balance sheet - entry to correct	Column 7 Subtotal - total of uncorrected misstate-ments affecting the balance sheet
Conclusion Based on the evidence and an evaluation of the impact of uncorrected misstatements in the Financial Statements, in my opinion ---------------- (state the nature of audit opinion to be issued).						

Purpose: To evaluate misstatements that must be evaluated on a basis other than the quantitative measure of overall materiality for the audit

Column 1 Events, Presentations and Disclosures	Column 2 Impact of Known and Projected Misstatements for classes of transactions, balances or events for which a separate materiality below overall financial statement materiality has been set	Column 3 Consider whether misstatements in Template 11 indicate a potential management bias in recording and reporting	Column 4 Consider whether misstatements affect the auditor's opinion as a result of reporting responsibilities	Column 5 Working Paper Reference
Conclusion Based on my evaluation of the impact of non-quantitative misstatements on the financial statements, I conclude that (a) an unmodified auditor's report should be issued or (b) the opinion in the auditor's report should be modified as follows . . .				

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #3; IDI

Template #12: Risk Register

Purpose: To accumulate all potential risks of material misstatement identified during the course of the audit and evaluate their likelihood and impact, to determine the requirement for further audit procedures.

Risk of Material Misstatement Identified	Assertions/ Financial Statement as a Whole	Classes of Transactions, Balances, Events, Disclusires or Financial Statement Level	Evaluate whether a high or low risk of material misstatement exists. Describe the basis for these conclusions. Evaluate whether the risk is a significant audit risk requiring special audit consideration. Are tests of controls required to address certain assertions?	Risk identified. Carry forward to relevant Template 7 (risks related to specific assertions), Template 8(risks related to the financial statements as a whole) or Template 10 (Special Audit Considerations)

Conclusion:

In my opinion, all potential risks of material misstatement identified during the audit have been identified and evaluated. All risks of material misstatement that are assessed at a higher level than low risk (except significant audit risks) are carried forward to Template 7 (at the assertion level) or Template 8 (for the financial statements as a whole) for further consideration and all significant audit risks are carried forward to Template 10 for further consideration.

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #3; IDI

Template #13: Template for Designing Further Audit Procedures

Purpose: to identify the nature, timing and extent of further audit procedures necessary to carry out the audit.

Assertion / Financial Statement as a whole	Risk of Material mis-statement. (Refer to Template 7 or 8)	Extent of reliance on controls. (Refer to Templates 7 or 8)	Substantive Analytical Procedures	Substantive Tests of details	Description and nature of audit procedures . (Test of controls, substantive or combined)	Extent of testing. (See Audit Manual)	Timing (what period and when to perform audit procedures)
Conclusion: Based upon the risk assessment procedures further audit procedures have been designed that are sufficient and appropriate to carry out the audit.							

Source: Introduction to Risk-based Approach to Financial Auditing; Volume #4; IDI

Template #14: Template for Identifying and Designing Special Audit Consideration Procedures

Purpose: To identify controls relevant to special consideration risks, if any, and to design audit procedures that respond to that risk

Describe Any Significant Risks from Template 6 (Risk Register)	Document Controls Relevant to that Risk (reference)	If controls are relied on, document tests in the current period	Document Substantive Procedures to Address the Significant Risk
Conclusion: Based upon the risk assessment procedures further audit procedures have been designed that are sufficient and appropriate to respond to the special consideration risk(s) identified.			

Source: Introduction to Risk-based Approach to Financial Audit.

Template #15: Evaluation of Uncorrected Mistakes in the Financial Statements

Prepared by		Signature	Reviewed & approved by	Signature
Name:				
Designation:				
Date:				

Documentation of list of observations traced from execution phase of the audit

Sl. No.	Audit Area	Type: 1. Error 2. Control Deficiency	Gist of Observation	Amount involved if any	WP Reference from where observation traced	Audit In-charge	Management response	Status of observation	Observation reference No.	
1	2	3	4	5	6	7	8	9	10	
Total amount (Uncorrected misstatement considered as accounting error)									**Value**	**WP Ref.**
Total amount of misstatement in classes of transactions/accounts balance (A)										
The accumulated misstatement corrected (B)										
Final accumulated uncorrected misstatements C= (A)-(B)										Traced to..
Materiality for financial statement as a whole										*Traced from*
Overall evaluation of uncorrected misstatement & ascertaining impact on financial statements										
Are the uncorrected misstatements material? (Yes/No)										
If the answer is YES, ascertain the impact on the financial statements as a whole (e.g. overstatement or understatement of income, expenditure, etc.)										
If the answer is NO, are the misstatements by nature material (state, with reason, if misstatements by nature are material and have an impact on the presentation of the financial statements)										

Guidance on completing the working paper on evaluation of the effect of uncorrected misstatements in the financial statements

Overall objective of completing the template	The overall objective of this audit working paper is to record the evaluation of the effect of uncorrected material misstatements in the financial statements, which will become the basis for opinion in the auditor's report.	
Applicable ISSAI	ISSAI #2450, ISSAI #2500	
Guidance	Audit observations are the exceptions that the auditor has noted while performing control testing procedures and substantive audit procedures. The observations to be recorded in this working paper template will be traced from the execution phase of the audit, specifically from the section on overall conclusion of control testing procedures and substantive testing procedures recorded by the auditor.	
	Column 2	In this column the auditor can record the related audit area (material classes of transactions or accounts balance)
	Column 3	In this column the audit team can categorize whether the misstatement/observation noted was a result of control deficiency, error, disclosure deficiency or any other matters. This categorization will assist the audit team in evaluating the effect of the misstatement
	Column 4	In this column, the team can record the gist of the observation.
	Column 5	In this column, record against each audit observation the amount involved that, if unresolved, may have an impact on the financial statements depending on whether it is material or not.
	Column 6	In this column, the auditor can record the working paper reference number in the section from which a particular observation has been traced (should be traced from the overall conclusion section of control testing procedures and substantive testing procedures).
	Column 7	The name of the auditor who performed the test of control or the substantive test, and who accordingly noted the misstatement and drafted the audit observation, can be recorded here for ease of follow-up and to deal with the matter until it is resolved.
	Column 8	The summary or gist of management's response to the audit observation can be recorded in this column.
	Column 9	Upon discussion with management during the audit or at the audit exit meeting on completion of the audit, some observations may or may not be resolved. This status can be recorded in this column.
	Column 10	In this column, the auditor can record the reference number of each audit observation, irrespective of whether it has been resolved.
Recording the evidence of preparer and reviewer	The Table indicating the name of the person who prepared and completed this working paper and the reviewer needs to be completed at the end. The preparer could be a team leader or one of the team members, who could then sign off accordingly. The reviewer, usually the audit supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.	

Template #16: Example of an Auditor's Report on Financial Statements

Report by the SAI to XXX

[Appropriate recipient, e.g. Legislature, Parliament, etc.]

Opinion

We have audited the accompanying financial statements of XYZ Ministry, which comprise the Receipts and Payments statement for the year ended 30 June 20X1, schedules forming part, and a summary of other explanatory information.

In our opinion, the financial statements of XYZ Ministry for the year ended 30 June 20XX are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with XYZ law of the Jurisdiction X, 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

[Include responses from the audited entity as appropriate, for example after the Opinion paragraph, in a summary under a heading of "Responses from the Audited Entity" or as a separate appendix]

[Include constructive recommendations as appropriate, for example after the Opinion paragraph, in a summary under a heading of "Recommendations" or as a separate appendix]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Template #17: Example of a Compliance Audit "Short Form" Report

The format of compliance audit reports may vary depending on a number of factors, such as the mandate of the SAI in the specific matter being audited, relevant legislation, reporting practices or the complexity of the issues being reported. However, there is a set of minimum requirements to be met in order to present reporting formats that are consistent and understandable by the users. This will allow for a clear presentation of the work performed, the conclusions reached and identification of any unusual circumstances.

This **example** is an audit to see if the body we are auditing had complied with the terms of its funding.

Compliance Audit Report by the OAG

[Appropriate recipient, e.g. Organisation XYZ]

Report on [Government Agency ABC's Compliance with the Terms of the Funding Agreement with Organisation XYZ dated xx.xx.20XX]

We have audited [government agency ABC's compliance with the terms of the funding agreement with organisation XYZ dated xx.xx.20XX as set out in the project accounts for the year ended 31.12.20XX, showing total expenditures of O$ xxx,xxx.xx].

Management's Responsibility

According to [the terms of the funding agreement with organisation XYZ dated xx.xx.20XX], the management at government agency ABC is responsible for [preparing complete project accounts in compliance with the terms of the funding agreement].

Auditor's Responsibility

Our responsibility is to independently express a conclusion on [the project accounts] based on our audit. Our work was conducted in accordance with the [INTOSAI Fundamental Auditing Principles and Guidelines for Compliance Audit]. Those principles require that we comply with ethical requirements and that we plan and perform the audit so as to obtain reasonable assurance as to whether [the use of the project funds are in compliance, in all material respects, with the terms of the funding agreement dated xx.xx.20XX].

An audit involves performing procedures to obtain sufficient, appropriate evidence to support our conclusions. The procedures performed depend on the auditor's professional judgment, including an assessment of the risk of material non-compliance, whether due to fraud or error. The audit procedures performed are those we believe to be most appropriate to the circumstances. We believe that the gathered audit evidence is sufficient and appropriate, such as to form a basis for our conclusions.

Conclusions

Based on the audit work performed, we found that [government agency ABC's use of project funds received from organisation XYZ] is in compliance, in all material respects, with [the terms of the funding agreement dated xx.xx.20XX].

[Responses from the audited entity as appropriate, for example in a summary under a heading of "Responses from the Audited Entity" or as an appendix]

[Recommendations as appropriate, for example under a heading of "Recommendations" or as an appendix]

Template #18: Example of a Qualified Opinion

This example reflects a situation where there has been non-compliance with the authorities' requirements, in particular with relevant legislation and with the purposes and intentions of the legislature, and where the auditor has determined that the effects are material but not pervasive. The introductory sections of the report and the sections after the compliance opinion are the same as in the example in Template #17.

[appropriate introductory sections of the report]

Audit Report

[appropriate introductory text]

Basis for Qualified Opinion

During the year, government agency ABC received budget appropriations through the Ministry of Education for national educational purposes. My audit revealed that grant expenditures for the year included O$10 million to overseas high-tech manufacturers.

Based on *[the legislation governing the audited entity]*, government agency ABC did not have the power to make grants to overseas bodies. The grant expenditures paid out to overseas bodies were not applied to the purposes intended by the legislature and are therefore not in compliance with the requirements of the authorities that govern it.

Opinion

In my opinion, **except for** the expenditures paid to overseas bodies as described in the Basis for Qualified Opinion above, in all other material respects the activities, financial transactions and information reflected in the financial statements are in compliance with the requirements of the authorities that govern them.

[appropriate concluding sections of the report]

Template #19: Example of an Adverse Opinion

This example reflects a situation where there has been non-compliance with the authorities' requirements, in particular with relevant legislation and with the purposes and intentions of the legislature, and where the auditor has determined that the effects are both material and pervasive. The introductory sections of the report, and sections after the opinion, are unchanged from the example in Template #17.

[appropriate introductory sections of the report]

Audit Report

[appropriate introductory text]

Basis for Adverse Opinion

During the year, government agency ABC paid out social welfare benefits totalling O$500 million. Pension payments accounted for 90% of the total welfare benefits paid out. The financial statements fairly reflect the amounts paid out. However, weaknesses identified in the controls surrounding the computer systems used to make pension payments revealed that the payments were not being made on a timely basis in accordance with *[Relevant social welfare legislation, regulations, etc.]*. The consequence of this weakness may be a violation of the legal rights of eligible pensioners.

Opinion

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion, the activities, financial transactions and information reflected in the **financial statements are not in compliance** with the requirements of the authorities that govern them.

[appropriate concluding sections of the report]

Template #20: Example of a Disclaimer

This example reflects a situation where the auditor has not been able to obtain sufficient, appropriate audit evidence in regard to expenditures being in compliance with the authorities' requirements, in particular with relevant legislation and with the purposes and intentions of the legislature, and where the auditor has determined that the effects are both material and pervasive. The introductory sections of the report and the sections after the opinion are the same as in the example in Template #17.

[appropriate introductory sections of the report]

Audit Report

[appropriate introductory text]

Basis for Disclaimer

During the year, government agency ABC received budget appropriations through the Ministry of Education for national educational purposes. Our audit revealed that grant expenditures for the year, as reflected in the financial statements, included O$10 million to a private research institution. This grant accounted for 90% of total grant expenditure for the year.

The evidence available to me for determining whether the grant expenditure was paid out in accordance with *[Relevant legislation, regulations, etc.]* was limited. Due to hurricane damage, government agency ABC was unable to provide sufficient documentation to demonstrate that the private research institution was eligible to receive such grants. There were no other satisfactory procedures I could carry out to determine if the payments were paid out in accordance with relevant legislation and were therefore applied to the purposes intended by the legislature.

Disclaimer

Because of the limitation of scope described in the Basis for Disclaimer above, **I am unable to form an opinion** as to whether the activities, financial transactions and information reflected in the financial statements are in compliance with the requirements of the authorities that govern them.

