

FINANCIAL AUDIT ISSAI IMPLEMENTATION HANDBOOK

Version 1

Note: This is a new version of Financial Audit ISSAI Implementation Handbook following a light touch revision made as on 8 December 2020

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ACRONYMS & ABBREVIATIONS

AWP	Audit Working Paper
COTABD	Classes of Transactions, Account Balances or Disclosures
FA	Financial Audit
FAAS	Financial Audit and Accounting Subcommittee
FRF	Financial Reporting Framework
FIPP	Forum for INTOSAI Professional Pronouncements
INTOSAI	International Organisation of Supreme Audit Institutions
INCOSAI	International Congress of Supreme Audit Institutions
IFPP	INTOSAI Framework of Professional Pronouncements
IDI	INTOSAI Development Initiative
ISSAI	International Standards of Supreme Audit Institutions
IAASB	International Auditing and Assurance Standards Board
IFRS	International Financial Reporting Standards
IPSAS	International Public-Sector Accounting Standards
KAM	Key Audit Matters
PN	Practice Notes in ISSAI
PSC	INTOSAI Professional Standards Committee
QA	Quality Assurance
ISA	International Standards on Auditing
ROMM	Risk of Material Misstatement
SAI	Supreme Audit Institution
SDG	Sustainable Development Goal

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Quality Statement for Financial Audit ISSAI Implementation Handbook, Version 1 (8 December 2020)

INTOSAI Goal Chairs and IDI's joint paper on 'Quality assuring INTOSAI public goods that are developed and published outside due process' identifies three levels of quality assurance, as follows:

QUALITY ASSURING INTOSAI PUBLIC GOODS THAT ARE DEVELOPED AND PUBLISHED OUTSIDE DUE PROCESS – Levels of Quality Assurance

Level 1: Products that have been subjected to quality assurance processes equivalent to INTOSAI due process, including an extended period of transparent public exposure (90 days)

Level 2: Products that have been subjected to more limited quality assurance processes involving stakeholders from outside the body or working group responsible for the products' initial development. Quality assurance processes might, for example, include piloting, testing and inviting comments from key stakeholders, although not go as far as full 90-day public exposure

Level 3: Products that have been subjected to rigorous quality control measures within the body or working group responsible for their development

Different levels of Quality Assurance may be appropriate for different GPGs. This GPG has been developed according to quality assurance level 1.

Quality Assurance Protocol: Version 2.0

IDI's Protocol for Quality Assurance (QA) of IDI's Global Public Goods defines measures to ensure quality based on the three levels of quality assurance above. For quality assurance level 1, these measures include: approval by the IDI Board to create the GPG; formation of a competent product development team; peer review by experts external to the development team; modification based on review; proofreading, editing and translation of the document by competent persons; public exposure for a period of 90 days/consultation with relevant stakeholders representing views from most regions, most models of auditing, developed and developing countries, and from the perspective of global bodies; modifications of the document based on comments received during public exposure; and due approvals for the GPG version 1.

Updates to this GPG

To ensure that this GPG stays relevant, IDI will undertake major revision of this Financial Audit Handbook whenever there are changes in financial audit ISSAIs. Major revisions will follow IDI's Protocol for Quality Assurance. In addition, light touch reviews will be done annually based on FAAS updates. Such light touch reviews will not normally be subject to this Protocol. For this light touch review, a new QA review was not required, but the QA statement has been reissued to reflect changes to the IDI QA protocol.

This GPG is owned by IDI's Professional SAs work stream, which is responsible for maintenance of this GPG.

Quality Assurance Review Process

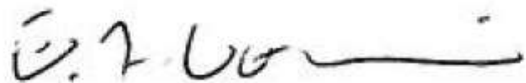
Martin Aldcroft (Strategic Support Unit, IDI) has undertaken a QA review of the process followed for the development of this GPG, against QA Protocol Version 2.0. The QA reviewer is familiar with IDI's protocol for QA of GPGs and was not involved in development of the GPG. This QA review process is designed to provide all stakeholders with assurance that the IDI has carried out the quality control measures stated above, designed to meet quality assurance level 1.

Results of the Quality Assurance Review

The QA review of the process followed in developing this GPG concluded that the Protocol has been followed as required for quality assurance level 1 in all respects.

Conclusion

Based on the QA review, IDI assures the users of this Global Public Good (GPG) that this document has been subjected to a quality assurance process equivalent to Due Process for INTOSAI Framework of Professional Pronouncements (IFPP), including an extended period of transparent public exposure.



Mr. Einar Gørrissen
Director General
INTOSAI Development Initiative
10 December 2020

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The light touch revision of this document in 2020 was done by Karma Tenzin FCCA, Senior Manager, Department of Professional & Relevant SAIs, INTOSAI Development Initiative.

CHAPTER 1

About the Handbook

Background

- 1.1 Under Phase I of the **ISSAI**¹ Implementation Initiative (also known as **3i Programme**²) of **INTOSAI**³ Development Initiative (IDI), a Financial Audit ISSAI Implementation Handbook was developed to address the institutional and strategic issues that Supreme Audit Institutions (SAIs) might have to deal with when performing financial audits in accordance with applicable ISSAI. The assumption made was that prior to ISSAI implementation, the SAIs should understand the internal and external environment supporting ISSAI-based audits (cf. ISSAI 100). Hence, the said handbook did not dwell much on financial auditing standards and their application (or corresponding application material, methodology, etc.). Moreover, the IDI also received feedback that SAIs needed a handbook that the financial auditor could use in conducting ISSAI compliant audit.
- 1.2 The IDI embarked upon facilitating implementation of ISSAIs in SAIs since 2012, wherein the support was extended at the global, regional and SAI level following a programme-based delivery approach, which generally had a short to medium-term time perspective of two to three years. In its strategic plan 2019-23, the IDI envisages to provide support to SAIs for implementation of ISSAIs through a workstream based approach, which will be a long-term, continuous and a regular support function. Within the workstream, support and training will be open to all SAIs on a continual basis, not just to participating SAIs at specific points within a programme.

Purpose of the handbook

- 1.3 The Handbook is an audit methodology that contains explanations of the ISSAI financial audit process as well as audit working paper templates, that are designed to facilitate the application of ISSAIs in practice. SAIs may need to design and develop additional guidance and working paper templates where required to meet additional requirements that may be imposed by their law, regulation and practice.
- 1.4 This Handbook may be used and adapted by SAIs who adopted financial audit ISSAIs as authoritative auditing standards for auditing the financial statements. The methodology suggested in this handbook extensively covers the audit work to be performed and documented at an audit engagement level.
- 1.5 The handbook may also be used by those organisations supporting SAIs in developing audit methodology for financial audit.

¹ International Standards of Supreme Audit Institutions.

² The **INTOSAI** Strategic Plan and the **ISSAI** Rollout Model approved by **INTOSAI** Governing Board in October 2011 mandated the **IDI** to 'support ISSAI Implementation'. In keeping with this mandate, the **IDI** has launched a comprehensive capacity development programme called the **ISSAI** Implementation Initiative (**3i Programme**).

³ International Organisation of Supreme Audit Institutions.

Process of developing the handbook

- 1.6** The IDI followed the Protocol for Quality Assurance of its Global Public Goods for development of this handbook, which determines the due process for ensuring the quality of product as highlighted below:
- The first draft of this handbook was developed by a pool of global resource persons mobilised from different INTOSAI regions and the IDI staff. Upon completing the first draft, the product development team and IDI staff reviewed and finalised the draft.
 - The draft was then independently reviewed by a group of financial audit experts. The draft was modified as draft version 0 based on comments received from this group of experts.
 - The draft version 0 of this handbook was exposed for a period of 90 days to receive feedback and comments from stakeholders. The draft was placed on IDI and INTOSAI websites, upon which an email communication was sent out to all relevant stakeholders, both internal and external to IDI, informing the availability of draft version 0 for comments.
 - Upon receiving comments from stakeholders on draft Version 0 of this handbook, which was exposed for a period of 90 days in four IDI languages (English, Arabic, Spanish and French), this version (Version 1) was finalised in collaboration with Financial Audit and Accounting Sub-committee of INTOSAI-PSC.
- 1.7** This handbook replaces draft Version 0, which stands withdrawn as on the date of availability of this Version 1. While the major revision of this handbook will take place when there are changes in financial audit ISSAIs (expected after 2019), light touch reviews will be done annually based on FAAS updates.

Content of the handbook

- 1.8** This Handbook includes ISSAI-based audit methodology intended to address, among the thirty-seven financial audit standards (ISSAI 2200-2810), those that are key and commonly applicable to audits of financial statements conducted by SAIs in a public-sector environment.
- 1.9** The numbering structure of the financial audit ISSAIs follows the numbering structure of the International Standards on Auditing (ISAs) that are developed by the International Auditing and Assurance Standards Board (IAASB) since the ISAs are incorporated into the INTOSAI Framework of Professional Pronouncement (IFPP) without modification. The financial audit ISSAIs may include additional leading numbers to conform to the ISSAI numbering structure and these leading numbers may change from time to time.
- 1.10** Besides depicting the difference between standards and this Handbook, **Illustration 1.1** also establishes that these two complements each other, i.e. the requirements of the standards become the basis for proposing an approach to audit methodology.