[appropriate concluding sections of the report]

Template #21: Example of an Emphasis of Matter and Other Matter(s) Paragraph

In some situations, there may be a need to elaborate on particular matters that do not affect the compliance opinion. An Emphasis of Matters or Other Matters paragraph is used in such circumstances as illustrated in the following example. The introductory sections of the report and the sections after the compliance opinion are the same as in the example in Template #17.

[appropriate introductory sections of the report]

Audit Report

[appropriate introductory text

Opinion

In my opinion, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the requirements of the authorities that govern them.

Emphasis of Matter

I draw the reader's attention to Note xx attached to the financial statements. This note explains the uncertainty related to the pending legal decision regarding the agency's interpretation of the requirements of the environmental legislation dated xx.xx.20xx. My opinion has not been qualified in respect of this matter.

Other Matter

I draw the reader's attention to the agency's compliance with the procurement legislation dated xx.xx.20xx, in force for agency ABC's jurisdiction. The terms of this legislation are contradictory to the terms of the procurement legislation dated yy.yy.20yy, which is being implemented for all jurisdictions that are parties to the ZZZ general trade agreement. This includes agency ABC's jurisdiction. There is a need for the legislature to give this matter further attention such that the necessary amendments to the procurement legislation dated xx.xx.20xx may be enacted to bring the two texts into alignment.

[appropriate concluding sections of the report]

Case Study: Financial Auditing Part One: Auditing the Annual Financial Statements

Introduction

This first part of the Case Study covers the substantive audit work to be undertaken in order to be able to form an audit opinion. The second part (see below) of the Case Study covers the formation of that opinion based on the results of the audit of the AFS. Whilst aiming to be comprehensive, the work can only provide a degree of guidance. There is no easy way of learning how to audit. No matter how good the manuals and templates, there is nothing better than hands-on, practical experience working with an auditor who "knows the ropes". This is why we will be having a series of pilot audits.

Today there is considerable convergence between public and private sector accounting and, thus, public and private sector auditing. Many of the International Standards for Supreme Audit Institutions (ISSAI) are merely restated commercial International Standards on Auditing (ISA).

Accordingly, the paragraphs describing the audit action to be taken are aimed at both public and private sector audits. Where a proposed check is not applicable to the sector being audited, it may be ignored.

This section of the Case Study starts out with a set of *pro forma* Annual Financial Statements.

Preliminary Audit Work

The **first stage** of the audit is related to the contents and structure of the report rather than to the figures themselves. The audit questions to ask are:

- **Legislation:** have the AFS been produced in accordance with the relevant legislation? For example, if the legislation requires accrual-based accounting was this applied? If not, this will be a key item in the audit report – whether or not it affects the audit certificate will depend on the variance form the legislation and whether it has had any material effect on the AFS.

- **Standards:** have the AFS been produced in accordance with accounting standards? These can be national standards, the International Public Sector Accounting Standards (IPSAS) of the International Financial Reporting Standards (IFRS) as appropriate. Unless the national standards match or exceed the IPSAS, failure by central or local government to follow these should be reported upon in the audit report.

- **Structure:** do the AFS follow the structure in terms of the number of different statements and their internal content?

Detailed Audit Work

The **second stage** of the AFS audit examines the actual figures. This is will done covering five areas:

- **Consolidated Assets and Liabilities:** the "balance sheet" which is a "snapshot" of the balances as at the end of the financial year;
- **Statement of Consolidated Fund (Revenues and Expenditure):** all three statements should have the same total figures categorised in different ways. We will look at the traditional Ministry by Ministry approach;
- **Statements of Changes in Net Assets/Equity:** we will examine the changes to the Revaluations and Currency Translation Reserve Funds;
- **Statement of Consolidated Cash Flow:** this basically involves restating balances in a different format; and
- **Statement of Accounting Policies and Notes to the Financial Statements**: we simply ensure that the statements exist and accurately reflect the entity's policies.

Statement #1: Consolidated Assets and Liabilities

This is the public sector equivalent of the balance sheet used by commercial concerned with bodies. The statement is divided into **Assets**: Current Assets (which can be readily converted into cash equivalent) and Non-current Assets (which are long term assets) and **Liabilities** – also divided into Current (due within the year) and Non-current (longer term debt). The audit process is to take each element of the statement and to verify its existence and value.

Statement 1: Government of the Republic of Oceania Statement of Consolidated Assets and Liabilities (Financial Position) as of 31 December 2019

	2019	2019	2018	2018
ASSETS				
Current Assets:				
Cash and cash equivalents	X		X	
Receivables	X		X	
Inventories	X		X	
Prepayments	X		X	
Investments	X		X	
Total Current Assets		**X**		**X**
Non-current assets:				
Receivables	X		X	
Investments	X		X	
Other financial assets	X		X	

Infrastructure, plant and equipment Land and buildings Intangible assets Other non-financial assets	X X X X		X X X X	
Total Non-current Assets		X		X
TOTAL ASSETS		X		X
LIABILITIES				
Current liabilities: Payables Short-term borrowings Current portion of borrowings Provisions Employee benefits Superannuation	 X X X X X X		 X X X X X X	
Total Current Liabilities		X		X
Non-current liabilities: Payables Borrowings Provisions Employee benefits Amounts Held in Trust for Third Parties Superannuation	 X X X X X X		 X X X X X X	
Total Non-current Liabilities		X		X
TOTAL LIABILITIES		X		X
NET ASSETS		X		X
NET ASSETS/EQUITY				
Capital contributed by other government entities Reserves Accumulated surpluses/(deficits)	X X X		X X X	

Total Net Assets/Equity		X		X

The following paragraphs provide an overview of the steps required to audit some of the elements of the Statement. They can be used as a "template" for auditing other similar areas. The project will be developing audit manuals and audit programmes/checklists which are the documents to be used when undertaking the audit work.

Accounting Records

The following points should be considered:

- The accounting records should be maintained on the basis of the double entry principles to facilitate accuracy and completeness;
- All entries other than from books of prime entry (i.e. journals, adjustments and transfers) should be authorised by senior management;
- The nominal ledger should be balanced regularly and should be the subject of regular review; and
- Final accounts should be properly extracted from the nominal ledger.

When examining book-keeping special attention should be given to the year-end procedures and the "cut-off" date.

Particular attention must be given to any suspense accounts. Items should only appear here temporarily whilst the true nature of the item is found out. Thus, any suspense item appearing in two consecutive year's accounts should be queried and reasons found why it has not been cleared.

Cash and Cash Equivalents

The practice of obtaining independent bank certificates is essential to the proper discharge of our responsibilities. This is often called "audit assertions". The following points are important:

- A standard request letter should be sent for all the client's bank accounts;
- Authority for the bank to disclose the information regarding the client must be given;
- Letters should be sent at least one week in advance; and
- Additional information which may be required should be requested in a separate letter.

The standard letter relates to requests to the clearing banks and it may not always be appropriate for requests to secondary banks, banks offering special services or banks outside the country.

On examining bank reconciliations it is important to ensure that all reconciliation items are valid as it is not just arithmetical accuracy which is being confirmed.

It is good practice to coincide the audit of the bank reconciliations with the date on which debtors are circularised for positive confirmation.

If available, returned cheques are an important confirmation for audit purposes and those which are required should be requested, allowing sufficient time for the cheques to be returned.

The extent of work conducted to verify cash is often excessive compared to the materiality of the asset. Often an analytical review of the cash balances will be adequate verification. Consideration must be given to the nature of cash as an asset and the ease with which it may be fraudulently converted.

If cash is counted (e.g. during a ministry audit) it is important to ensure that all the floats are presented simultaneously. The procedure is most effective when conducted on a surprise basis and consideration should also be given to confirming cash balances at the same date as bank balances. This ensures, where the cashier is responsible for both bank and cash, that misappropriated funds cannot be made good by transfers between cash and bank or vice versa.

It is essential that no member of staff ever takes or retains custody of cash without being in the presence of the cashier or a senior officer of the client. On returning the float the cashier should be asked to sign the working paper confirming return, intact, of the cash float.

Where bank overdrafts may be legally set off against bank balances this should be done for the purposes of balance sheet disclosure. Where no right of set off exists bank overdrafts must be shown separately in current liabilities.

Bank balances should normally be included at the amount shown in the cash book. Where cheques have been processed through the cash book but not issued at the year end the amount should be adjusted to creditors.

Where bank balances are held in countries where exchange regulations do not permit the free transfer of funds back to your country the amount of such funds and the details of restrictions should be disclosed in the accounts.

Receivables (Creditors)

A creditors' circularisation is a fundamental audit procedure for the verification of trade and other creditors, in the absence of adequate supplier statement reconciliations. Where the client regularly reconciles creditors with suppliers' statements it will normally be adequate to review the reconciliations giving particular attention to the reconciling of disputed items.

It is best practice to select a sample of trade and other creditors for audit verification and:

- Review supplier statement reconciliation, if available; or
- Send out positive circularisation requests.

The procedures (and the considerations regarding timing) for carrying out a creditors' circularisation are the same as for debtors (see below).

Alternative procedures are required in the absence of external evidence arising from a supplier's statement reconciliation or a circularisation upon review of the client's systems for ensuring that all liabilities are properly recorded and tests on the unpaid items by reference to the underlying accounting records.

Inventories (Stock and Work-in-Progress)

Any balances of tangible items, such as stores, must be supported by properly authorised schedules which must be checked by the auditor.

Stocks and Work-in-Progress should be classified as a **current asset** as they will normally be realised or consumed within one year and may include:

- Goods or other assets purchased for resale ("Goods for Resale);
- Consumable Stores;
- Raw Materials and Components purchased for incorporation into products for resale ("Raw Materials");
- Products and Services in intermediate stages of completion ("Work in Progress"); and
- Finished Goods.

Stocks and Work-in-Progress (other than long term contract work in progress) should be stated at the **lower of cost and net realisable value** of the separate items or groups of similar items.

Cost is defined as being that expenditure which has been incurred in the normal course of business in bringing the product or service to its present location and condition. This expenditure includes the cost of purchase (purchase price, handling and delivery charges, duties and other similar items) plus the cost of conversion, where applicable, less trade discounts, rebates and subsidies.

Costs of conversion are those costs which are specifically attributable to units of production (i.e. direct labour, direct expenses, sub-contract work, and includes production and other overheads as appropriate).

Production and other overheads are those costs attributable in the particular circumstances of the business to bringing the product or service to its present location and condition based on a normal level of activity taking one year with another.

Some of the important points are:

- Abnormal costs such as idle capacity, spoilage and other losses which under normal conditions would be avoidable should be excluded from costs of conversion;
- Normally costs of general management should be excluded, but in smaller businesses where the general manager is responsible for all functions (administration, selling, production), costs should be reasonably allocated over functions;
- Costs of central service departments should be allocated on a fair basis over the departments and functions that they serve; and
- Where firm sales contracts are entered into overheads relating to design, marketing and selling incurred before manufacture may be included in arriving at costs of conversion.

Net realisable value is the actual or estimated selling price (net of any trade, but not cash, discounts) at which it is expected that items of stocks and work-in-progress can be disposed of without creating either profit or loss on sale, less:

- All further costs to completion; and
- All costs to be incurred in marketing, selling and distributing.

A long term contract is one entered into for manufacture or building of a substantial entity or entities of the provision of a service where the time taken to manufacture, build or provide is such that a substantial proportion of all such contract work will **extend for a period exceeding one year.**

Such work-in-progress should be stated in the accounts at cost plus any attributable profit, less any foreseeable losses and progress payments received and receivable. If, however, anticipated losses on individual contracts exceed costs incurred to date less progress payments received and receivable, such excesses should be shown separately as provisions.

In ascertaining cost, it is not normally appropriate to include interest payable on borrowed money unless sums borrowed can be identified as financing specific contracts. Where related interest is included in work-in-progress, the facts should be clearly stated in the accounts.

The audit of contract work-in-progress is a good example of the importance of gaining an understanding of the industry in order to carry out an effective audit. It is necessary with contract work-in-progress to recognise, and where possible minimise, the subjective areas of judgement.

The main points to be concerned about, and to form an opinion on, are:

- The type of contract entered into;
- Whether suitable care has been taken in the tender, particularly at the estimating and profit addition stage;
- Whether a suitable costing system is in operation;
- Seeing that suitable adjustments are made to interim valuations to account for front-end loading and accruals;
- Identifying guarantees and penalty clauses;
- Establishing that the client has a correct procedure for dealing with escalation clauses, variations and claims; and
- Whether the client has an adequate forecasting system to enable a view to be taken on the future profitability of contracts.

The verification of stocks and work-in-progress, for most clients, is the most critical aspect of the audit. It is essential that audit procedures are allocated the appropriate degree of priority and that the **procedures are adapted to the individual circumstances of the client**. In particular, the **final accounts audit programme should be drafted to meet these specific requirements.**

Where clients rely on a **physical count** to determine the physical quantities of stocks for account purposes **you should attend the physical count**. The objectives of attendance are:

- To gain physical contact with the stocks;
- To assess the effectiveness of the client's stocktaking procedures; and
- To assess the condition of the stocks.

The following procedures should be followed:

- A copy of the stocktaking instructions should be obtained prior to the count and reviewed. Any deficiencies should be discussed with the client and corrected before the count date;
- You should be present at the start of the count to ensure that prescribed administrative procedures are followed;
- Particular attention should be given to ensuring that all areas of the counting are covered by audit checks. This is most easily achieved by obtaining a plan of the areas to be covered and allocating the areas accordingly;
- Test counts should concentrate upon items of a high value, easily portable nature; and
- You should be present at the completion of the count to ensure that all stocktaking documents are accounted for and unauthorised amendments are not made.

Where **perpetual counting** is used to verify the reliability of continuous records used for accounting purposes, the following points should be considered:

- The counting should be based upon a planned cycle designed to cover the whole of the stocks during the cycle;
- The client should be requested to retain evidence of the count reconciliations and adjustments should be reflected in the continuous records; and
- Test counts should be carried out as a feature of the audit in addition to tests of the processing of transactions into and out of the continuous records.

Where **standard costs** are used in the valuation of stocks and work-in-progress, it is necessary to consider whether the standard costs approximate to actual costs. Factors which should be taken account of are:

- The date at which the standards were set and the extent to which they reflect anticipated future costs;
- The method by which standard costs are adjusted by variances to reflect actual costs;
- The length of the production cycle; and
- The activity levels assumed in including production overheads in the standard costs.

Where the client uses **independent experts** to value stocks you should obtain a certificate from the specialists showing the bases of valuation adopted and make independent tests on the valuation. In the light of the reputation of the expert, the significance of the stocks involved and the work conducted by you it will be necessary to assess whether the stock valuation is acceptable.

If stocks are **held by third parties** on behalf of the client it is acceptable to obtain a certificate confirming the stocks held, except where the quantities held are so significant that inspection of the stocks is essential.

Prepayments (Debtors)

Debtors normally include:

- Amounts due from Customers in respect of sales ("Trade Debtors");
- Sundry Pre-payments;
- Bills Receivable; and
- Loans.

Where any one category is substantial it may be appropriate to disclose the item separately.

Amounts should be included in debtors only if they are expected to be realised within one year. Deferred debtors may be included only when disclosure of their terms of payments and of the amount thereof are disclosed in the notes to the accounts.

A debtors' circularisation is a **fundamental audit procedure for the verification of trade and other debtors** as the circularisation obtains external confirmation of the existence, ownership and valuation (to a certain extent) of the debt. The procedure is cost-effective in terms of audit effort and avoids the often time-consuming alternative procedures referred to below.

Alternative procedures are required for debts selected for verification where either:

- No (or inadequate) reply is received; or
- The client requests that the debt is not circularised.

Alternative procedures should concentrate upon a review of the client's system for controlling the debts and tests on the unpaid items by reference to the underlying accounting records.

The circularisation of debtors may be either a positive or negative request. Negative circularisation, which involves requesting a debtor to reply only if in disagreement with the balance, can be misleading in that it may be imprudent to assume that a debt exists purely in the absence of a reply. The use of negative circularisation is not, therefore, recommended.

Positive circularisation involves requesting debtors to confirm their agreement or disagreement with the debt. The following points are important:

- The procedure must be discussed in advance with the client to obtain approval for all the balances to be circularised;
- Requests must be issued on client headed paper and signed by a company official, as only the client may request the debtor to divulge the information to you;
- A copy of the customer's statement should be enclosed, where possible, to enable the identification of the cause of any differences;
- The debtor must be asked to confirm the balance direct to you. Failure to do this invalidates the procedure. A reply-paid envelope should always be enclosed for use by the debtor;
- A member of your staff must control the issue of requests. Where the client prepares the requests from our list, each one must be checked before sealing for dispatch; and
- A schedule must be retained of all debtors circularised for subsequent examination.

Second requests should be issued to debtors who have not replied and, if after a further reasonable period, no reply is received the alternative procedures must be followed.

Certain debtors are sometimes unable to confirm a balance at a given point in time but are willing to confirm specific items as being outstanding. In these circumstances a sample of invoices should be selected and forwarded to the debtor for confirmation that they were outstanding at the relevant date.

Debtors, wherever possible, should be circularised at the balance sheet date. Where this practice does not allow sufficient time to receive and reconcile the replies to first and second requests, circulars can be sent out at a date prior to the balance sheet date. Where internal control procedures are adequate it will normally be sufficient to carry out restricted additional procedures on the balances selected for circularisation at the balance sheet date. These procedures may include a reconciliation of certain balances between the circularisation and balance sheet dates, particularly for major balances which were difficult to reconcile. Where external control procedures are weak it may be essential to circularise the balances at the balance sheet date and delay the audit clearance.

Bills receivable are written evidence of debt which as negotiable instruments are often discounted on a "recourse" basis with a bank or finance company.

Bills receivable should be verified in an identical manner to normal trade debtors, although additional procedures may be required.

Investments

The existence of any investments should be confirmed by sighting the certificates, confirmation from the bank, brokers, etc.

Fixed assets have the fundamental characteristic that they are held with the objective or earning money, directly or indirectly, and not for the purpose of resale. Investments which are intended to be held continuously should not be included as a current asset and should be separately disclosed in the balance sheet.

However, readily realisable investments which represent funds available but not immediately required for use in the business but which are expected to be realised within one year should be classified as current assets.

Investments should normally be included in the accounts at cost, subject to any necessary provision for diminution in value. In deciding whether any provision is necessary:

- Where investments are held as fixed assets, the material consideration will be their long-term value to the business rather than their current market value. A provision will normally be necessary if there has been a material diminution in value of an apparently permanent nature even though a loss has not been realised at the balance sheet date; and
- Where investments are held as current assets, the material consideration will be their current market value. If, at the balance sheet date, the market value of listed investments is below the amount at which they are stated in the balance sheet, the disclosure of that value will indicate the diminution of value. However, in the absence of special circumstances it

would not be satisfactory merely to give such an indication by means of a note because an overstatement of the total current assets will not be avoided unless a provision is made for the diminution of value.

The recommended method for estimating the amount of the provision for diminution in value of investments is to compare the cost of each investment with its value and provide for the full diminution in value of those investments which have diminished in value without taking into account any appreciation in value of other investments.

The treatment of profits/losses arising on the disposal of investments should be:

- Where investments were held as current assets the profit or loss should be treated as a normal trading item. If the amount is so material as to be exceptional then it should be disclosed as an exceptional item in the notes to the accounts; and
- Where investments were not held for the purpose of resale, any profit or loss should be disclosed as an extraordinary item, if material.

Share certificates should be inspected at the balance sheet date except:

- Where investments of a trading company are relatively few in number, the internal control procedures satisfactory and the value does not represent a material part of the company's assets. Inspection may be made a short period after the year end but without prior notice to the client; and
- Where a large volume of investments are held the inspection may be made during the year with a sample test at the year-end but only if internal control procedures are satisfactory.

Infrastructure, Plant and Vehicles

The checklist below illustrates the type of document that needs to be developed for every area of audit. It ensures that any auditor can undertake the audit to the standard required to produce audit evidence to an acceptable degree of assurance.

This document would be used as part of the audit of Statement of Consolidated Fund (Revenues and Expenditure) (Profit and Loss Account) but one the overall result of the audit will be the reliability (or otherwise) of the Plant and Vehicle balances.

National Audit Office

MINISTRY/DEPARTMENT:_______________________________
DATE OF REVIEW:_____________________________________

Plant and Vehicles - Checklist

Overall Objective: To ensure that there is an effective plant and vehicle management system operating.

Instructions: Answers to all questions to be by way of a tick (□) in the Yes/No column with comments as required.

	Yes	No	Comments	Schedule Number
1. Acquisition and Disposal of Vehicles and Plant **Objective:** to ensure that proper management controls operate with regard to the purchasing, leasing, hire and disposal of vehicles and plant.				
1.1 Is there a laid down procedure for the authorisation of additional/replacement vehicles? If so, is it sound and is it followed?				
1.2 Is the reason given for the additional /replacement vehicles valid within overall vehicle replacement policy?				
1.3 Was the tendering process used for the purchase?				
1.4 Is there a laid down procedure for the disposal of vehicles? If so, is it sound and is it followed?				
1.5 Was the credit received for the vehicle disposal?				
1.6 Are the entries in the leasing register accurate?				
1.7 Are the entries in the plant register accurate?				
1.8 When was the last performance audit of buying v leasing v hiring undertaken?				

	Yes	No	Comments	Schedule Number
2. Hired Vehicles **Objective:** to confirm that the hire of vehicles is in accordance with laid down policy.				
2.1 Was hire in accordance with laid down policy?				
2.2 Were quotations for hire obtained?				
2.3 Are the rates and details of hire invoices correct?				
2.4 Is economic use being made of hired vehicles (i.e. that vehicles are not idle whilst hired transport is in use)?				
3. Maintenance of Vehicles **Objective:** to ensure that control is being exercised over vehicle and plant running costs, including fuel, tyres, batteries and spare parts.				
3.1 Is there a sound policy in place for servicing and repairs?				
3.2 When was the last time that in-house servicing v private servicing the subject of a VFM audit study?				
3.3 Is servicing being carried out regularly (time or mileage) in accordance with a laid down programme?				
3.4 Are inspections carried out regularly (time or mileage) in accordance with a laid down programme?				
3.5 Where vehicles are serviced by outside firms, are checks made as to the frequency and quality of such services?				

	Yes	No	Comments	Schedule Number
3.6 Do all vehicles comply with legal standards of road-worthiness?				
3.7 If vehicles are insured, either with outside companies or through an insurance fund, are claims made for accidents?				
3.8 Is the system for recording both expenditure and maintenance adequate? Does it produce detailed management information? If so, what information and who uses it?				
3.9 Compare charges for standard jobs between depots and with the private sector. If there is a marked difference, consider a detailed VFM audit study.				
4. Vehicle Running **Objective:** that control is being exercised over the utilisation of vehicles and plant.				
4.1 Are the receipts and issues of petrol, diesel and oil from stocks properly controlled and recorded?				
4.2 If purchases from outside garages are permitted, is that the system sound?				
4.3 Is there a record of kilometres per litre? If so, who is responsible for reviewing it and following up anomalies? Examine the record and ensure that obvious anomalies have been acted upon.				
4.4 Are tyre issues in accordance with laid down policy? Is there a record of tyre issues? If so, who is responsible for reviewing it and following up anomalies? Examine the record and ensure that obvious anomalies have been acted upon.				
4.5 Are spare part issues in accordance with laid down policy? Is there a record of spare part issues? If so, who is responsible for reviewing it and following up anomalies? Examine the record and ensure that obvious anomalies have been acted upon.				

	Yes	No	Comments	Schedule Number
4.6 Are driver's log books properly completed, checked and anomalies followed up?				
5. Use of Vehicles **Objective:** to ensure that control is being exercised over the utilisation of vehicles and plant.				
5.1 Are the supervisory arrangements satisfactory?				
5.2 Has careful consideration been given for routing vehicles, delivery/collection routes, etc.?				
5.3 Is the vehicle being used suited to the task (i.e. is a Toyota Hilux being used when a normal car could do the same job at less cost)?				
5.4 Is there a policy for authorising vehicles to be taken home? If so, is it sound?				
5.5 Are vehicle costs ever re-charged to users? If so, is the system sound?				
5.6 If vehicles are "off the road", is the time involved and the reasons for the non-availability reasonable?				
5.7 How good is the quality of vehicle use statistics and the management information derived therefrom?				
5.8 Are the security arrangements for the garaging of vehicles adequate?				
5.9 Are the security arrangements for the custody of spares and tools adequate?				

	Yes	No	Comments	Schedule Number
6. Vehicle Costing **Objective:** to ensure that there is a sound system of vehicle costing, preferably computerised to re-charge vehicle costs to service departments.				
6.1 Is there a sound system for recording all expenditure by vehicle and allocating these costs on a departmental user basis?				
6.2 Is any such system computerised? If not, are there plans to introduce one in the near future?				

Subject to the satisfactory resolution of any major points noted in the audit report, in my opinion we have met the overall audit objectives.

____________________________ _________________

Signed Date

Land and Buildings

Here is another checklist which covers Land and Buildings. The audit point for "balance-sheet" purposes is very simple – does the property exist, is it owned by the organisation and is the valuation reasonable?

National Audit Office

MINISTRY/DEPARTMENT:______________________________
DATE OF REVIEW:__________________________________

Land and Buildings Register - Checklist

Overall Objective: To ensure that the department is utilising its land and buildings efficiently and identify any surplus to requirements.

Instructions: Answers to all questions to be by way of a tick (□) in the Yes/No column with comments as required.

	Yes	No	Comments	Schedule Number
1. Land and Buildings Register				
1.1 Do financial regulations require a land and building register to be kept?				
1.2 If so, does the head of the establishment have a copy of the instructions relating to land and buildings?				
1.3 Inspect all land and buildings which the department has. Is there any indication of under occupation of either land or buildings?				
1.4 If sites are not fully occupied, could re-arrangement of the department's operations free up land, buildings or parts of buildings for use by other departments or for disposal?				
1.5 Has management ever undertaken a review of its use of land and buildings? If so, when? Obtain a copy of the report and verify its findings and whether any action was taken on its conclusions.				
1.6 Have the land and buildings been revalued? If so, when. Obtain a copy of the report. Ensure that the values are those used in the balance sheet.				