Illustration 1.1: Comparison between standards and FA Handbook

FA ISSAIs		FA ISSAI Implementation Handbook
Basic purpose: What needs to be done in an audit of financial statements to claim that the audit was conducted in accordance with ISSAI?	ISSAI based financial audit	Basic purpose: How to conduct an audit of financial statements to meet the requirements of ISSAI?
Sets a minimum benchmark to ensure the quality of financial audit.		Provides a mechanism (method) to attain the minimum benchmark in financial audit.
What is it all about?		What is it all about?
<ul style="list-style-type: none"> • Requirements • Application and other explanatory notes to requirements • Practice notes 		<ul style="list-style-type: none"> • Defined financial audit process (<i>reflecting among others the methodology for compliance to ethics, communication, role of leadership and quality</i>) • Tools and techniques • Illustrations • Audit working paper templates to document audit works

- 1.11** The handbook promotes global best practice. The SAIs need to adapt the methodology described in this handbook to suit local needs depending on the applicable financial reporting framework or other reporting responsibilities.
- 1.12** There are 10 chapters in this Handbook: Chapter 2 provides a background of the INTOSAI Framework of Professional Pronouncement (IFPP), along with an understanding of the relevant financial reporting framework in an audit of financial statements. As the Handbook also intends to establish an understanding of the financial audit process, Chapter 3 explains the financial audit process; subsequent chapters (chapters 4 to 10) follow the order of the audit process.
- 1.13** As audits are iterative processes, due care was taken to maintain the linkage between different stages of the audit when writing each chapter and developing working paper templates. Cross-referencing to working paper templates also ensures that the users understand the need to maintain such a linkage in an actual audit of financial statements.
- 1.14** Other IDI global products complement this Handbook and should be read in conjunction with those products, such as the Supreme Audit Institutions Performance Measurement Framework 2016, ISSAI implementation need assessment tool iCAT, and Quality Assurance Guidance and Tool.

CHAPTER 2

Introduction to IFPP and Public Sector Financial Auditing

- 2.1.** Chapter 2 explains the history of the development of the financial audit ISSAIs and introduces the general principles of public sector auditing, demonstrating the links between general principles of public sector auditing and financial auditing ISSAI requirements.

ISSAI framework and the revised INTOSAI Framework of Professional Pronouncements

- 2.2.** This section describes the revised INTOSAI Framework of Professional Pronouncements (IFPP), including the ISSAI, as a set of professional standards developed by INTOSAI's Professional Standards Committee (IPSC).
- 2.3.** Prior to the adoption of the ISSAI, INTOSAI had separate auditing standards approved at **INCOSAI**⁴ in 1998 and updated in 2001. However, in its strategic plan 2005—2010, INTOSAI decided to "provide an up-to-date framework of professional standards," and therefore the PSC decided to merge the existing and the new INTOSAI standards and guidelines into a single framework. The initial ISSAI framework classified official pronouncements into four levels, as presented in **Illustration 2.1**.

Illustration 2.1: ISSAI Framework

LEVEL 1	Founding Principles (ISSAI 1-2) Level 1 of the ISSAI framework contains the founding principles of INTOSAI. ISSAI 1, The Lima Declaration from 1977, calls for the establishment of effective Supreme Audit Institutions and provides guidelines on auditing precepts.
LEVEL 2	Prerequisites for the Functioning of Supreme Audit Institutions (ISSAI 10-99) The Prerequisites for the Functioning of Supreme Audit Institutions contains INTOSAI's pronouncements on the necessary preconditions for the proper functioning and professional conduct of SAIs. These include principles and guidance on independence, transparency and accountability, ethics and quality control. The prerequisites may concern the institution's mandate and further legislation as well as the established procedures and daily practices of the organisation and its staff.
LEVEL 3	Fundamental Auditing Principles (ISSAI 100-999) Level 3 ISSAI are the fundamental principles for public sector auditing, which provide a conceptual basis for public sector auditing and ensure consistency in the ISSAI framework. ISSAI 100 includes the fundamental principles of public sector auditing and establishes the basic concepts and principles shared by the three areas of auditing (financial, compliance and performance audit). The specific principles of the three audit types are in ISSAI 200, 300 and 400.
LEVEL 4	Auditing Guidelines (ISSAI 1000-4999) The auditing standards at level 4 translate the fundamental auditing principles into more specific, detailed and operational standards that auditors can resort to daily in the conduct of auditing tasks. The purpose of the standards is to provide a basis for development of audit methodologies (and manuals) on public sector auditing that individual members of INTOSAI may apply. The general auditing guidelines (ISSAI 1000-4999) contain the recommended requirements of financial, performance and compliance auditing and provide further guidance to the auditor. They define the internationally recognized current best practices within their general scope of application.

⁴ INTOSAI Congress.

- 2.4. A revised framework endorsed at INCOSAI 2019 reclassified INTOSAI Professional Pronouncements. This framework contains three categories of professional pronouncements as follows:

Illustration 2.2: Revised Framework

INTOSAI Principles (INTOSAI-P)	The INTOSAI Principles consist of founding principles and core principles. The founding principles have historical significance and specify the role and functions to which SAIs should aspire. These principles may be informative to governments and parliaments, as well as SAIs and the wider public, and may be used as a reference in establishing national mandates for SAIs. The core principles support the founding principles for an SAI, clarifying the SAI's role in society as well as high-level prerequisites for its proper functioning and professional conduct.
International Standards of Supreme Audit Institutions (ISSAI)	<p>The ISSAIs are the authoritative international standards on public sector auditing. the purpose of the ISSAIs is to :</p> <ul style="list-style-type: none"> • Ensure the quality of the audits conducted • strengthen the credibility of the audit reports for users • enhance transparency of the audit process • specify the auditor's responsibility in relation to the other parties involved • define the different types of audit engagements and the related set of concepts that provides a common language for public sector auditing <p>The full set of ISSAIs is based on a basic set of concepts and principles that defines public sector auditing and the different types of engagements supported by the ISSAIs.</p>
INTOSAI Guidance (GUID)	<p>The guidance is developed by INTOSAI in order to support the SAI and individual auditors in:</p> <ul style="list-style-type: none"> • How to apply the ISSAIs in practice in the financial, performance or compliance audit • How to apply the ISSAIs in practice in other engagements • Understanding a specific subject matter and the application of the relevant ISSAIs

General principles of public sector auditing

- 2.5. ISSAI 100 "Fundamental Principles of Public Sector Auditing" defines both the authority of the ISSAI and how an auditor can claim ISSAI compliance in the auditor's report. This ISSAI operationalizes the INTOSAI principles into standards: it provides the fundamental principles that are applicable to public-sector compliance, financial, and performance audit engagements.
- 2.6. ISSAI 200 "Financial Audit Principles"⁵ complements the fundamental principles of ISSAI 100 with the specific context of audits of financial statements. Together they constitute the basis for INTOSAI's complete set of professional pronouncements in this area and should both be complied with.

⁵ ISSAI 200 Financial Audit Principles (Endorsement version as on 7 December 2020)

Illustration 2.3: General principles of public sector auditing as set out in ISSAI 100, and their link with specific financial audit requirements

General auditing principles		Principle explanation in ISSAI 100	Detailed requirements concerning principles in ISSAI 200 and ISSAI 2200-2810*
Principle 1	Ethics and independence	Auditors should comply with relevant ethical requirements and be independent.	ISSAI 130, ISSAI 200
Principle 2	Professional judgement, due care and scepticism	Auditors should maintain appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the audit	ISSAI 200, ISSAI 2200
Principle 3	Quality control	Auditors should perform the audit in accordance with professional standards on quality control	ISSAI 140, ISSAI 200, ISSAI 2200, ISSAI 2220
Principle 4	Audit team management and skills	Auditors should possess or have access to the necessary skills	ISSAI 200, ISSAI 2200, ISSAI 2220
Principle 5	Audit risk	Auditors should manage the risks of providing an inappropriate report in the circumstances of the audit	ISSAI 200, ISSAI 2315
Principle 6	Materiality	Auditors should consider materiality throughout the audit process	ISSAI 200, ISSAI 2320
Principle 7	Documentation	Auditors should prepare audit documentation in sufficient detail to provide a clear understanding of work performed, evidence obtained, and conclusions reached	ISSAI 200, ISSAI 2230, all ISSAI
Principle 8	Communication	Auditors should establish effective communication throughout the audit process	ISSAI 200, ISSAI 2200, ISSAI 2210, ISSAI 2240, ISSAI 2260, ISSAI 2265

() It must be emphasised that all these eight general principles are critical in the context of financial auditing. Hence, requirements concerning these principles and references to these principles may exist in many other financial audit standards applicable at the engagement level, as referred to above.*

2.7. The above-mentioned principles apply throughout the audit process. In order to assure compliance with general principles of auditing, SAIs need to have policies and manuals in place that define the principles in the context of their own environment.

2.8. As explained in ISSAI 100.8, the principles can be used as a basis for developing authoritative standards in three ways:

- As a basis on which standards are developed by a SAI (but this option is not likely to be feasible in practice).
- As a basis on which consistent national standards are adopted.
- As a basis for adoption of the General Auditing Guidelines (ISSAI) as standards.

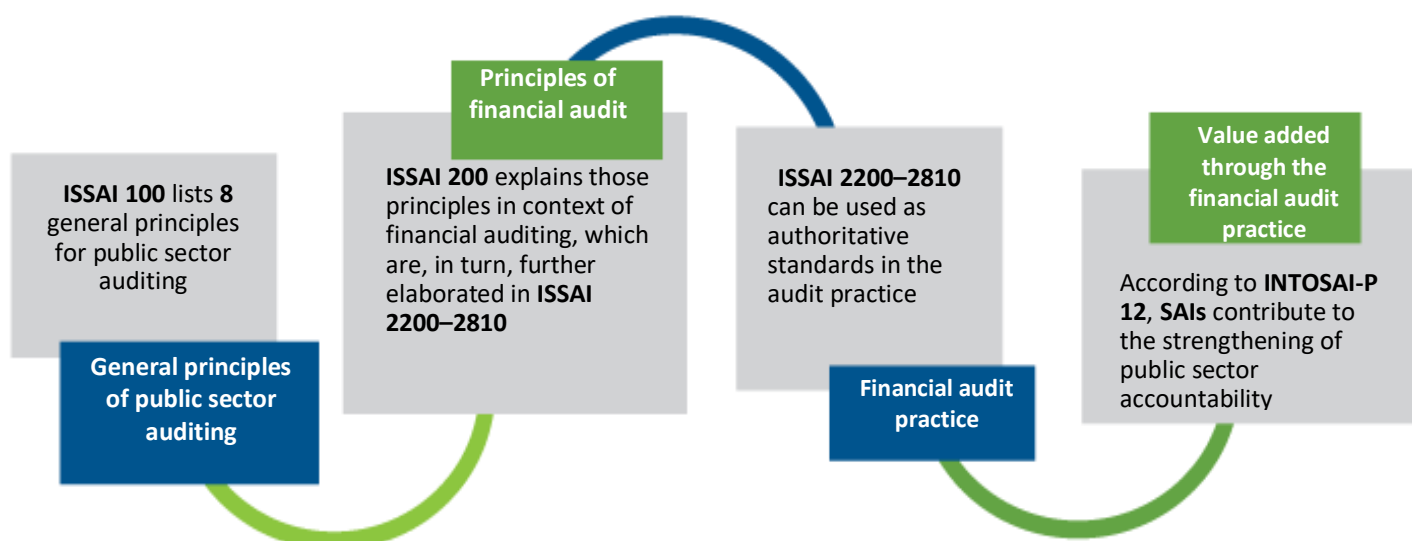
Importance of audit in the public sector

2.9. The main purpose of public sector auditing is to uphold and promote public accountability between public entities and democratically elected bodies. According to the principles listed in INTOSAI-P 12 “Value and Benefits of SAIS—Making a Difference to the Lives of Citizens”, SAIs should carry out

audits to ensure that governments and public entities account for their stewardship over and use of public resources and for the transparency of government operations; and ultimately to contribute to maintaining a country's financial discipline.

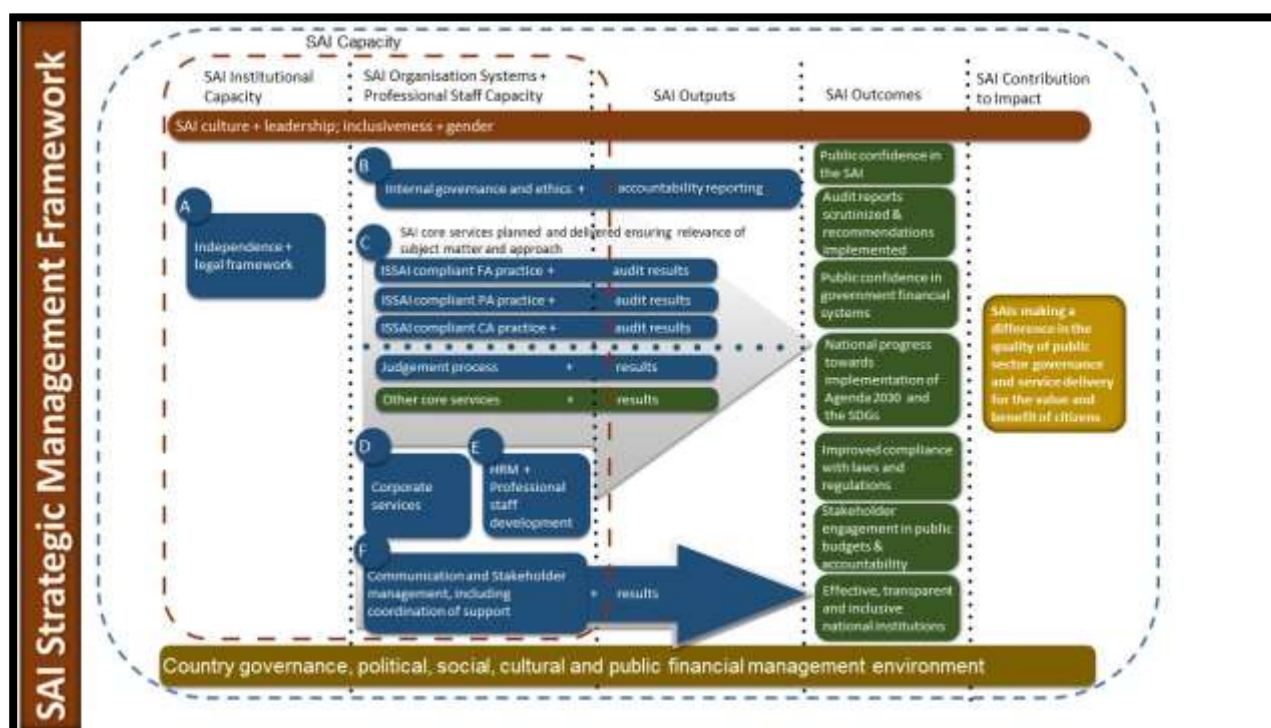
- 2.10.** ISSAI 100.18 states, "In general, public-sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. Public-sector auditing is essential in that it provides legislative and oversight bodies, those charged with governance and the general public with information and independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations."
- 2.11.** Financial accountability is about sound (legal and regular) financial management; the fairness with which the entity has reported its financial position, results, and use of resources; and the compliance of that reporting with the applicable FRF.
- 2.12.** Financial auditing in the public sector is commonly acknowledged as a control mechanism of the state to secure financial accountability: better financial accountability mechanisms within states support the functioning of systems by conveying information to parliaments or the equivalent about the functioning of the executive and administrative branches of the state.
- 2.13.** Therefore, public sector auditors have an important role to play in looking at the money spent on public programmes. That role includes providing reasonable assurance that the information prepared by government properly presents the financial situation of public sector institutions, including government ministries/entities or the whole of government.
- 2.14.** In the public sector, the cycle of accountability begins with the budget process and ends with the presentation of reports to Parliament. SAIs' published audit reports may include an opinion on the financial statements and may, as well, include audit findings on the regularity of the underlying transactions, weaknesses internal control systems, fraud, mismanagement of funds, etc.
- 2.15.** Figure 2(a) below explains how implementing the general principles of public sector auditing in the audit of financial statements enables SAIs to meet the expectations of stakeholders and to add value by strengthening the accountability of government:
- First, the SAI's financial audit policies and auditing guidance need to explain how to meet those principles in the specific context of the SAI's mandate, i.e., those principles should be translated into audit procedures (in approved audit manuals) and be implemented in practice.
 - Second, each financial audit will directly contribute to the SAI's role of strengthening accountability, integrity and transparency of government and public-sector entities as defined in INTOSAI-P 12.

Figure 2(a) General principles of public sector auditing in the audit of financial statements



2.16. However, to achieve impact and add value through financial audits, SAIs also have to ensure that their work is adequately reported and available in the public domain and that it is presented in a way that is clear and accessible to the different audiences (Cf. INTOSAI Capacity Building Committee’s good practice note on “How to increase the use and impact of audit reports”, October 2013, prepared for INCOSAI XXI, Beijing). The IDI SAI Strategic Management Framework given in Figure 2(b) also demonstrates how the financial audit in the public sector contributes to the quality of public sector governance and service delivery for the value and benefit of citizens.

Figure 2(b) SAI Strategic Management Framework



2.17. In the context of SDG, the financial audit contributes to achievement of Goal 16: Peace, Justice and Strong Institution as it provides an assurance on the presentation of financial statements of public sector entities and the overall government level, particularly in the target area of effective, accountable and transparent institutions at all levels.

- 2.18.** Achieving the above objectives requires the application of ISSAI which includes the disciplines of compliance, financial, and performance audit. The objective of an ISSAI financial audit is explained in the next section.

Overall objectives of the external public-sector auditor when conducting a financial audit in accordance with ISSAIs

- 2.19.** ISSAI 2200 deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with ISSAI. Specifically, it sets out the overall objectives of the independent auditor and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives.
- 2.20.** The purpose of a financial audit is to enhance the confidence that intended users can have in the financial statements. This is achieved by the expression of the auditor's opinion on whether the financial statements were prepared, in all material respects, in accordance with an applicable financial reporting framework.
- 2.21.** The remaining standards (ISSAI 2210–2810), which expand on ISSAI 2200, deal with the independent auditor's specific requirements when conducting an audit of financial statements.

How to refer to the financial auditing standards in a SAI's audit report

- 2.22.** ISSAI 100.9 states, "An SAI may declare that the standards it has developed or adopted are based on or are consistent with the principles of the ISSAIs only if the standards fully comply with all relevant principles in ISSAIs 100, 200, 300 and 400.

Audit reports may include a reference to the fact that the standards used were based on or consistent with the ISSAI or ISSAIs relevant to the audit work carried out. Such reference may be made by stating:

"... We conducted our audit[s] in accordance with [standards], which are based on [or consistent with] ISSAI 100 Fundamental Principles of Public-Sector Auditing [and the principles of ISSAI 200 Financial Audit Principles] of the International Standards of Supreme Audit Institutions."