Subject to the satisfactory resolution of any major points noted in the audit report, in my opinion we have met the overall audit objectives.

_____________________________ ___________________

Signed Date

Intangible Assets

Unless it is considered prudent to carry forward preliminary expenses they should be written off as incurred.

The treatment of goodwill varies considerably from company to company. It may be carried forward at cost, written off on purchase or over a fixed number of years or held at cost until apparent that cost exceeds current value.

Provisions and Reserves

Sound accounting practice will require the use of a variety of reserves.

However, these need to be kept to a minimum with regards affective PFM.

This means that as well as examining opening balances, the inflows and outflows during the year and the closing balances, the auditor should consider whether or not the provision or reserve should exist at all.

Superannuation

In the past this was not an important topic as the funds tended to be self-financing. However, this is no longer the case in many cases and companies often have very high superannuation commitments which greatly exceed other items on the balance sheet.

If the amount is material, the auditor must ascertain whether the organisation has any concrete plans for managing the problem.

Contingencies

The audit procedures concerning contingencies fall into three categories:

- Establishing existence;
- Monitoring development; and
- Concluding on the appropriate treatment and disclosure.

Contingent gains and losses should be identified by:

- Direct requests to the client's bankers and solicitors;
- Review of the procedure for recording and bringing claims to the attention of management;
- Examination of minutes, correspondence and other appropriate documents (i.e. bills rendered by solicitors);
- Discussions with the client's legal department;
- Discussions with management obtaining a list of potential matters with estimates of possible financial impacts;
- Inclusion of a relevant paragraph in the letter of representation; and
- Review of registers of charges for items relating to guarantees in respect of third parties.

Having established the existence of a contingency, it is necessary for the directors to monitor developments until the matter in question is finally resolved and the auditor should, in turn, review such developments. This will include a review of correspondence and other documentary evidence, discussions with the appropriate client personnel to obtain an up-to-date company view on the position and direct contact with relevant third parties. The decision as to how any particular contingency should be accounted for involves subjective judgement by management, in particular:

- Is the outcome a "probability", "possibility" or "remote possibility" of a gain or loss;
- Is the contingent gain or loss capable of "reasonable" estimation?: and
- Does a minimum level of disclosure, which avoids prejudicing the company's position, nevertheless meet the requirements of any legislation as well as the need to give a "true and fair" view?

Clearly, there is no definition of "possibility" as against "probability" or of what may be reasonable in given circumstances. Just as management must exercise sound judgement, so must the auditor. Where there is doubt, the concept of prudence must prevail and it is the auditor's duty, after independent consideration of all the facts, to ensure that it does.

Post Balance Sheet Events

When preparing and auditing financial statements which are intended to give a "true and fair" view of the financial position and results of the client, regard must be given to events which occur after the balance sheet date which either provide evidence of conditions existing at the balance sheet date or may require disclosure because of their significance.

Events arising after the balance sheet date need to be reflected in the financial statements if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included. To prevent financial statements from being misleading, disclosure needs to be made by way of notes of any material event arising after the balance sheet date which provide evidence for conditions not existing at that date. Disclosure is required where this information is necessary for a proper understanding of the financial position.

A post balance sheet event is an event which occurs between the balance sheet date and the date on which the financial statements were approved by the board of directors. It is not intended to include preliminary consideration of matters which may lead to a decision by the board in the near future. If events which occur after the date on which the financial statements were approved by the board are material, the board should consider publishing the relevant information so that users of financial statements are not misled.

The process involved in the approval of financial statements by the directors will vary depending on the management structure and the procedures followed in preparing and agreeing the financial statements. However, the date of approval will normally be the date of the board meeting at which the financial statements are formally approved or, in respect of unincorporated bodies, the equivalent date.

In respect of group accounts, the date of approval is the date the group accounts are formally approved by the board of the holding company.

Events occurring after the balance sheet date may be classified into two categories: "adjusting events" and "non-adjusting events".

Adjusting events are events which provide additional evidence relating to conditions existing at the balance sheet date. They **require changes in the amounts to be included in the financial statements.**

Some events occurring after the balance sheet date, such as deterioration in the operating results and in the financial position may indicate a need to consider whether it is appropriate to use the going concern concept in the preparation of financial statements. If the going concern concept is no longer applicable, changes in the amounts to be included in the financial statements will be required.

Non-adjusting events are events which arise after the balance sheet date and concern conditions which did not exist at that time; consequently, they do not result in changes in the amounts in the financial statements. They may, however, be of such materiality that their **disclosure is required by way of notes** to ensure that the financial statements are not misleading.

Disclosure would be required of the reversal or maturity after the end of the year of transactions entered into before the year, the substance of which was primarily to alter the appearance of the company's balance sheet. Such alterations include those commonly known as "window dressing".

There are certain post balance sheet events which, because of statutory requirements or customary audit practices, are reflected in financial statements and so fall to be treated as adjusting events. These include proposed dividend, amounts appropriated to reserves, the effects of changes in taxation and dividends receivable from subsidiary and associated companies.

Separate disclosure of adjusting events is not normally required as they do no more than provide additional evidence in support of items in the financial statements.

In determining which non-adjusting events are of sufficient materiality to require disclosure, regard should be had to all matters which are necessary to enable users of financial statements to assess the financial position.

In respect of each post balance sheet event which is required to be disclosed, the following information should be stated by way of notes to the financial statements:

- The nature of the event; and
- An estimate of the financial effect, or a statement that it is not practicable to make such an estimate.

The estimate of the financial effect should be disclosed before taking account of taxation. The taxation implications should be explained, where necessary, for a proper understanding of the financial position. The date on which the financial statements are approved should be disclosed in the financial statements.

Statement #2: Statement of Consolidated Fund (Revenues and Expenditure)

Overview

As we have seen above, the data contained in this equivalent of the profit and loss account is presented in three different ways. However, as the total must be the same (if they are not there is a serious problem with the AFS!), it is only necessary to audit one of them. As the traditional approach of external audit is to work on a ministry by ministry basis (whether or not they have their own AFS), this is the best approach to take.

Statement 2a: Government of the Republic of Oceania

Statement of Consolidated Revenue and Expenditure (Financial Performance – Classification of Expenses by Nature) for the Year Ended 31 December 2019

Actual 2018		Actual 2019	Final Budget 2019	Original Budget 2019
	Operating Revenue:			
X	Taxes	X	X	X
X	Fees, fines, penalties and licenses	X	X	X
X	Revenue from exchange transactions	X	X	X
X	Transfers from other governments	X	X	X
X	Other operating revenue	X	X	X
X	**Total Operating Revenue**	**X**	**X**	**X**
	Operating Expenses:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenses**	**(X)**	**(X)**	**(X)**
(X)	**Surplus/(deficit) from operating activities**	**(X)**	**(X)**	**(X)**
(X)	Finance costs	(X)	(X)	(X)
(X)	Transfer to Funds	(X)	(X)	(X)
X	Gain on sale: property, plant, equipment	X	X	X

(X)	Total non-operating revenue/(expenses)	(X)	(X)	(X)
X	Net surplus/(deficit) for the period	X	X	X

Statement 2b: Government of the Republic of Oceania

Statement of Consolidated Revenue and Expenditure (Financial Performance – Classification of Expenses by Function) for the Year Ended 31 December 2019

Actual 2018		Actual 2019	Final Budget 2019	Original Budget 2019
	Operating Revenue			
X	Taxes	X	X	X
X	Fees, fines, penalties and licenses	X	X	X
X	Revenue from exchange transactions	X	X	X
X	Transfers from other government entities	X	X	X
X	Other operating revenue	X	X	X
X	**Total Operating Revenue**	**X**	**X**	**X**
	Operating Expenses			
X	General public services	X	X	X
X	Defence	X	X	X
X	Public order and safety	X	X	X
X	Education	X	X	X
X	Health	X	X	X
X	Social protection	X	X	X
X	Housing and community amenities	X	X	X
X	Recreational, cultural and religion	X	X	X
X	Economic Affairs	X	X	X
X	Environmental protection	X	X	X
X	**Total operating expenses**	**X**	**X**	**X**
X	**Surplus/(deficit) from operating activities**	**X**	**X**	**X**
(X)	Finance costs	(X)	(X)	(X)
X	Gains on sale of property, plant and equipment	X	X	X
X	**Total non-operating revenue (expenses)**	**X**	**X**	**X**
X	**Net surplus/(deficit) before extraordinary items**	**X**	**X**	**X**
(X)	Extraordinary items	(X)	(X)	(X)
X	**Net surplus/(deficit) for the period**	**X**	**X**	**X**

NB The totals will agree those of Statement 2a.

Statement 2c: Government of the Republic of Oceania

Statement of Consolidated Revenue and Expenditure (By Ministry) for the Year Ended 31 December 2019

Actual 2018	Code and Ministry/Agency	Actual 2019	Final Budget 2019	Original Budget 2019
	REVENUE			
	Code: Ministry of Finance			
	Operating Revenue			
X	Taxes	X	X	X
X	Fees, fines, penalties and licenses	X	X	X
X	Revenue from exchange transactions	X	X	X
X	Transfers from other governments	X	X	X
X	Other operating revenue	X	X	X
X	**Total Operating Revenue**	**X**	**X**	**X**
	NB Operating Revenue shown only under MF; in practice every ministry with Operating Revenue will be shown separately.			
	Other Revenue			
X	Unclaimed Monies from Trust Fund	X	X	X
X	Transfers from other Funds	X	X	X
X	Grants	X	X	X
X	**Total Other Revenue**	**X**	**X**	**X**
	Total: Consolidated Fund Revenue			
X	Ministry Operating Revenue	X	X	X
X	Unclaimed Monies from Trust Fund	X	X	X
X	Transfers from other Funds	X	X	X
X	Grants	X	X	X
X	**Grand Total – Consolidated Fund Revenue**	**X**	**X**	**X**

	EXPENDITURE			
	Code 01: Cabinet of Ministers			
	Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**
	Code 02: Constitutional Court			
	Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**
	Code 03: Parliament			
	Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**
	Code 04: Office of the President			
	Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**

	Code 05: Office of the Public Prosecutor			
	Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**
	Code 06: Supreme Court			
	Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**
	Code 07: Ministry of Agriculture and Food			
	Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**
	Code 08: Ministry of Communications			
	Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**
	Code 09 onwards:			

	Operating Expenditure for every ministry and agency			
	Summary of Ministry Operating Expenditure:			
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)
(X)	**Total Operating Expenditure**	**(X)**	**(X)**	**(X)**
	Repayment of Borrowing			
X	- Consolidated Fund	X	X	X
X	- Other Funds	X	X	X
X	**Total Repayment of Borrowing**	**X**	**X**	**X**
	Transfers			
X	- Other Funds	X	X	X
X	**Total Transfers**	**X**	**X**	**X**
	Total: Consolidated Fund Expenditure			
(X)	Ministry Operating Expenditure	(X)	(X)	(X)
(X)	Borrowing Repayments	(X)	(X)	(X)
(X)	Transfers	(X)	(X)	(X)
(X)	**Grand Total – Consolidated Fund Expenditure**	**(X)**	**(X)**	**(X)**
	SURPLUS (DEFICIT) FOR YEAR			
X	Grand Total CF Revenue	X	X	X
(X)	Grand Total CF Expenditure	(X)	(X)	(X)
X	**Surplus (Deficit) for Year**	**X**	**X**	**X**
	ACCUMULATED SURPLUS (DEFICIT)			
X	Accumulated Surplus (Deficit) 31 January	X	X	X
X	Surplus (Deficit) for Year	X	X	X
X	**Accumulated Surplus (Deficit) 31 December**	**X**	**X**	**X**

As with the balance sheet, for those items shown in the Annual Audit Plan for review, you will obtain a schedule which makes up the balance shown in the statement and test it for existence and amount. For the key expenditure areas (e.g. wages and salaries and procurement) you will rely on the Systems/Compliance Audit work undertaken during the Interim Audit Phase to confirm the validity of the data.

Revenue

Revenue audit will cover:

- Taxes;
- Fees, fines, penalties and licenses;
- Revenue from exchange transactions;
- Transfers from other governments; and
- Other operating revenue.

Of these, the two key areas are taxes (including customs duties) and transfers from other governments (direct budgetary support).

- Tax Revenues

The range of topics which can be examined as part of the audit of tax revenues include:

- economy, efficiency and effectiveness of tax revenues administration;
- administration of particular types of taxes;
- accounting and record of particular types of taxes, reporting;
- accounting of tax receivables, tax arrears and overpaid taxes;
- audited persons procedure of administration of particular types of taxes;
- internal control system;
- tax evasions in connection with legal adjustment and control mechanisms of particular types of taxes;
- impact of a new legislative provision on administration and collection of particular types of taxes;
- effectiveness of newly adopted legislation; and
- comparison of efficiency of administrative authority divisions inside the institution, throughout institutions or in relation to similar foreign administrative authorities

The table below indicates possible audits performed with focus on a specific type of tax revenue:

Tax Revenues	Audit Topics
VAT	VAT tax administration (procedures, efficiency); intra-community transactions; tax credits; fiscal receipts; evaluation of the anti VAT fraud strategy; VAT - eco-contributions; impact of legislative changes on the fight against VAT frauds etc.
Income tax	compliance audit of corporate income tax; property declaration versus income declaration; income tax of specific groups of taxpayers etc

Excise tax	tax administration
Revenues from lottery	income completeness
Efficiency of tax administration	income completeness; efficiency of system of tax collection
Tax fraud	fraud prevention plan of the tax administration; system of fight against tax fraud
Tax arrears	evaluation of tax arrears; revenue from VAT falling in arrears; collection procedures; results achieved by the tax amnesty
Tax incentives	tax incentives; agricultural concessions
Tax revenues of regional units	regular audit of tax revenues of municipalities; performance audit

Auditors are required to identify key processes, risks and mitigating controls relating to income taxes. In particular, the auditors should assess the adequacy and implementation of internal controls put in place by the management of the Revenue Authority (if any), as these controls are in place to ensure that all returns are received; correctly assessed and amount outstanding are collected.