- 2.23.** ISSAI 100.10 states; "SAIs may choose to adopt the ISSAIs as their authoritative standards. In such cases the auditor must comply with all ISSAIs relevant to the audit. Reference to the ISSAIs applied may be made by stating:

"We conducted our audit(s) in accordance with the International Standards of Supreme Audit Institutions."

Circumstances where it is not possible to refer to Financial Audit ISSAIs (ISSAI 2200-2810) as an authoritative standard

i. When the engagement is not an assurance engagement

- 2.24.** SAIs may perform investigations, reviews, or agreed upon procedures engagements. Such engagements conducted by the SAI are currently not covered by the existing ISSAIs. According to ISSAI 200.25⁶ audits of financial statements conducted in accordance with the ISSAIs are attestation engagements which aim to provide reasonable assurance. ISSAI 200.26 further states that in general,

⁶ See also §7 of the *International Auditing and Assurance Standards Board (IAASB) Framework*, available in the following link: <http://www.ifac.org/system/files/downloads/b003-2010-iaasb-handbook-framework.pdf>

reasonable assurance audits are designed to result in a conclusion expressed in a positive form, such as “in our opinion the financial statements present fairly, in all material respects (or give a true and fair view of) the financial position of and its financial performance as cash flows.” or in the case of compliance framework, “in our opinion the financial statements are prepared, in all material respects, in accordance with ...”.

- 2.25.** According to the standards ISSAI 100.24 and ISSAI 200.20–22, the elements of an assurance engagement are existence of a three-party relationship, involving an auditor, a responsible party and intended users; a subject matter; criteria for assessing the subject matter; and the resulting subject matter information (the financial statements).

Illustration 2.4: Example of an assurance engagement

Management (the responsible party) of Institution Y fulfilled its responsibility by preparing the financial statements, which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets/Equity, Cash Flow Statement and Notes (these five components of the financial statements are, in short, the subject matter) in accordance with the International Public Sector Accounting Standards (IPSAS)—the criteria. The elements (assets, liabilities, etc.) are recognized, measured, presented and disclosed in the financial statements (the subject matter information) as per the requirements of IPSAS. A practitioner (auditor) of the SAI expresses his or her opinion (assurance) in the form of a report on the fair presentation of financial statements. The auditor concludes that the financial statements (subject matter information) prepared by management (the responsible party) are presented in accordance with the criteria (FRF-IPSAS), and reports that the subject matter information represents fairly in all material respects the entity’s financial position, financial performance, net equity and cash flows (subject matter).

- 2.26.** If one or more of the above-mentioned elements is not present, then it is not a reasonable assurance engagement. In other words, if the auditor has a task, which does not involve the elements of an assurance engagement then it cannot be defined as a financial audit. For example, the SAI is asked to conduct a review on ministries budget execution and report on findings about deviations from budget approved by the parliament without giving an overall opinion.

ii. When auditor is giving a report on financial information that is not historical financial information

- 2.27.** According to ISSAI 200.8, the objective of financial audit is, through collection of sufficient appropriate evidence, to provide reasonable assurance to the users, in the form of an audit opinion and/or report, as to whether the financial statements or other forms of presentation of financial information are fairly and/or in all material respects presented in accordance with the applicable financial reporting and regulatory framework. The financial audits deal with historical financial information, which are expressed in financial terms in relation to an entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past. In case where a SAI must report on financial information that is not historical financial information, Financial Audit ISSAIs cannot be referred as authoritative standards. For example, in a case where a SAI is issuing a report about accuracy of budget forecasts the reference to financial audit ISSAIs as an authoritative standard cannot be made.

- 2.28.** When the SAI's mandate includes giving an opinion/statement on compliance with laws and regulations other than the applicable financial reporting framework, the SAI should consider using ISSAI 400 and ISSAI 4000 as guidance for those specific opinions/statements.

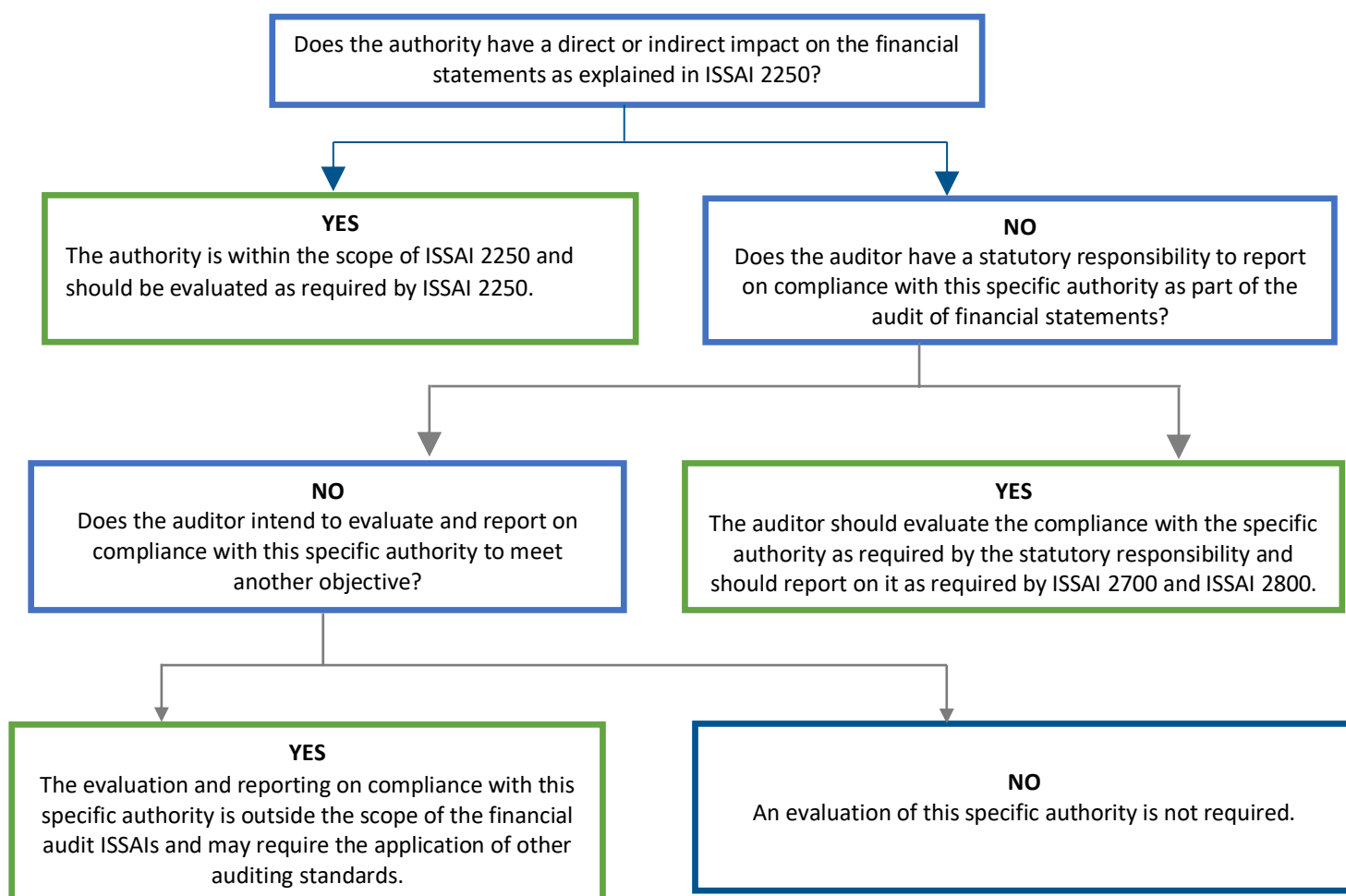
Financial Audit ISSAIs-Evaluating the Effects of a Legal and Regulatory Framework on the Financial Statements

- 2.29.** The objective of an ISSAI financial audit is to enhance the degree of confidence of intended users in the audited financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. When performing such an audit, the subject matter being audited is the financial statements and the criteria that the auditor evaluates this subject matter against is the applicable financial reporting framework.
- 2.30.** The objective of an ISSAI compliance audit is to assess whether a given subject matter is in compliance with a relevant law or regulation (authority). When performing such an audit, the subject matter being audited is the activity that is performed by the responsible party that must be in compliance with the relevant authority and this authority is the criteria for such an audit.
- 2.31.** ISSAI financial and compliance audits therefore have different stated objectives but these objectives often converge due to the legislative nature of public sector environments.
- 2.32.** When performing an ISSAI financial audit, there is a requirement to consider the effects of the audited entity's legal and regulatory framework on the financial statements. In the public sector, the legal and regulatory framework can have significant effects on the financial statements. The legal and regulatory framework can even form the applicable financial reporting framework that is applied to prepare the financial statements. For this reason, relevant authorities can sometimes become the criteria against evaluating the preparation of financial statements when performing an ISSAI financial audit. When this occurs, the objectives of ISSAI financial and compliance audits converge.
- 2.33.** ISSAI 2250 defines two types of effects that a legal and regulatory framework may have on financial statements and that must therefore be considered by an auditor; direct and indirect.
- 2.34.** The legal and regulatory framework has a direct effect on the financial statements if it directly impacts the information that must be reported in the financial statements. When public sector financial statements are prepared based on authorities as described above, these authorities are considered to have a direct effect on the financial statements and must be evaluated as required by ISSAI 2250. When public sector financial statements are prepared by applying an accounting framework that is not based on authorities, any other relevant authorities that directly impact the financial statements continue to fall within the scope of ISSAI 2250. For example, an authority that requires a specific type of expense to be recorded at a specific value or that requires a specific information disclosure to be provided in the financial statements would be considered to have a direct effect on the financial statements.
- 2.35.** The legal and regulatory framework has an indirect effect on the financial statements if it does not have a direct effect on the financial statements as described above but could have an effect if non-compliance occurs. For example, non-compliance with an authority that could give rise to a fine or other potential liability would be considered to have an indirect effect on the financial statements if non-compliance occurred.
- 2.36.** Public sector auditors typically have a responsibility to evaluate compliance with authorities as part of their mandate. Part of this responsibility may be met from the application of ISSAI 2250 as described above but public sector auditors may be required to or may choose to evaluate compliance

with other authorities that may not be in scope of ISSAI 2250. It is often most efficient to evaluate compliance with such other authorities as part of the annual financial statement audit process since the auditor is typically evaluating material economic activities that have occurred when testing financial statements and since the same samples that are selected and tested to gain comfort over the financial statements may also be relevant to the testing of compliance with such other authorities. For example, when testing a sample of purchases to gain comfort over relevant financial statement assertions, an auditor may evaluate compliance with a procurement authority that controls an element of the purchasing process but that does not have a direct or indirect effect on the financial statements.