Auditors are also required to be aware of other activities that indirectly impact on the assessment, collection and allocation of revenue. Specifically, the auditors should identify and evaluate supporting IT systems. The auditors should identify risks posed by these systems and provide appropriate audit response which provides assurance over the effective protecting of revenue.

The table below provides an indication of the sort of audit tests we can apply.

Tax Topic	Risk	Controls	Audit Programme
Assessment	Eligible income tax payers have not been identified	The Revenue Authority (RA) has processes in place for identifying and bringing eligible traders/ customers to tax.	**Tests of Control:** Assess procedures in operation at NBR, which ensure eligible income taxpayers are identified and brought to tax. **Substantive Test: Option A** To clarify from understanding the system – are there independent sources for identifying new traders/individuals subject to income tax –and is information assessable – (for instance, land registry, motor licensing office, Company Registration). Select a sample of eligible traders from other independent sources and confirm these to the register of eligible traders maintained by RA. **Option B** Select a sample of newly registered traders/customers and by reference to their available supporting information (in their respective files) confirm these have been promptly identified and brought to tax (e.g. for newly registered trader, confirm the trader has registered for tax in accordance with the time period allowed by law). Ensure appropriate procedures are observed for a sample of new traders/customers registration.
	• Non-submission of returns • Late submission of returns	Returns/declarations received are periodically compared to the list of registered taxpayers	**Tests of Control:** Inspect evidence that the delegated official has reconciled the returns received to the list of taxpayers. **Substantive Test:**

	• Non-payment of penalties	Returns/declarations submitted late that penalties are charged to those taxpayers.	Reconcile the list of taxpayers to the return received and identify taxpayer who did not submit returns / declarations or submitted returns late. For taxpayers who did not submit returns / declarations to identify whether the penalties were charged correctly.
	Possible collusion between the tax assessment staff and tax payer results in incorrect assessment of liability	A higher officer performs regular review of assessments carried out by the assessment officers (The criteria to select files for review should be consistently applied).	**Tests of Control:** Inspect evidence of regular review of Assessment Officers' work by an independent higher officer. Inspect files assessed and confirm whether selection criteria for assessments have been applied consistently. **Substantive Test:** For selected sample of returns /declarations: • Compare income on supporting documents to estimated taxable income on the return and test to confirm that the taxes have been correctly charged. • Where practicable, agree income declared to other independent sources.
Collection	Revenue received is not recorded, misallocated, recorded at incorrect amounts or in the incorrect period	Regular independent reconciliations between assessments, revenue recorded in the ledger and amounts deposited in the bank	**Tests of Control:** For selected periods inspect proof of reconciliations between assessments and receipts. **Substantive Test:** For selected assessments confirm that payments have been recorded: ○ At the correct amounts; ○ In the correct account; and ○ In the correct period.
	Cash receipts are not banked on a timely basis.	Regular daily / weekly deposit of cash received.	**Tests of Control:** Inspect proof of: ○ Regular banking of cash received; ○ Independent reconciliation of cash received and deposit slips; ○ Daily cash ups for all cashiers;

		Independent reconciliations between receipts issued and amounts deposited in the bank.	○ Adequate segregation of duties between cashiers, persons safeguarding cash and persons depositing in the bank. **Substantive Test:** For a selected sample of receipts issued confirm that cash was banked timely. For selected days confirm that all cash received have been adequately accounted for and banked timely.
	Amount assessed as due is not paid.	Good procedures in place to ensure unpaid liabilities are pursued.	**Tests of Control:** Inspect evidence of review of arrears report by a higher authority. **Substantive Tests:** For a sample of outstanding amount, confirm follow – up action has been effected in accordance with the organisation's debt management policy.
Allocation	Amount is incorrectly classified into head of duty or accounts	Independent checking of classification of revenue.	**Tests of Control:** Inspect proof of regular review of revenue allocation by an official other than the preparer of the revenue schedule. **Substantive Tests:** Select a sample of revenue receipts and agree to supporting evidence to confirm correct and appropriate classification of transaction.
Refunds	Refunds of income tax are incorrectly made – wrong amount or to wrong person.	Independent verification and authorisation of refunds prior to payment.	**Test of Control:** Confirm appropriate segregation of duties exists between the preparers and authorisers of refunds. **Substantive Test:** Select a sample of refunds and confirm that the claim to supporting evidence and establish that the refund has been reviewed and authorised by an appropriate official other than the preparer.
Write-Offs	Income tax due is written off	Write-offs are authorised	**Test of Control:**

	incorrectly or prematurely.	independently by higher authority.	Inspect proof supporting that write-offs can only be approved at the authorised level. **Substantive Test:** Select a sample of Income Tax write-offs and confirm that this has been authorised at the appropriate level and that the amount paid agreed with the amount authorised.

- **Non-tax Revenues**

With regards non-tax revenues, possible audits include:

- administration of selected revenues;
- internal control system;
- economy, efficiency and effectiveness of expenditures on administration of these revenues;
- audited persons procedure of administration of selected revenues;
- accounting and record of selected revenues, reporting;
- impact of a new legislative provision on administration and collection of selected revenues;
- effectiveness of legislation and its adjustments; and
- comparison of efficiency of administrative authority divisions inside the institution, throughout and institutions or in relation to similar foreign administrative authorities.

The table below indicates possible audits performed with focus on a specific type of non-tax revenue:

Non-Tax Revenues	Audit Topics
Revenues from State Property	revenues due to government property department; economic management of companies with a state share; state property managed by a special government unit
Fees collected from Embassies/High Commissions	compliance audit; revenues collected from embassies abroad
Other	management of the derelict, confiscated property or property handed over to the state otherwise; fees from the Land and Public Registry; public broadcasting services - revenue from advertising; results of operations of privatisations; collections of fees and penalties

Transfer from other Governments

Where the government is in receipt of direct budgetary support, this is likely to be a material element in its annual revenue.

Audit work is limited to ensuring that the full amounts allocated by the external donor are stated in the AFS.

This can be achieved by direct discussions with the aid donors to obtain a schedule of how much was paid when and by what means. These amounts then need to be followed through to the AFS.

Any discrepancies should be followed up and reported upon in the Audit Report.

Expenditure

Expenditure will be divided into five areas:

- Wages, salaries, employee benefits;
- Grants and other transfer payments;
- Supplies and consumables used;
- Depreciation/amortisation expense (if on a non-cash basis); and
- Other operating expenses.

Of these, the two key areas are wages, salaries and employee benefits and supplies and consumables used.

- **Wages, Salaries and Employee Benefits**

The annual expenditure on salaries and wages is usually the largest single item of expenditure for most public bodies.

Particularly in the case of large payrolls, satisfactory audit cover can only be achieved by careful planning and by the intelligent direction of staff; both to ensure that the effort is properly focussed and that interest in maintained.

At all but the smallest organisation, it will be impossible to contemplate covering the whole payroll at audit each year. It is necessary to break the payroll down into convenient groups or classes so that the relative size and importance of each may be judged. Payrolls are generally broken into such groups for administrative purposes.

For example, each department's salaries will be grouped separately as may professional sub-divisions within the department. The auditor should take advantage of whatever grouping are adopted, schedule them and record against each the total number of employees and their total pay. This record can then be used in planning and controlling a programme designed to effect a thorough and complete review of the payroll in total over a predetermined period of not more than five years.

The organisation's system for payroll (or for the section under examination) should next be ascertained and recorded (or if a previous record exists it should be established that it is still valid). The flowchart type of system is particularly suitable in payroll auditing and systems questionnaires can also provide valuable assistance to less experienced staff engaged on ascertaining systems.

Having completed the record, a detailed appraisal of the system should be carried out, having always in mind the fundamental principle of complete separation of duties of:

- Certifying Timesheets and Attendance Records;
- Writing up the Wages and Salary Registers or submitting the payroll input data to the computer;
- Making up Wage Packets, preparing cheques, etc.;
- Paying Out Wage Packets, dispatching cheques, etc.; and
- Custody and Disposal of Returned Wage Packets.

The following are some of the matters which should be considered in appraising payroll procedures:

- Who has control of appointments to salaried posts or engagement of labour? Has the organisation a fixed establishment for each section of the labour force? If authority is given to a Chief Officer for engagement of employees what confirmation of his action is required?

- Are there written authorities for:
  - new employees;
  - retirements, transfers, resignations, dismissals and changes;
  - grading; and
  - voluntary payroll deductions.
- Are these authorities held in safe custody away from the officers responsible for making up the payrolls or submitting payroll input data?
- What evidence (other than payrolls) is available concerning employees? It may comprise minutes of Staff/ Establishment or other Committee, Chief Officer's reports, personal superannuation records, etc. Having in view security against fraud, enquire as to the source of the information and the extent to which it is independent of the officer charged with making the payments;
- Who makes out the time sheets or other time records and who certifies their correctness?;
- Who prepares the pay-sheets? If this is done by the spending department, is the Finance department responsible for entering deductions and net pay due? In which department is gross pay totalled? If in the Finance department are pre-totalled control figures provided by spending departments of gross pay or number of employees or number of time sheets?;
- Where incentive bonus schemes are in operation are there satisfactory arrangements for ensuring that work has actually been done and not been overstated? Are the certification arrangements satisfactory? Is adequate management information produced to enable chief officers to exercise overall control through review of bonus levels?;
- Who certifies the correctness of gross pay, and is the method of doing so adequate. For example, can other names be inserted after certification and is the total amount certified in words?;
- Where payment is made: at central offices, establishment, pay station, on the job, etc.;
- How is payment made (direct to bank, by cheque, by receipt presentable at bank, by money order, by cash) and by whom (by post, by cashier, by pay clerk, by head teacher, by foreman). If by cash, who makes up the pay packets, who has custody of them and where are they kept pending pay-out? Consider if anyone could extract a pay packet from proper custody. Are adequate precautions taken on the transfer of cash from the bank? Is the cash-in-transit policy adequate in the sum insured and the conditions?;
- If a security firm is under contract to carry out all or any of the following functions:
  - collecting payroll cash from bank;
  - making up pay packets; or
  - distributing pay packets to pay stations
  - what discharge is given and received by the security firm, and what is their responsibility for any losses? Is the extent to which the security firm accepts responsibility for losses taken into account in fixing the amount of insurance? What evidence is

there of the security firm's insurance cover and payment of premium due?;

- To what date or day of the week is payment made? Is payment ever made in advance (e.g. holidays, emergencies)?;
- What is the procedure for drawing cash for wages (and possibly some salaries)? Also for drawing cheques for disposal of income tax, savings, and voluntary deductions? Consider if the procedures are secure. Is cash (involving unnecessary risk) drawn for any of the contributions or deductions?;
- What are the arrangements for dealing with unclaimed wages? After their return to the place of proper custody are they kept independently of the clerk responsible for preparation of the time sheets?;
- To what extent is payment made to proxies and what safeguards exist?;
- What evidence is available to substantiate pension and compensation payments (e.g. life certificates or personal attendance);
- If individual receipts are taken, consider if they are adequate. If a system of witnessed payments is operative, consider the adequacy of the certificates given by the pay clerk, witnesses and the stamping officer and the facilities for the witness to check which payments he has seen;
- What is the authority for the scales of remuneration paid?;
- If overtime is worked to any unusual manner, enquire closely into the reason;
- Are the records of holidays and sickness adequate?; and
- Where payments are made to casual staff enquire closely into the system to ensure that all practical steps are taken to make it difficult to introduce a false claim for wages.

From this sort of system appraisal the auditor will obtain a clear view of the organisation's arrangements and of:

- **Weaknesses:** which he must ensure (by detailed testing) have not been exploited. Remediable weaknesses he must seek to have corrected and those which cannot be corrected he must note to make sure that appropriate audit tests against exploitation are applied at subsequent audits; and

- **Strengths:** on which (after testing to make sure that the system is working properly) he will be able to rely in deciding the extent of detailed examination necessary. These points of strength are also worth noting for reference at subsequent audits when a limited amount of testing will establish whether the strengths still exist and justify the continued reliance placed on the system (or that aspect of it).

Before deciding on the extent of checking to be carried out it is also necessary to ascertain the extent and quality of internal audit work on the payroll (or aspects of the payroll) under examination. Duplication of internal audit work is obviously to be avoided as far as possible, but some re-examination will be necessary to obtain satisfaction about the quality of internal audit's work.

Two other useful techniques (comparative and marginal auditing) are available to assist in the reduction of payroll audit effort to manageable proportions and in the identification of blocks of expenditure calling for particular examination. These processes involve:

- **Comparative Audit:** Comparing blocks of expenditure on salaries for specific classes of employees with the corresponding expenditures as shown in printed abstracts of the audited accounts for the last three years and with the current year's estimates. Any material changes should be noted and a satisfactory explanation found. This test may be a little more difficult in the case of weekly wages employees whose numbers may fluctuate with the activities of the organisation and seasonal conditions.

- **Marginal Auditing:** Inquire into and note details of any changes in pay scales during the year. On the basis of the numbers of employees in each grade approximate the amount that this years' payroll should total based on last years' figures plus the increase. The test can be considered satisfactory if the answer can, within a small margin, be reconciled with the actual expenditure.

In carrying out the examination of systems and in the detailed examination of payrolls the possibility of fraud must be borne in mind. The reported payroll frauds are both many and varied but, in most cases, there is the common element of systems weakness. In small organisations with few staff there is no prospect of segregation of duties and systems weakness in inevitable. However, the auditor must recognise that the weakness exists and carry out sufficient testing to satisfy himself that it has not been abused.

In larger authorities, with scope for separation of duties, weaknesses can still arise because:

- A system was defective from the outset;
- There have been unauthorised changes in the system; or
- At some point in the procedure staff have not been sufficiently vigilant.

The following is a list of the **main types of payroll fraud**:

- Straightforward theft of pay packets or of cash extracted from pay packets. This may happen anywhere in the chain of cash handling;
- Theft of unpaid wages;
- Theft of cash drawn for savings or other payroll deductions;
- Inflation by employees of hours worked (including overtime and hours worked for sessional fees) or of work stated to have been done for incentive bonus schemes. Some recent bonus frauds have been very extensive both in amount and numbers of staff involved;
- Similar inflation by supervisory or wages staff either in collusion with employees or with opportunity to extract cash before packets reach employees;
- Introduction of "ghosts" on to the payroll or the retention or revival of leavers. Frauds of this type can be very sophisticated and have even included the falsification of minutes indicating appointment;
- Retention on pensions payroll of deceased pensioners;
- Misappropriation of arrears of pay or pension;
- Misappropriation of refunded superannuation contributions: usually unclaimed refunds on resignation or death;
- Over-casting of payroll or of payroll summaries or wages cash book; and
- Fictitious advances of pay.

In his examination of sections of the payroll, the auditor should keep in mind the possibility of identifying areas in which the organisation might achieve more effective use of manpower.

The following are some sources of independent check which may be used to confirm the names or total number of the employees who ought to appear in a payroll:

- If staff numbers are set from outside the organisation (or centrally within it) check that the rules for the numbers of staff allowed to be employed are being followed;
- Check any service cards held by outside bodies (e.g. for teachers or doctors);
- Where National Insurance or other cards exist, examine these;
- Evidence of PAYE income tax deductions from employees pay may be called for at audit, including copies of schedules accompanying remittances to the Inland Revenue Commissioners in respect of deductions. If the latter are not available, it should be possible to tie up the total deductions for a particular period, as shown by the salary and wage sheets, with the amount shown on the official receipt from the Collector of Taxes;
- Personal superannuation records of employees (if they are kept by an officer other than the one responsible for making up pay sheets or paying the men);
- Establishment department records of the approved establishment for each section or department;
- Periodic returns by Heads of Departments or establishments of the names of all employees. Some organisations obtain these as safeguards against the failure of "negative" computerised pay systems (i.e. systems which continue to pat the employee until told to stop); and
- Internal audit records of physical checking of employees on the payroll. Some internal audit sections carry out this sort of check, usually in association with visits to "outside" establishments.

Time and work records, including time sheets etc., if properly completed are the best evidence of an employee's claim to the amount of pay due and the service chargeable with the cost. They should record facts only, be made out and signed by the employee and be certified as correct by his superior. Where, as is often the case with regard to salaries, the preparation of the payroll must commence during the pay period, a firm rule should be adopted that adjustments for absences, sick leave, etc. are given effect up to a stated date in each pay period and that those occurring later will be adjusted in the next pay period.

Time records should be closely scrutinised, signatures should be compared with those on any other documents and indications of any kind that a time sheet may not be genuine must be closely followed up. The possibility of cross-checks with other records should be borne in mind (e.g. workmen's timesheets with stores issued or transport records; home helps with debtor account and supervisor's visit reports; etc.).

Gross pay due as shown on payrolls should be tested with time records (if any) and allocations of expenditure to service headings should be test checked with time sheets or other records of work carried out. Particular attention should be paid to allocations of grant earning services or rechargeable works.

The gross pay of officers is often allocated monthly, as it is paid, to expenditure heads according to a pre-determined formula. The auditor should ensure that these allocations are in accord with actual time records kept for representative periods by the officers concerned and that, whenever work is reallocated, a check is made that the formula is still valid.

Prescribed or recommended scales of pay exist for most categories of public sector worker. If the scales paid differ from these it will be necessary to consider whether such payments are legal.

- **Supplies and Consumables**

There are many different categories of expenditure under this heading. By way of example, we will examine **Plant and Vehicles.** However, the same general approach can be applied to other categories.

An account of the running expenses of each item of plant and each vehicle should be maintained showing the day to day expenditure thereon. This account, used in conjunction with the relative log-book or journey sheets, will provide data from which appropriate unit costs (e.g. per mile, hour or day) should be calculated. Most computers are programmed to produce weekly or monthly tabulations of such unit costs for each vehicle or item of plant in respect of:

- running costs; and
- repair and maintenance.

A review of these individual costs will assist in deciding whether the retention in service of an old vehicle or item of plant is warranted on economic grounds or whether the level of expenditure on other vehicles is such as to call for special investigation, or whether hiring is more economical than buying or vice versa.

Methods of charging out running expenses to service accounts may be either:

- by apportionment at the end of the year of the total running expenses in proportion to user as recorded in the log-books, journey sheets or time sheets. This method clears the running expenses account; or
- by flat rate charge (e.g. so much per mile, per hour, etc.) based on estimated current costs taking into account the estimated usage for the year or on the previous years' actual costs. This method will give rise to a deficit or surplus on the running expense account and it is important to ensure that current charges are adjusted in the light of cost changes.

The accountancy treatment adopted by the organisation as regards both the purchase of new vehicles or plant and the depreciation provision are matters of concern to the auditor. No difficulty arises when purchase cost is debited directly to a loan account or renewals fund and the running expenses account bears the annual debt service charge or calculated contribution to the renewals fund in respect of depreciation.

Alternatively, the whole of the purchase cost can be charged to revenue in the year in which it is purchased. Where this procedure is followed, however, it is essential, if correct costing is to be maintained, that the charge be made direct to the revenue account and excluded from the running expenses account and that, annually over the estimated service life of the item, a charge is made for depreciation. Memorandum records should be maintained by the Chief Officer responsible to show the basis of such depreciation calculations.

Plant and Vehicles: Audit Checks

Where a new vehicle or item of plant is acquired during the financial year, examine the accountancy treatment having regard to whether the acquisition has been financed from loan, renewals fund or revenue.

Check that fleet owner's discount or trade-in value of old items of plant, where appropriate, have been deducted from the purchase price.

Ensure that a running expenses account is maintained in respect of each major item of plant or vehicle.

Scrutinise running expenses accounts and draw attention to any uneconomical costs which suggests that replacement is desirable. Inquire into abnormal expenditure, especially on tyres, fuels and batteries.

Tyres are marked with either an individual or batch number. Enquire whether this number and the mileometer reading is recorded when a tyre is fitted or removed. See that discounts are obtained on the purchase of new tyres. Discounts vary but should be substantial. Major maintenance expenditure may be checked against the vehicle history files which should cover the life of the vehicle.

Similarly, examine critically the life of other items. Except in the smallest organisations, discounts should be obtained on all purchases and the auditor should ensure that the market has been thoroughly tested. Prices may be checked against trade catalogues. Although most firms supplying parts charge an "exchange" price, if they do not ensure a credit is obtained for any part returned to a firm.

Examine the basis for apportionment or charge to main service and rechargeable works accounts and draw attention to any inadequacy of the rate charges.
Scrutinise log books, journey sheets and drivers time sheets for indications:

- of work carried out which may be rechargeable and verify that all such charges are set up in the debtors' accounts;
- of excessive idle or waiting time and of the possibility that one or more vehicles may be dispensed with. Entries for washing, cleaning and maintenance should be regarded with caution, especially if done in overtime. Overtime payments to mechanics needs careful review. If the explanation is that the vehicle cannot be serviced in normal work time alternatives should be considered; and
- of unrecorded or improper use of vehicles, which may be revealed by breaks in the series of mileometer readings or by excessive mileage being recorded of legitimate journeys.

Compare vehicles registration books with payments to the licensing authority and ensure that the correct rates of duty have been paid.

Call for a register of all vehicles and plant and the certificate of the responsible officer at the year-end for items in service at that date. Compare this will the running expense records to identify any items not in use.

Watch for income from the disposal of vehicles and trace the receipts not only of the sale proceeds but also for refunds of licence duties and insurance premiums.

Where repairs are carried out to remedy defects arising within the warranty period, ensure that the cost is recovered from the vehicle supplier. When special heavy-duty batteries are fitted, enquire about the use of, or credit for, the ordinary battery replaced.

Statement #3: Statements of Changes in Net Assets/Equity

This is a fairly simple statement to audit.

The starting point is the **Balance of Net Assets** from the previous years audited AFS. This amount is adjusted for the effects of any **Changes in Accounting Policy**; in most years this will be zero. However, if there are changes in accounting policy it will be necessary to audit the affect that this has on the balance and ensure that the amount shown in the AFS is reasonable.

The revised balance is then adjusted for any **Revaluation/Devaluation of Property**; any change being reflected in the **Revaluation Reserve**. If there are change the audit process will be to obtain the revaluation certificates and ensure that they are been made by an appropriately qualified surveyor and for valid reasons.

The balance is further adjusted in respect of **Currency Translation Differences (CTD)** which will be reflected in the **Currency Translation Reserve**. If you translate the financial statements using different foreign exchange rates, then the balance sheet would not balance (i.e. assets will not equal liabilities plus equity). Therefore, CTD, or currency translation difference arises – it's a balancing figure and shows the difference from translating the financial statements in the presentation currency.

These are unlikely to be material amounts but if they seem high – or fluctuate markedly over time – they should be investigated.

Statement 3: Government of the Republic of Oceania

Statement of Changes in Net Assets/Equity for the Year Ended 31 December 2019

	Capital Contributed	Revaluation Reserve	Currency Translation Reserve	Accumulated Surpluses/ (Deficits)	Total
Balance as at 31/12/2017	X	X	(X)	X	**X**
Changes in Accounting Policy	(X)			(X)	(X)
Restated Balance	**X**	**X**	**X**	**X**	**X**
Surplus on Revaluation of Property		X			X
Deficit on Revaluation of Investments		(X)			(X)
Currency Translation Differences			(X)		(X)
Net gains and losses not recognised in the statement of financial performance		X	(X)		X
Net Surplus for Period				X	X
Balance as at 31/12/2018	**X**	**X**	**(X)**	**X**	**X**
Deficit on Revaluation of Property		(X)			(X)
Surplus on Revaluation of Investments		X			X
Currency Translation Differences			(X)		(X)
Net gains and losses not recognised in the statement of financial performance		(X)	(X)		(X)
Net Deficit for Period				(X)	(X)
Balance as at 31/12/2019	**X**	**X**	**(X)**	**X**	**X**

Statement #4: Statement of Consolidated Cash Flow

This is a fairly straight forward statement of balances extracted from the Revenue and Expenditure figures. Therefore, as long as this process has been done correctly, there will be little audit work to do.

The Ministry of Finance should have a working paper (possibly a spreadsheet) which shows how each of the balances in the Statement has been obtained.

The figures should be come those on the Statement of Consolidated Assets and Liabilities (balance sheet) and Statement of Consolidated Fund (profit and loss account). This should be confirmed.

Statement 4: Government of the Republic of Oceania

Statement of Consolidated Cash Flow for Year Ended 31 December 2019

	2019	2018
Cash Flows From Operating Activities		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
	X	**X**
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	**X**	**X**
Cash Flows From Investing Activities		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	**(X)**	**(X)**
Cash Flows From Financing Activities		
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)

Distribution/dividend to government	(X)	(X)
Net cash flows from financing activities	**X**	**X**
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	X	X
Cash and cash equivalents at end of period	**X**	**X**

Statement #5: Statement of Accounting Policies and Notes to the Annual Financial Statements (AFS)

The Accounting Policies used in the production of the AFS are important in enabling users to fully understand them. Accordingly, it is important that the auditor ensures that they are comprehensive and accurately stated.

With regards **Notes to the Accounts**, the auditor has to determine whether or not they form a fundamental part of the AFS on which users of the accounts will need to rely. This will determine the depth of audit work required.

If the notes are merely statements, the auditor can check them for relevance and accuracy. If they are tables of data, the auditor can comment on whether the structure is meaningful and in line with good international practice.

The extent to which the Notes are audited must be detailed in the Audit Report together with reasoning for that approach.