- 2.37.** The financial audit ISSAIs allow for the reporting of the results of testing of compliance with authorities in the auditor's report when this reporting is necessary to meet a specific statutory reporting requirement. This information must be reported in a separate paragraph in the auditor's report that is entitled "Report on Other Legal and Regulatory Requirements". These authorities may or may not be within the scope of ISSAI 2250.
- 2.38.** Non-compliances with authorities may need to be reported in the auditor's report for reasons other than a statutory reporting requirement for example as a "key audit matter" or as an "other matter" depending on the nature and significance of the non-compliance and its impact on the financial statements. These authorities may or may not be within the scope of ISSAI 2250 since auditors may scope authorities that are outside of the scope of ISSAI 2250 into their audit plan for the reasons explained above. The auditor must ensure that the non-compliance is appropriately reported in accordance with the requirements of the financial audit ISSAIs and professional judgement may need to be applied to determine the most appropriate reporting treatment especially when reporting on authorities that are outside the scope of ISSAI 2250 which do not impact the financial statements but which may nevertheless be of significant importance to the financial statement users.
- 2.39.** Auditors in some environments may be required to factually report in their auditor's report all non-compliances with authorities that they have identified when performing their audit of financial statements, a reporting practice that is not required by the financial audit ISSAIs. When an auditor is required to report a non-compliance with an authority in a manner that deviates from the requirements of the financial audit ISSAIs, the deviation should be evaluated to ensure that all relevant financial audit ISSAI requirements continue to be effectively met.
- 2.40.** **Figure 2(c)** depicts the decision tree which clarifies the scope of ISSAI 2250.

Figure 2(c) Decision tree clarifying the scope of ISSAI 2250

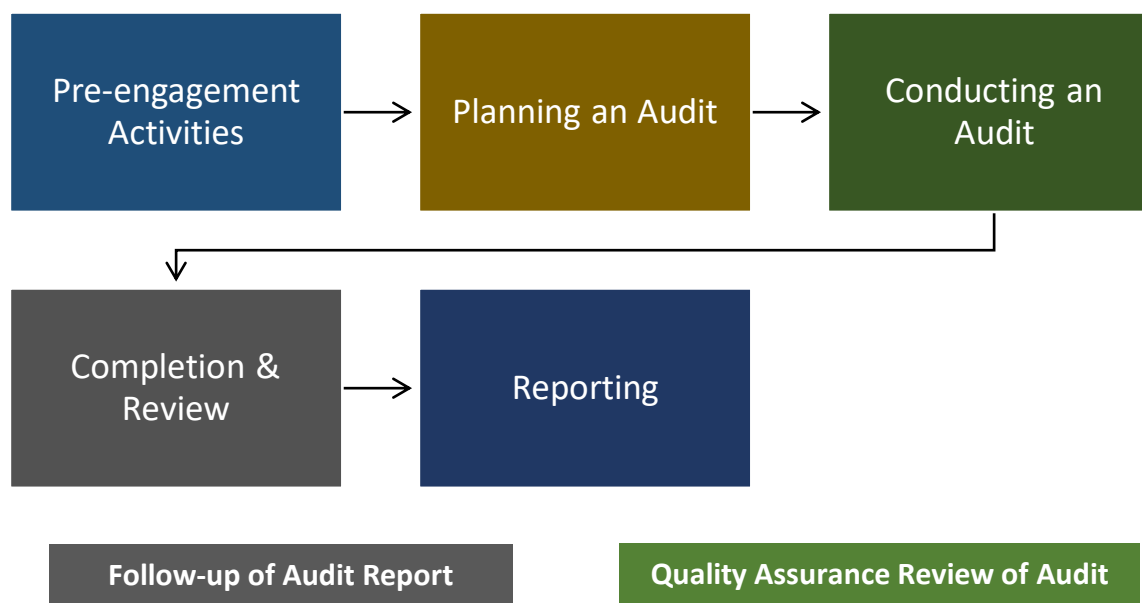


CHAPTER 3

Financial Audit Process

- 3.1.** The purpose of an ISSAI financial audit is to enhance the degree of confidence of intended users in the audited financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 3.2.** To be able to express an opinion, the auditor needs to gather sufficient appropriate audit evidence by designing and performing adequate audit procedures as required in the ISSAI. In doing so, the financial audit process needs to be followed as suggested in **Figure 3(a)**. The audit processes are well linked to each other and should be maintained throughout the audit process, being complete only upon issuance of the audit report.

Figure 3(a): Financial audit process



Pre-engagement activities

- 3.3.** The financial audit process commences with pre-engagement activities. In the context of private sector audit, the auditor conducts an assessment as to whether the audit engagement can be accepted or whether there are any professional reasons why it cannot. There is also a practice, where applicable, of obtaining professional clearance from the previous auditor before accepting the engagement. In the public sector, however, the SAIs are bound by their legislation and other relevant laws and regulations to conduct the financial audit of entities mandated for audit. Therefore, not accepting the engagement will be a very rare situation in a public-sector audit. A purpose of conducting the pre-engagement activities is, among others, to see whether the pre-conditions for audit exist, such as an acceptable financial reporting framework, an understanding of its responsibilities by management, etc. The auditors also perform other specific activities: assessing the ethical requirements and the competency of the team, preparing and issuing the audit engagement letter, conducting the audit entry conference, etc. The completion of the pre-engagement activities needs to be reviewed and signed off by the reviewers. The reviewer would

generally refer to an audit engagement supervisor in the context of a typical SAI audit engagement team composition.

The detailed processes and methodologies for completing the pre-engagement activities are given in Chapter 4 of this Handbook.

Planning an Audit

- 3.4.** Based on the completion of pre-engagement activities, the next step is to prepare the audit plan for conducting the audit of the financial statements. ISSAIs are built upon a risk-based audit approach. At this stage of the process, the auditors mainly identify and assess the risks of material misstatements in the financial statements due to either fraud or error and, determine materiality. ISSAI 2315 requires an assessment of the risk of material misstatements through obtaining an understanding of the entity and its environment. Based on the risk assessment, the auditor is required to identify the controls in place that would mitigate or eliminate the risks and to test the operating effectiveness of these controls. As a risk response (ISSAI 2330), the auditors are required to design audit procedures, e.g. test of controls and substantive tests. The audit plan needs to be reviewed and signed off by the reviewer and, as required by ISSAI, to be updated until the completion of the audit and the issuance of the audit report.

The detailed processes and methodologies for preparation and finalisation of an audit plan are highlighted in Chapter 5 of this Handbook.

Conducting an Audit

- 3.5.** In the conducting phase, which mainly involves fieldwork, the auditors perform the audit procedures designed at the planning stage, document conclusions based on audit procedures performed, and gather audit evidence. The audit procedures performed by the auditors and the conclusions documented need to be reviewed and signed off by the reviewers.

The detailed processes and methodologies for performing audit procedures, documenting the conclusions, and gathering audit evidence are highlighted in Chapter 6 of this Handbook.

Completion and Review

- 3.6.** ISSAI 2500 requires auditors to gather sufficient appropriate audit evidence to provide an audit opinion on the financial statements. The audit evidence is gathered by performing specific audit procedures that respond to the risks identified at the assertion level or the financial statement level. In this phase of the audit process, the auditors evaluate the audit evidence gathered at the conducting phase. The audit evidence needs to be evaluated for sufficiency and appropriateness, and it forms the basis for providing an audit opinion on the financial statements and reporting on non-compliance with laws, rules and regulations, if any.
- 3.7.** In this phase, the audit supervisor or reviewer considers the opinion and observations prepared by the auditor, ensuring that both are adequately supported by audit evidence and that professional judgement has been applied. Both auditors and reviewers should ensure that the audit plan was followed in conducting the audit, hence the work performed by auditors needs to be reviewed and signed off by the reviewers.

The detailed processes and methodologies for evaluation and review are highlighted in Chapter 7 of this Handbook.

Reporting

- 3.8.** Based on the evaluation and review of the work done by auditors, the next step is to prepare and issue the final audit report. Typically, the audit report contains the auditor's opinion on the financial statements. The opinion is based on the evidence as to whether the financial statements are fairly presented or presented in accordance with the financial reporting framework and any laws and regulations affecting their presentation. Further, there could be other reporting responsibilities as per the mandate of the SAI and these other reporting responsibilities may require the application of other auditing standards when they are beyond the scope of the financial audit ISSAIs. The reporting options within the scope of the financial audit ISSAIs are explained in the reporting section of this handbook.