There follows a *pro forma* example of a **Statement of Accounting Policies and Notes to the Accounts**. Although headed "Republic of Oceania" this is fictional data indicating the sort of thing we would expect to see in this statement. Further, it is **not a recommendation** as to the model which Oceania should follow.

Statement 5: Government of the Republic of Oceania

Statement of Accounting Policies and Notes to the Financial Statements for the Year Ended 31 December 2019

Reporting Entity

The Financial Statements of the Government of Republic of Oceania have been prepared in accordance with the legal requirements of the country.

The Government Reporting Entity **c**omprises:

- Central Government
  - Ministries
  - Agencies
- Local Government
  - Districts
  - Towns
  - Districts of Cities
- Funds
  - Fund #A; and
  - Fund #B.

It does not include the following in the consolidation, though details may be shown by way of notes to the accounts.

- Government Business Enterprises; or
- Trust Funds.

Accounting Policies

These financial statements comply with International Public Sector Accounting Standards. The measurement base applied is historical cost adjusted for revaluations of certain property, plant and equipment and marketable securities held for trading purposes. The modified accrual basis of accounting has been used unless otherwise stated.

Reporting and Forecast Period

The reporting and forecast period for these financial statements is the year ended 31 December 2019.

The Original Budget is the original forecast for the financial year, as presented in the 2019 Budget on xx/xx/2018. The revised forecast has been prepared using actual data which was available at the time of the finalisation of the Budget forecasts (xx/xx/2019).

Revenue

- Revenue levied through the Government's legal powers

The Government provides many services and benefits that do not give rise to revenue. Further, payment of tax does not, of itself, entitle a taxpayer to an equivalent value of services or benefits, as there is no direct relationship between paying tax and receiving Government services and transfers.

Such revenue is received through the exercise of the Government's legal power. Where possible, revenue is recognised at the time the debt to the Government arises. The Table below indicates such revenue; it should be updated for the Oceania Republic specific revenue sources.

Revenue Type	Revenue Recognition Point
Income Tax	When payment to individual is made
Excise duty	When goods are subject to duty
Road user charges and motor vehicle fees	When payment for the fee or charge is made
Other indirect taxes	When the debt to the Government arises
Other revenue	When the debt to the Government arises

- Revenue earned through operations

If revenue has been earned by the Government in exchange for the provision of outputs (products or services) to third parties, the Government receives its revenue through operations. Such revenue is recognised when it is earned.

- Investment income

Investment income is recognised in the period in which it is earned.

Gains

Realised gains arising from sales of assets or the early repurchase of liabilities are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Unrealised gains arising from changes in the value of property, plant and equipment are recognised as at balance date.

Expenses

- General

Expenses are recognised in the period to which they relate.

- Welfare benefits

Welfare benefits are recognised in the period when an application for a benefit has been received and the eligibility criteria met.

- Grants and subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Government.

- Losses

Realised losses arising from sales of assets or the early repurchase of liabilities are recognised in the Statement of Financial Performance in the period in which the transaction occurs.

Unrealised losses (excluding foreign-exchange losses) arising from changes in the value of property, plant and equipment, and investments and marketable securities held for investment and unlisted equity investments are recognised at balance date.

- Foreign-currency transactions

Short-term transactions covered by forward exchange contracts are translated into Oceania $ using the forward rates specified in those contracts.

Other transactions in foreign currencies are translated into Oceania $ using the exchange rate on the date of the transaction. Exchange differences arising on settlement of these transactions are recognised in the Statement of Financial Performance.

Outstanding foreign-exchange contracts are translated at the closing exchange rate. Exchange gains and losses are included in the Statement of Financial Performance in the period in which they arise.

- Depreciation

NB This section is included for completeness. It is not applicable under the modified accruals basis of accounting but is required under full accrual accounting. Then the rates used should be those related to the Republic of Oceania's unique situation.

Depreciation should be charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. Typically, the estimated useful lives of different classes of property, plant and equipment are as follows (again this will need to be customised for Oceania's unique situation):

Item	**Period**
Freehold buildings	25 to 60 years
Specialist military equipment	5 to 25 years
Other plant and equipment	3 to 25 years
Highways:	
Pavement (surfacing)	7 years
Pavement (other)	36 years
Bridges	90 to 100 years
Aircraft (except specialist military equipment)	10 to 20 years
Electricity distribution network	2 to 80 years
Electricity generation assets	25 to 55 years

Notes to the Accounts

- ***Introduction***

This section will contain all material relevant to the accounts which is not recorded elsewhere. Possible examples are included below. If data is not available for 2019, it should be shown by way of note to the accounts at some future date when it does become available. This section merely shows **how** the data can be presented if so desired – it is not prescriptive.

- ***Contingent Liabilities***

Government of the Republic of Oceania

Statement of Guarantees and Other Contingent Liabilities for Year Ended 31 December 2019

		Total Potential Exposure As at 31 December 2019	**Exposure for 2019**	**Exposure as at 31 December 2018**
External Loans Guaranteed				
Borrower	**Lender**			
List all Borrowers	List all Lenders	X	X	X
Total External Loans Guaranteed		**X**	**X**	**X**
Domestic Loans Guaranteed				
Borrower	**Lender**			
List all Borrowers	List all Lenders	X	X	X
Total Domestic Loans Guaranteed		**X**	**X**	**X**
Other Contingent Liabilities				
Legal claim against the Government		X	X	X
Total Other Contingent Liabilities		**X**	**X**	**X**
Total Guarantees and Other Contingent Liabilities		**X**	**X**	**X**

- ***Trust Funds***

Trust Funds do not form part of the Government's funds and would not, normally, be included in the budget submitted for approval. In addition, they should also have separate bank accounts outside of the Single Treasury Bank account.

However, the Government is acting as a steward of such funds and should account for this stewardship. The most effective way of doing this is by way of a note to annual financial statements.

The following table should appear in the Notes to the Accounts for Trust Funds not included in other financial statements:

Government of the Republic of Oceania
Trust Fund Statement for Year Ended 31 December 2019

Fund	Opening Balance 1/1/2019	Receipts	Payments	Closing Balance 31/12/2019
Trust Fund A	X	X	(X)	**X**
Trust Fund B	X	X	(X)	**X**
Trust Fund C	X	X	(X)	**X**
TOTAL	**X**	**X**	**(X)**	**X**

- ***Summary of Public Debt Liability***

Another useful item to include in the Notes to the Accounts is a summary of public debt liability – how much is owed to whom.

Government of the Republic of Oceania
Public Debt Liability Statement for Year Ended 31 December 2019

Source of Borrowing	2019 Foreign Currency	2019 O$	2018 Foreign Currency	2018 O$
Domestic:				
Bonds (%)		X		X
Treasury Bills		X		X
		X		X
Total Domestic Borrowing		**X**		**X**
External Loans:				
Loans in SDR				

- Project A	X	X	X	X
Loans in US Dollars				
- Project B (4.7%)	X	X	X	X
- Project C (5.24%)	X	X	X	X
	X	X	X	X
Loans in Japanese Yen				
- Project D (4.25%)	X	X	X	X
	X	X	X	X
Etc.				
Total External Loans		X		X
Total Public Debt Liability		X		X

- ***Other Statements***

Other Statements can also be included in the Notes, if the government thinks it useful for the users of the accounts. Normally, materiality will be the main factor to be considered when deciding whether or not to include such Statements. However, Statements such as amount of On-lending and Write-offs are of interest in terms of transparency whatever the amounts.

There is no laid down format for such statements but they would generally follow the design of that of Public Debt Liability above.

Statements which could be considered for inclusion are:

- Statement of Investments;
- Statement of Sinking Funds;
- Statement on On-lending; and
- Statement of Write-offs.

Case Study: Financial Auditing Part Two: Forming the Audit Opinion

Introduction

Once the audit work is completed, it is time to form the audit opinion – which must be based on the evidence found during the audit process – and to write the audit report.

The ISSAI for this comprise #2700, #2701, #2705, #2706, #2710 and #2720.

These were updated in 2016 and renumbered in 2019 and whilst there were no fundamental changes to the previous standards, there are some changes to the titles and structure of the report format and to the details required to meet the standard – although most of these would have been included previously anyway!. This seems to be a "dumbing down" of the standards by over-prescribing the format.

The rest of the section of the course cites the standards and highlights the main features of each.

However, there is no substitute for reading the standards in full and their accompanying "Practice Notes".

It is also important to realise that not every section of the standards applies to every audit. However, if the standard **does** apply to your particular audit it **must be followed in full**.

ISSAI #2700: Forming an Opinion on the Financial Statements

Introduction

10[1]. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

> (a)The auditor's conclusion, in accordance with ISA #330, whether sufficient appropriate audit evidence has been obtained;
>
> (b) The auditor's conclusion, in accordance with ISA #450, whether uncorrected misstatements are material, individually or in aggregate; and
> (c) The evaluations required by paragraphs 12–15.

12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative

[1] NB Paragraph numbering follows that of ISSAI #2700.

aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

(a) The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner;
(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
(c) The accounting estimates made by management are reasonable;
(d) The information presented in the financial statements is relevant, reliable, comparable, and understandable.

In making this evaluation, the auditor shall consider whether:

• All information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized; and
• The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed.

(e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
(f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:

(a) The overall presentation, structure and content of the financial statements; and
(b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

17. If the auditor:

(a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
(b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with ISA #705 (Revised).

18. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with ISA #705 (Revised).

Auditor's Report

20. The auditor's report shall be in writing.

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.

Addressee

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement.

Auditor's Opinion

23. The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion."

24. The Opinion section of the auditor's report shall also:

(a) Identify the entity whose financial statements have been audited;
(b) State that the financial statements have been audited;
(c) Identify the title of each statement comprising the financial statements;
(d) Refer to the notes, including the summary of significant accounting policies; and
(e) Specify the date of, or period covered by, each financial statement comprising the financial statements.

25. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

(a) In our opinion, the accompanying financial statements present fairly, in all material respects, […] in accordance with [the applicable financial reporting framework]; or
(b) In our opinion, the accompanying financial statements give a true and fair view of […] in accordance with [the applicable financial reporting framework].

27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to IFRS issued by the International Accounting Standards Board or IPSAS issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework.

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:

(a) States that the audit was conducted in accordance with International Standards on Auditing;

(b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISA;
(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code);
(d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Going Concern

29. Where applicable, the auditor shall report in accordance with ISA 570 (Revised).

Key Audit Matters

30. For audits of complete sets of "general purpose financial statements" of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA #701.

31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA #701.

Other Information

32. Where applicable, the auditor shall report in accordance with ISA #720 (Revised).

Responsibilities for the Financial Statements

33. The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." The auditor's report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to "management". In some jurisdictions, the appropriate reference may be to those charged with governance.

34. This section of the auditor's report shall describe management's responsibility for:

(a) Preparing the financial statements in accordance with the applicable financial reporting framework, 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; and
(b) Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

35. This section of the auditor's report shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfil the responsibilities described in paragraph 34 above. In this case, the heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

36. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities for the financial statements in the auditor's report shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view," as appropriate in the circumstances.

Auditor's Responsibilities for the Audit of the Financial Statements

37. The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

38. This section of the auditor's report shall:

(a) State that the objectives of the auditor are to:
   (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
   (ii) Issue an auditor's report that includes the auditor's opinion.
(b) State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists; and
(c) State that misstatements can arise from fraud or error, and either:
   (i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or
   (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework.

39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further:

(a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional scepticism throughout the audit; and

(b) Describe an audit by stating that the auditor's responsibilities are:

   (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(ii) To obtain an understanding of internal control relevant to the audit 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 the entity's internal control.

(iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.

(v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall:

(a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;

(b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and

(c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with ISA #701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)

Location of the description of the auditor's responsibilities for the audit of the financial statements

41. The description of the auditor's responsibilities for the audit of the financial statements required by paragraphs 39–40 shall be included:

(a) Within the body of the auditor's report;
(b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or
(c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so.

42. When the auditor refers to a description of the auditor's responsibilities on a website of an appropriate authority, the auditor shall determine that such description addresses, and is not inconsistent with, the requirements in paragraphs 39–40 of this ISA.

Other Reporting Responsibilities

43. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the ISA, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the ISA.

44. If other reporting responsibilities are presented in the same section as the related report elements required by the ISA, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the ISA.

45. If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 21–40 of this ISA shall be included

under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Statements."

Name of the Engagement Partner

46. The name of the engagement partner shall be included in the auditor's report on financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat.

Signature of the Auditor

47. The auditor's report shall be signed.

Auditor's Address

48. The auditor's report shall name the location in the jurisdiction where the auditor practices.

Date of the Auditor's Report

49. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:

(a) All the statements and disclosures that comprise the financial statements have been prepared; and
(b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

Auditor's Report Prescribed by Law or Regulation

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

(a) A title.
(b) An addressee, as required by the circumstances of the engagement.
(c) An Opinion section 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, see paragraph 27).
(d) An identification of the entity's financial statements that have been audited.