The detailed processes and methodologies for preparation of audit reports are highlighted in Chapter 8 of this Handbook.

Follow-up procedures

- 3.9.** ISSAI 100 states that SAIs have a role in monitoring action taken by the responsible party in response to those matters raised in an audit report: follow-up focuses on whether the audited entity has adequately addressed those matters, including any wider implications. Insufficient or unsatisfactory action taken by the audited entity may necessitate a further report by the SAI.
- 3.10.** Also, follow-up procedures are considered a good practice under principle 3 of INTOSAI-P 20. Unless this follow-up process is put in place after issuance of the audit report, the SAI cannot gauge whether a desired *audit impact* has been created as a result of audit. Therefore, follow-up procedures are seen to be one of the important components of the audit process.

Follow-up procedures are explained in Chapter 9 of this Handbook.

Quality assurance review

- 3.11.** Whereas review of the audit work performed (quality control) will be done at different times throughout the audit process as required by ISSAI 2220, it will be necessary to have a system of independent quality assurance (QA) for reviewing the work done by SAIs after it has been completed. At the audit level, the QA review process assists the Heads of SAIs in reaching a conclusion as to whether the audit process has been followed and the audit of financial statements has been conducted as per the requirements of ISSAIs or equivalent. The QA of completed audits are carried out on a sampling basis in line with Element 6: Monitoring of ISSAI 140 (*the key principle (a) under this element states that monitoring process should include an ongoing consideration and evaluation of the SAI's system of quality control, including a review of a sample of completed work across the range of work carried out by the SAI*). This also refers to ISQC1.48(a).

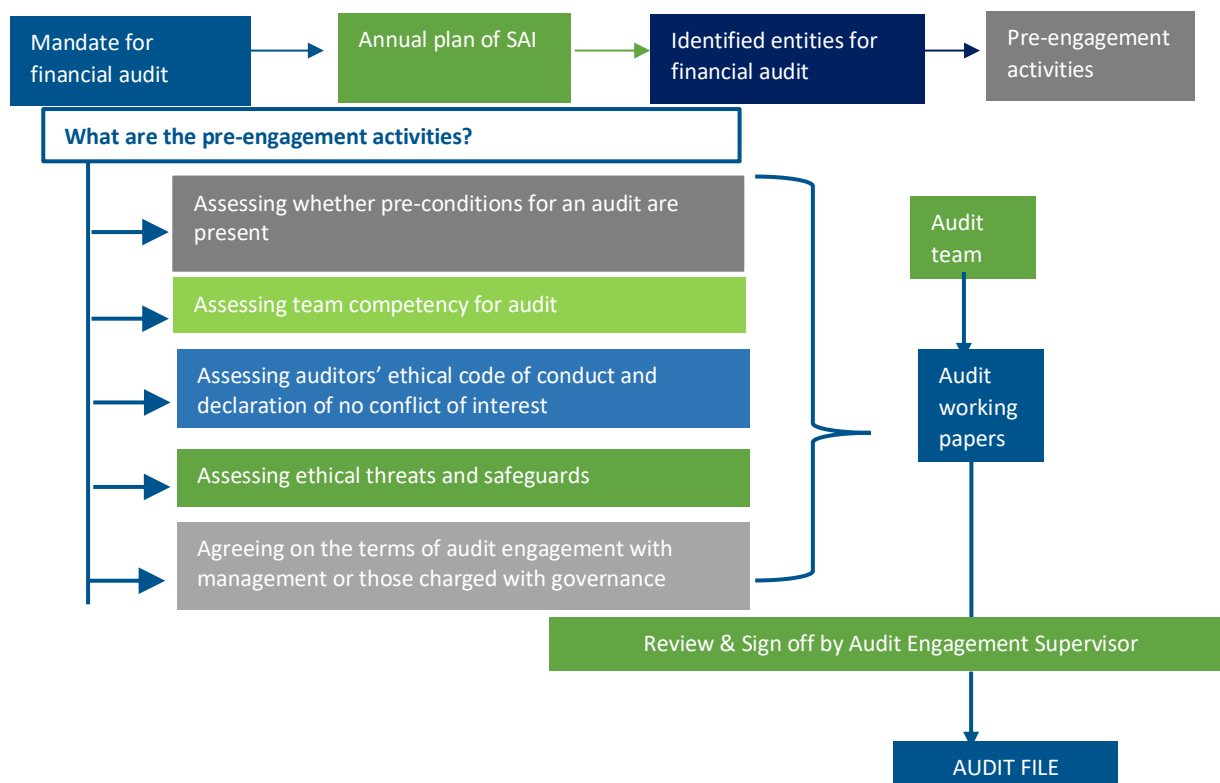
In this Handbook, Chapter 10 gives a general idea of the need to conduct the QA review at the audit engagement level, although it does not provide detailed guidance and methodologies to conduct the QA of a financial audit. That will be covered in a separate QA guidance document.

CHAPTER 4

Pre-engagement Activities

- 4.1. ISSAI 2210 prescribes the requirements related to agreeing on the terms of the audit engagement, an audit practice that is more in line with that observed in the private sector. Auditors are required to assess certain conditions before accepting the engagement and, based on that assessment, the auditor can either accept or decline the audit engagement.
- 4.2. Law and regulation usually mandate SAIs to conduct certain audits, and the public-sector auditor probably will not have an option to decline or withdraw from the audit. Yet, the requirements that are appropriate in the private sector audit practice could still be applied and are relevant to public sector auditing.
- 4.3. The purpose of performing preliminary engagement activities is to help ensure that the auditor has considered any events or circumstances that may adversely affect the auditor's capability to plan and perform the audit engagement to reduce audit risk to an acceptably low level. **Figure 4(a)** below provides a snapshot of pre-engagement activities identifiable within audits conducted by SAIs.

Figure 4(a): Snapshot of pre-engagement activities



- 4.4. To ascertain if the pre-conditions for an audit are present, one of the requirements is to determine whether the financial reporting framework used by the entity to prepare the financial statements is acceptable or not. The guidance in this regard is given below.

Assessing whether pre-conditions for an audit are present

- 4.5. This section explains the process of assessing the FRF applied by the audited entity in preparing the financial statements. In the public-sector environment, the auditor might encounter a variety of FRF. Therefore, it is important to know:
- how to determine whether the financial reporting framework applied is acceptable or not (cf. ISSAI 2210.6 and Paragraphs A2-A10);
 - the difference between fair presentation reporting frameworks and compliance frameworks; and
 - the impact of type of financial reporting framework on the wording of the auditor's opinion on the financial statements.

Definitions relevant to understanding the financial reporting framework (FRF)

- 4.6. Financial statements ordinarily refer to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or other allowed by the applicable financial reporting framework on the face of the financial statements, or in the notes, or incorporated therein by cross reference⁷.
- 4.7. Historical financial information is information expressed in financial terms in relation to a particular entity derived primarily from that entity's accounting system, about economic events occurring in the past time periods or about economic conditions or circumstances at points in time in the past⁸.
- 4.8. The applicable FRF is the financial reporting framework adopted by the management and, where appropriate, those charged with governance in preparation of the financial statements and that is acceptable in view of the nature of the entity and the objective of the financial statements or that is required by law or regulation⁹. There are two types of FRF, which are further explained in ISSAI 2200:

Fair presentation framework is used to refer to a FRF that requires compliance with the requirements of the framework and that:

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

Compliance framework is used to refer to a FRF that requires compliance with the requirements of the framework but does not contain the acknowledgements in (i) and (ii) above.

Both compliance and fair presentation accounting frameworks are found in public sector environments.

- 4.9. In addition to preparing general-purpose financial statements, public sector entities may also prepare financial statements for other parties (such as governing bodies, the legislature or other parties that perform an oversight function) that can demand financial statements tailored to meet

⁷ ISSAI 1200, Paragraph 13(f).

⁸ ISSAI 1200, Paragraph 13(g)

⁹ ISSAI 1200, Paragraph 13(a)

their specific information needs. These would be special-purpose financial statements and may be prepared using a special-purpose reporting framework.

Assessing the acceptability of the FRF

4.10. The FRF is the audit criteria and the benchmark against which the subject matter (the financial statements) will be evaluated. Without an acceptable FRF the auditor will not be able to fulfil the audit objectives. But also, management needs to have acceptable criteria to use when preparing the financial statements. This is because the existence of an acceptable FRF is one of the preconditions of auditing the financial statements. Therefore, the SAI or the auditor may perform the steps implied in the following questions to see whether an applicable FRF exists and whether it is acceptable, and how the matter can be dealt with if it is not acceptable. Considering that similar entities exist across SAIs for the purpose of conducting financial audits, these steps can be performed at the SAI level rather than at the level of every audit engagement:

- Step1:** Is there an applicable FRF for public sector entities?
- Step 2:** Is the FRF acceptable?
- Step3:** Is the FRF a special-purpose or a general-purpose framework?
- Step 4:** Is the FRF a fair presentation framework or a compliance framework? How to report accordingly?
- Step 5:** What are the SAI's options if the FRF is deemed unacceptable?

Step1: Is there an applicable FRF for public sector entities?

4.11. In many cases, laws and regulations prescribe the FRF for public sector entities. The financial statements of public sector entities may be prepared on an accrual basis, a cash basis or both:

- In the first case, they may include a statement of financial position, a statement of comprehensive income, a statement of cash flows, and notes comprising a summary of significant accounting policies and other explanatory information.
- If the entity has prepared its financial statements on a cash basis, it may present a Statement of Cash Receipts, a Statement of Payments, associated notes and a comparison of budget and actual amounts. In certain environments, according to the FRF, a complete set of financial statements may also include other reports such as reports on performance and appropriation reports. However, laws and regulations may also describe a different presentation of historical financial information.

4.12. *To conclude on the first step of assessing the FRF, SAIs need to identify if there is an applicable FRF for public sector entities in the SAI's environment or jurisdiction.*

Step 2: Is the FRF acceptable?

4.13. The acceptability of a FRF is evaluated against the nature of the entity and the objective of its financial statements. The characteristics of an acceptable FRF are discussed under ISSAI 200 and ISSAI 2210 (*refer to Appendix 2 of ISSAI 2210*). Acceptable FRFs normally exhibit the attributes referred to in **Illustration 4.1**.

Illustration 4.1: Acceptable FRF

Characteristics	Description
Relevance	<p>The information provided in the financial statements is relevant to the nature of the audited entity and the purpose of the financial statements.</p> <p>Relevance is subject to the entity's nature as reflected in Illustration 4.2 below. Clearly the relevance is a critical decision for the SAI and it needs to be assessed in consultation with the stakeholders.</p>
Completeness	<p>No transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are omitted.</p> <p>The purpose of the financial statements may vary from funding/investment purposes as explained in the Illustration 4.2 below to certification and approval of the annual budget. This needs to be evaluated in the context of the stakeholders' needs and accountability cycle.</p>
Reliability	<p>The information provided in the financial statements</p> <ul style="list-style-type: none"> • reflects, where applicable, the economic substance of events and transactions and not merely their legal form; and • results in reasonably consistent evaluation, measurement, presentation and disclosure when used in similar circumstances. <p>Reliability reflects whether the information provided is in a format that links to the accounting policies and / or financial procedures.</p>
Neutrality	<p>Information in the financial statements is free from bias. In other words, information provided in the financial statements does not provide an interpretation that can lead to bias toward certain results or entities.</p>
Understandability	<p>The information in the financial statements is clear and comprehensive and not subject to significantly diverse interpretation. This underlines that the statements are "fit for purpose" and are used and understood in the manner for which they were intended.</p>

- 4.14.** Acceptability of the FRF results in information provided in the financial statements that is useful to the intended users. To determine that usefulness, users themselves must be identified and their requirements understood.
- 4.15.** In the public sector, there will typically be users of financial statements of several types of entities and for different reasons. **Illustration 4.2** presents situations within a public-sector environment. The last column lists examples of commonly used FRFs; however, their inclusion does not mean that the corresponding FRFs are acceptable. That decision must be taken by SAIs in the context of their auditing practice.

Illustration 4.2: Typical situation of a FRF in a public-sector environment

Type of Entity	Typical User	Type of Requirement	Commonly Used FRF
Ministry	Public Accounts Committee, ministries	Accountability for government expenditure and the assessment of financial management	Cash basis Modified cash basis Accrual basis
Non-revenue-generating agencies	Public Accounts Committee and responsible ministries, donor community	Accountability for funding and assessment of the performance of the entities against their mandates	Cash basis Modified cash basis Accrual basis
Revenue generating entities and corporations	Public Accounts Committee, ministries, investment authorities, banks, etc.	Assessment of return on investment and sustainability; assessment of effects of policy and regulation of the entities	Accrual-basis financial statements often aligned to a recognized reporting framework (e.g. IFRS & IPSAS)

4.16. *To conclude on the third step for assessing FRF, SAs need to identify whether the FRF in question is acceptable.*

Step 3: Is the FRF a general-purpose or a special-purpose framework?

4.17. The frameworks may be categorized as either general- or special-purpose. A special-purpose framework is one designed to meet the financial information needs of specific users. A general-purpose framework is one designed to meet the needs of a wide range of users.

4.18. In some environments, special-purpose financial statements are the only financial statements prepared by the public-sector entity. It is therefore important to carefully determine whether the FRF is designed to meet the financial information needs of a wide range of users (“general-purpose framework”) or the financial information needs of specific users (cf. ISSAI 2800).

4.19. Hence, based on ISSAI 200 and 2200, SAs need to examine whether the applicable FRF is a general- or a specific-purpose framework. For example, in many cases government consolidated accounts and financial statements of public sector agencies or ministries are designed to meet the common financial information needs of a wide range of users, and the applicable reporting framework would consequently be classified as general-purpose.

4.20. When the auditor concludes that the accounting framework that is applied to prepare the financial statements to be audited is a special purpose framework, the auditor must apply ISSAI 1800 which deals with special considerations relevant to

- the acceptance of the engagement;
- the planning and performance of that engagement; and
- forming an opinion and reporting on the financial statements.

ISSAI 2800 does not override the requirements of the other ISSAIs. Therefore, the auditor must continue to comply with all relevant requirements in other ISSAIs when applying ISSAI 2800.

4.21. To conclude on the second step for assessing FRF, SAs need to conclude if the FRF in question is a general-purpose framework or a special-purpose framework.

Step 4: Is the FRF a fair presentation framework or a compliance framework? How to report accordingly?

- 4.22. The FRF can be either a fair presentation framework or a compliance framework. The type of framework used to prepare the financial statements affects the wording of the auditor's opinion. In case of a **fair presentation framework**, SAIs need to evaluate whether the financial statements achieve fair presentation, including (cf. ISSAI 2700.14) a consideration of:
- the overall presentation, structure and content of the financial statements; and
 - whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
- 4.23. When expressing an opinion on the financial statements prepared in accordance with the fair presentation framework, the auditor's report includes expressions such as *"the financial statements present fairly..."* or *"the financial statements give a true and fair view of..."*.
- 4.24. When the financial statements are prepared in accordance with a **compliance** framework, the auditor does not express an opinion on the fairness of presentation. Instead, the auditor is required to evaluate whether the financial statements are prepared, in all material respects, in accordance with the prescribed presentation of the financial statements that may be included in a specific FRF or in applicable laws and regulations. The use of a compliance framework should not be confused with a compliance audit. The wording of the opinion will be as follows: *"Financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework."*
- 4.25. *To conclude on the fourth step for assessing FRF:*
- SAIs need to decide whether the FRF in question is a fair presentation framework or a compliance framework; and
 - depending on the FRF used by an entity to prepare the financial statements, the SAI words the audit opinion accordingly.

Step 5: What are the SAI's options if the FRF is deemed unacceptable?

- 4.26. As explained in ISSAI 2210.8, if the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation, the auditor shall not accept the proposed audit engagement.
- 4.27. Non-acceptance of the engagement is often not possible in the SAI's environment, since SAIs are required to carry out audits according to their legal mandate. In this regard, SAIs need to explore alternative ways to deal with unacceptable FRFs.
- 4.28. If the auditor has determined that the FRF prescribed by law or regulation is unacceptable, ISSAI 2210.19 requires that the auditor discuss the issue with management of the audited entity and ask it to provide **additional disclosures** to prevent the financial statements from misleading¹⁰ users. Even if management prepares additional disclosures, the auditor's report on the financial statements needs to incorporate an **Emphasis of Matter** paragraph, drawing users' attention to the additional disclosures (see **Chapter 8**).
- 4.29. If management refuses to act upon the auditor's request to prepare additional disclosures, and the SAI cannot withdraw from the engagement as discussed in paragraph 28 above, the SAI should in accordance with ISSAI 2210.20; a) evaluate the effect of the misleading nature of the financial statements on the auditor's report; and b) include appropriate reference to this matter in the terms of the audit engagement.
- 4.30. ISSAI 2210.20 prescribes that if conditions outlined in ISSAI 2210.19 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor should:

¹⁰ The auditor has to determine if the financial statements are misleading using the criteria for acceptability.

- evaluate the effect of the misleading nature of the financial statements on the auditor's report; and
- include appropriate reference to this matter in the terms of the audit engagement.