(e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
(f) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of ISA #570 (Revised).
(g) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in paragraph 23 of ISA #570 (Revised).
(h) Where applicable, a section that includes the information required by ISA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that ISA.18 (Ref: Para. A72–A75)
(i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of ISA #720 (Revised).
(j) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements in paragraphs 33–36.
(k) A reference to International Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs 37–40. (Ref: Para. A50–A53)
(l) For audits of complete sets of "general purpose financial statements" of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
(m) The auditor's signature.
(n) The auditor's address.
(o) The date of the auditor's report.

Information Presented with the Financial Statements

53. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

54. If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

ISSAI #2701: Communicating Key Audit Matters in the Independent Auditor's Report

Determining Key Audit Matters (see ISSAI #2700; paragraph #30, #31 and #40)

9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

(a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA #315 (Revised);
(b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and
(c) The effect on the audit of significant events or transactions that occurred during the period.

10. The auditor shall determine which of the matters determined in accordance with paragraph 9 were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

Communicating Key Audit Matters

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that:

(a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and
(b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

Key Audit Matters Not a Substitute for Expressing a Modified Opinion

12. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with ISA #705 (Revised) as a result of the matter.

Descriptions of Individual Key Audit Matters

13. The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

(a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
(b) How the matter was addressed in the audit.

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report

14. The auditor shall describe each key audit matter in the auditor's report unless:

(a) Law or regulation precludes public disclosure about the matter; or
(b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report

15. A matter giving rise to a modified opinion in accordance with ISA #705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA #570 (Revised), are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 do not apply. Rather, the auditor shall:

(a) Report on these matter(s) in accordance with the applicable ISA(s); and
(b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section.

Form and Content of the Key Audit Matters Section in Other Circumstances

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters."

Communication with Those Charged with Governance

17. The auditor shall communicate with those charged with governance:

(a) Those matters the auditor has determined to be the key audit matters; or
(b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report.

Documentation

18. The auditor shall include in the audit documentation:

(a) The matters that required significant auditor attention as determined in accordance with paragraph 9, and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter in accordance with paragraph 10;

(b) Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report or that the only key audit matters to communicate are those matters addressed by paragraph 15; and

(c) Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.

ISSAI #2705: Modification to the Opinion in the Independent Auditor's Report

Circumstances When a Modification to the Auditor's Opinion Is Required

6. The auditor shall modify the opinion in the auditor's report when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Determining the Type of Modification to the Auditor's Opinion

- Qualified Opinion

7. The auditor shall express a qualified opinion when:

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

- Adverse Opinion

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

- Disclaimer of Opinion

9. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

12. If management refuses to remove the limitation referred to in paragraph 11 of this ISA, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

(a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

(b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

(i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or

(ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

14. If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. 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. [This is obvious – a further example of "dumbing down!]

Form and Content of the Auditor's Report When the Opinion Is Modified

- Auditor's Opinion

16. When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section.

- Qualified Opinion

17. When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:

(a) When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) […] in accordance with [the applicable financial reporting framework]; or

(b) When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion.

- Adverse Opinion

18. When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:

(a) When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) […] in accordance with [the applicable financial reporting framework]; or

(b) When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

- Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

(a) State that the auditor does not express an opinion on the accompanying financial statements;

(b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and

(c) Amend the statement required by paragraph 24(b) of ISA 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

Basis for Opinion

20. When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by ISA 700 (Revised):

(a) Amend the heading "Basis for Opinion" required by paragraph 28 of ISA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
(b) Within this section, include a description of the matter giving rise to the modification.

21. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A22)

22. If there is a material misstatement of the financial statements that relates to qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

23. If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:

(a) Discuss the non-disclosure with those charged with governance;
(b) Describe in the Basis for Opinion section the nature of the omitted information; and
(c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A23)

24. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.

25. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of ISA 700 (Revised) to include the word "qualified" or "adverse", as appropriate.

26. When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the elements required by paragraphs 28(b) and 28(d) of ISA 700 (Revised). Those elements are:

(a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and
(b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

27. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the

reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements

28. When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by paragraphs 39–41 of ISA 700 (Revised) to include only the following:

(a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with International Standards on Auditing and to issue an auditor's report;
(b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
(c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of ISA #700 (Revised).

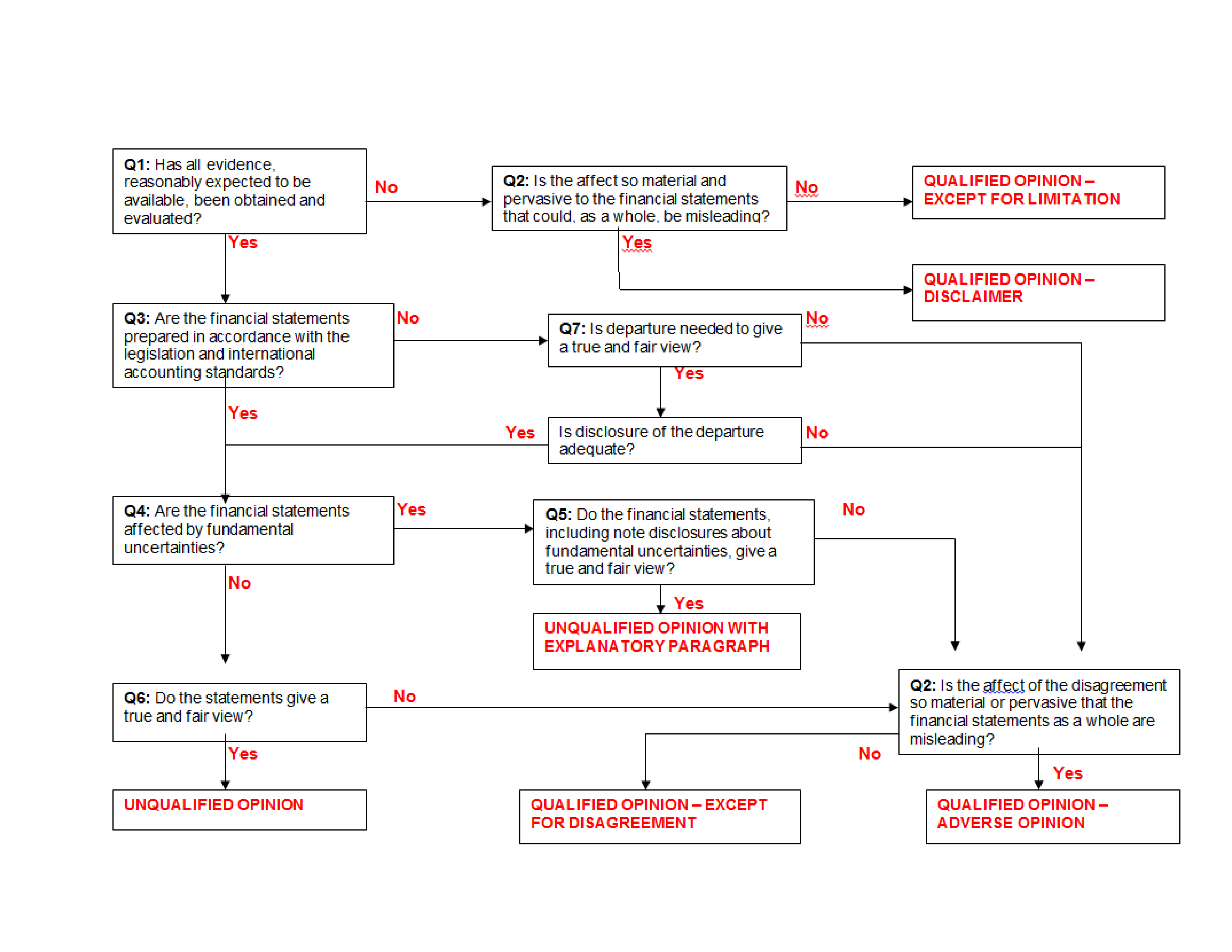
Considerations When the Auditor Disclaims an Opinion on the Financial Statements

29. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with ISA #701 or an "Other Information" section in accordance with ISA #720 (Revised).

Communication with Those Charged with Governance

30. When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

NB The table on the next page gives guidance as to the form of certificate to use in diagrammatic form.


Q1: Has all evidence, reasonably expected to be available, been obtained and evaluated?
No
Q2: Is the affect so material and pervasive to the financial statements that could, as a whole, be misleading?
No
QUALIFIED OPINION – EXCEPT FOR LIMITATION
Yes
QUALIFIED OPINION – DISCLAIMER
Yes
Q3: Are the financial statements prepared in accordance with the legislation and international accounting standards?
No
Q7: Is departure needed to give a true and fair view?
No
Yes
Is disclosure of the departure adequate?
Yes
No
Yes
Q4: Are the financial statements affected by fundamental uncertainties?
Yes
Q5: Do the financial statements, including note disclosures about fundamental uncertainties, give a true and fair view?
No
Yes
UNQUALIFIED OPINION WITH EXPLANATORY PARAGRAPH
No
Q6: Do the statements give a true and fair view?
No
Q2: Is the affect of the disagreement so material or pervasive that the financial statements as a whole are misleading?
Yes
No
Yes
UNQUALIFIED OPINION
QUALIFIED OPINION – EXCEPT FOR DISAGREEMENT
QUALIFIED OPINION – ADVERSE OPINION

ISSAI #2706: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Emphasis of Matter Paragraphs in the Auditor's Report

8. If the auditor considers it necessary to draw users' attention to a matter 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, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

(a) The auditor would not be required to modify the opinion in accordance with ISA #705 (Revised) as a result of the matter; and
(b) When ISA #701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

9. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

(a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
(b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
(c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Other Matter Paragraphs in the Auditor's Report

10. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:

(a) This is not prohibited by law or regulation; and
(b) When ISA #701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

11. When the auditor includes an "Other Matter" paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.

Communication with Those Charged with Governance

12. If the auditor expects to include an Emphasis of Matter or an "Other Matter" paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph.

ISSAI #2710: Comparative Information Corresponding Figures and Comparative Financial Statements

Audit Procedures

7. The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:

(a) The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated; and
(b) 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.

8. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of ISA #560. If the prior period financial statements are amended, the auditor shall determine that the comparative information agrees with the amended financial statements.

9. As required by ISA #580, the auditor shall request written representations for all periods referred to in the auditor's opinion. The auditor shall also obtain a specific written representation regarding any restatement made to correct a material misstatement in prior period financial statements that affect the comparative information.

Audit Reporting

- Corresponding Figures

10. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the circumstances described in paragraphs 11, 12, and 14. (Ref: Para. A2)

11. If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

(a) 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

(b) 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. (Ref: Para. A3–A5)

11. If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

- Prior Period Financial Statements Audited by a Predecessor Auditor

13. If the financial statements of the prior period were audited by a predecessor auditor and the auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:

(a) That the financial statements of the prior period were audited by the predecessor auditor;
(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
(c) The date of that report.

- Prior Period Financial Statements Not Audited

14. If the prior period financial statements were not audited, the auditor shall state in an "Other Matter" paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

- Comparative Financial Statements

15. When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed.

16. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with ISA #706 (Revised).

- Prior Period Financial Statements Audited by a Predecessor Auditor

17. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an "Other Matter" paragraph:

(a) that the financial statements of the prior period were audited by a predecessor auditor;

(b) the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(c) the date of that report,

unless the predecessor auditor's report on the prior period's financial statements is reissued with the financial statements.

18. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and, unless all of those charged with governance are involved in managing the entity, those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period.

- Prior Period Financial Statements Not Audited

19. If the prior period financial statements were not audited, the auditor shall state in an "Other Matter" paragraph that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

ISSAI #2720: The Auditor's Responsibility Relating to Other Information in Documents Containing Audited Financial Statements

Obtaining the Other Information

13. The auditor shall:

(a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s);
(b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document(s) comprising the annual report; and
(c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this ISA.

Reading and Considering the Other Information

14. The auditor shall read the other information and, in doing so shall:

(a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and
(b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

15. While reading the other information in accordance with paragraph 14, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

(a) A material misstatement of the other information exists;
(b) A material misstatement of the financial statements exists; or
(c) The auditor's understanding of the entity and its environment needs to be updated.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

17. If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

(a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
(b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

18. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including:

(a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii)); or
(b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

19. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

(a) If the other information is corrected, perform the procedures necessary in the circumstances; or
(b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared.

Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated

20. If, as a result of performing the procedures in paragraphs 14–15, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other ISA.

Reporting

21. The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:

(a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or
(b) For an audit of financial statements of an entity other than a listed entity, the auditor has obtained some or all of the other information.

22. When the auditor's report is required to include an "Other Information" section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)

(a) A statement that management is responsible for the other information;
(b) An identification of:

(i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and

(ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;

(c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
(d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA; and
(e) When other information has been obtained prior to the date of the auditor's report, either:

(i) A statement that the auditor has nothing to report; or

(ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

23. When the auditor expresses a qualified or adverse opinion in accordance with ISA 705 (Revised), the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(e).

Reporting Prescribed by Law or Regulation

24. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum:

(a) Identification of the other information obtained by the auditor prior to the date of the auditor's report;
(b) A description of the auditor's responsibilities with respect to the other information; and

(c) An explicit statement addressing the outcome of the auditor's work for this purpose.

Documentation

25. In addressing the requirements of ISA #230 as it applies to this ISA, the auditor shall include in the audit documentation:

(a) Documentation of the procedures performed under this ISA; and
(b) The final version of the other information on which the auditor has performed the work required under this ISA.