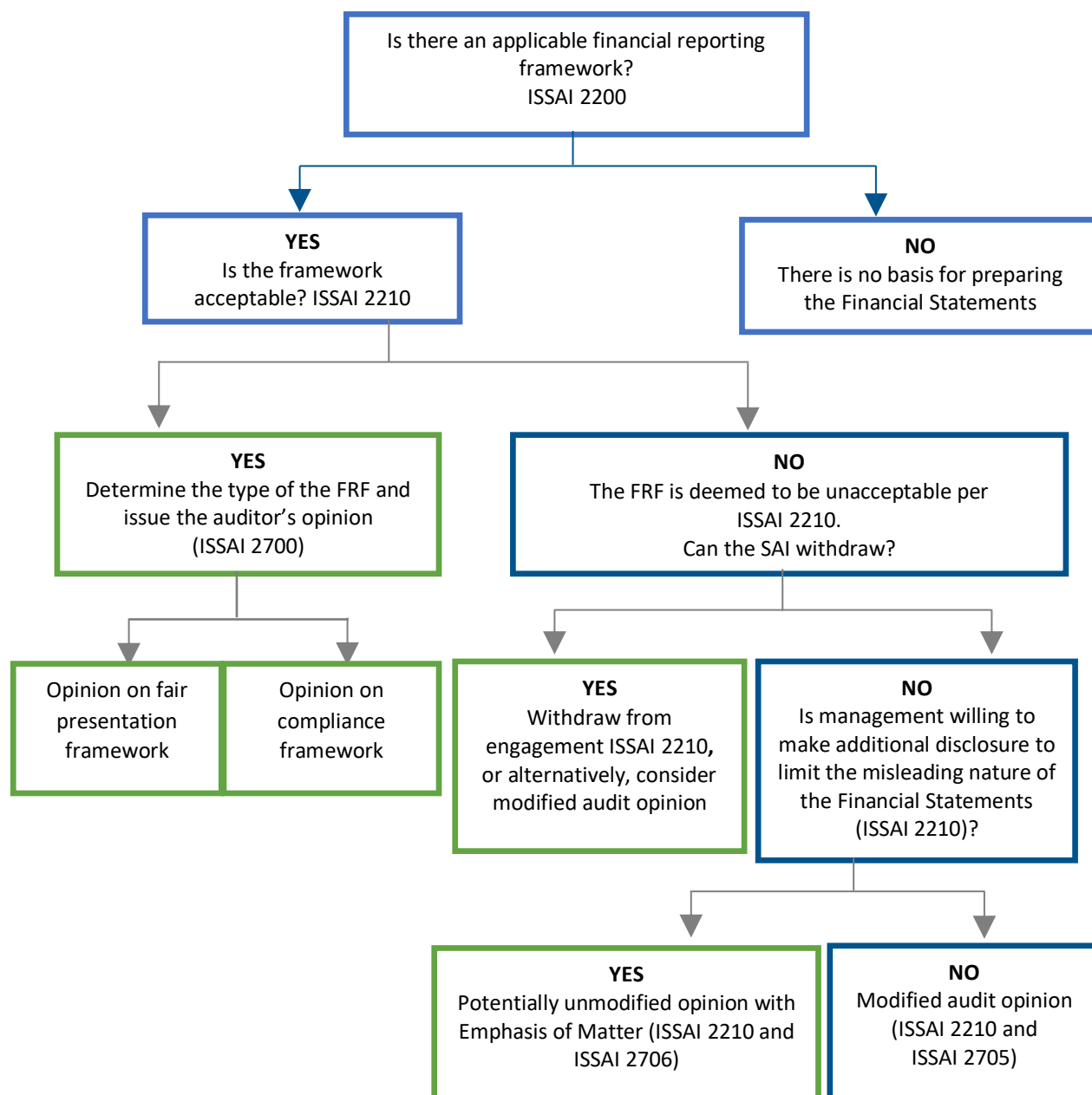
4.31. To conclude on actions in the case of an unacceptable FRF:

- The SAI needs to ask management of the audited entity to prepare additional disclosures.
- If additional disclosures are presented, then the SAI should add an Emphasis of Matter paragraph to the opinion.
- If management refuses to present additional disclosures, the SAI may consider withdrawal from the audit engagement; if withdrawal is not possible, the SAI may consider a modified auditor's opinion (a disclaimer of opinion) explaining the misleading nature of the financial statements.
- The SAI should consider informing the legislature and standard setting bodies about the unacceptability of the FRF.

4.32. The process of assessing the FRF as explained above is summarised in the decision tree given below as **Figure 4(b)**. The auditor or the assessor can document the conclusion arrived at on assessment of acceptability of the financial reporting framework using audit working paper template **AWP 4.1**. This working paper template also suggests recording the risks that may result in material misstatement in the financial statements which can be identified while assessing the acceptability of the financial reporting framework.

4.33. Examples of acceptable FRFs include IFRS and IPSAS. Accounting principles promulgated by the national accounting standards authorities are also deemed acceptable if a due process for pronouncement of the standards has been followed to consider views of wide range of stakeholders. Nevertheless, in the public sector it may also happen that those standards are supplemented by law or regulation, and then the auditor shall determine whether there are **any conflicts** between the financial reporting standards and the additional requirements (ISSAI 2210.18, A36). The additional requirements refer to those requirements that are prescribed by the law or regulation, in addition to the requirements of the financial reporting framework relating to preparation of financial statements. This may for example, be the case when law or regulation prescribes additional disclosures in addition to those required by the financial reporting standards (ISSAI 2210.A36).

Figure 4(b): Decision Tree for determining FRF's acceptability



4.34. In some countries, the financial statements of government entities are prepared solely according to a set of financial rules and regulations issued by parliament, the ministry of finance or the treasury department. As per ISSAI 2210.A9, in the absence of indications to the contrary, the FRF prescribed by law or regulation is presumed to be acceptable for general-purpose financial statements prepared by such entities. If it is not acceptable, then the steps indicated above apply.

Obtain an agreement that management understands its responsibility

4.35. As required under ISSAI 2210.6(b), the auditor needs to obtain the written agreement of the entity's management that it acknowledges and understands its responsibilities to prepare the financial statements in accordance with the applicable financial reporting framework including, where relevant, their fair presentation; to establish internal controls that management feels are necessary in order to prepare financial statements that are free from material misstatements; and to provide the auditors with access to information and persons within the entity and any additional

information required by the auditors. The auditors ensure that these requirements are specified in the audit engagement letter and explained to management at the audit entry conference.

Other requirements

- 4.36.** The requirements related to other pre-engagement activities are also highlighted in ISSAI 2220 and ISSAI 2300, e.g. where there has been a change of auditors, communication with the previous auditor in compliance with relevant ethical requirements.
- 4.37.** To ensure audit quality, it is important to have the right team, in terms of qualifications, competence and experience. Generally, it is advisable to have some auditors with prior experience in audits of a particular entity or area, since they would be aware of the systems and procedures in place and this will enhance audit planning and performance efficiency.
- 4.38.** It is also important to have a well-structured team whose responsibilities are clearly delegated and to have a quality review process in place. In the context of SAIs, the audit team is usually composed of team members, a team leader (audit manager) and an audit engagement manager/supervisor. However, these members may have different titles in different SAIs. The audit team can use audit working paper template **AWP 4.2**, suggested as a Team Competency Matrix, to indicate and document that the audit engagement team collectively has required competencies to perform the given audit engagement.
- 4.39.** To ensure that the audit is conducted objectively and independently, auditors should comply with an ethical code of conduct (e.g. ISSAI 130 “Code of Ethics”¹¹). It is also essential to ensure that auditors have no conflict of interest with an entity identified for audit. Audit working paper template **AWP 4.3** suggests a format for declaring compliance with the code of ethics; **AWP 4.4** suggests a format that may be adapted for auditors to declare no conflict of interest; and **AWP 4.5** is a sample declaration of conflict of interest.
- 4.40.** Ethical threats may arise during an audit, such as self-review threat, self-interest threat, familiarity threat, advocacy threat, intimidation threat, etc. The team leader/audit manager or line manager/supervisor will be required to put necessary safeguards in place to reduce any such threats to an acceptable level, in the professional judgment of the team leader/ manager/supervisor). The Assessment of Ethical Threats and Safeguards can be recorded in audit working paper template **AWP 4.6**.
- 4.41.** The next step in the pre-engagement is to agree on the terms of the audit engagement with the auditee, particularly with management or, where appropriate, with those charged with governance. ISSAI 2210.10 states, “... the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement.” The terms of audit engagement should include, among others, the following:
- The objective and scope of the audit of financial statements;
 - The responsibilities of the auditor;
 - The responsibilities of management;
 - Identification of the applicable FRF for the preparation of the financial statements;
 - Reference to the expected form and content of any reports to be issued by the auditor;

¹¹Cf. SAIS-4: Organizational Control Environment, dimension (i) “Internal Control Environment – Ethics, Integrity and Organizational Structure”, of SAIS PMF.

- A statement that there may be circumstances in which a report may differ from its expected form and content; and
- Relevant law and regulation affecting the audit.

- 4.42.** The engagement team may also include other terms and conditions in the audit engagement letter if deemed appropriate and necessary. Audit working paper template **AWP 4.7** provides an example of an Audit Engagement Letter that can be used by an SAI's engagement team. This can be adapted to the specific needs of different SAIs.
- 4.43.** The audit engagement letter should be sent out to management or, where appropriate, to those charged with governance and they should be asked to acknowledge agreement with these terms by signing a copy of the engagement letter. The engagement team can also inform management that the terms of the engagement can be discussed in the audit entry conference before being signed, as some terms may require explanation by the engagement team itself. The audit entry conference is usually convened after sending out the audit engagement letter.
- 4.44.** Any changes to the terms of engagement from those initially stated in the audit engagement letter should be documented, in the form of either notes or minutes of the meeting between management and the audit engagement team.
- 4.45.** A lack of agreement with the terms of engagement by management and those charged with governance may not arise, since laws and regulations usually mandate SAIs to conduct audits, and the audit terms and conditions for audit defined in the engagement letter are to be consistent with certain laws and regulations.

Communication with management and those charged with governance

- 4.46.** Communication with management and those charged with governance of the entity **throughout the audit process** is very important and facilitates the proper conduct of the audit. For some public sector entities in some jurisdictions, management may include some or all of those charged with governance.
- 4.47.** As per ISSAI 2260.9, the objectives of the auditor on communication with those charged with governance are:
- (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
 - (b) To obtain from those charged with governance information relevant to the audit;
 - (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
 - (d) To promote effective two-way communication between the auditor and those charged with governance.
- 4.48.** The engagement team needs to consider three aspects about communication:
- Determining appropriate persons within the entity's governance structure with whom to communicate (which could be performed at audit entry meeting-before audit commences).
 - Determining the matters that need to be communicated (i.e. auditor's responsibility, planned scope and timing of the audit, significant findings from the audit, and auditor independence).
 - Establishing the communication process (the process, form, timing and adequacy of communication).

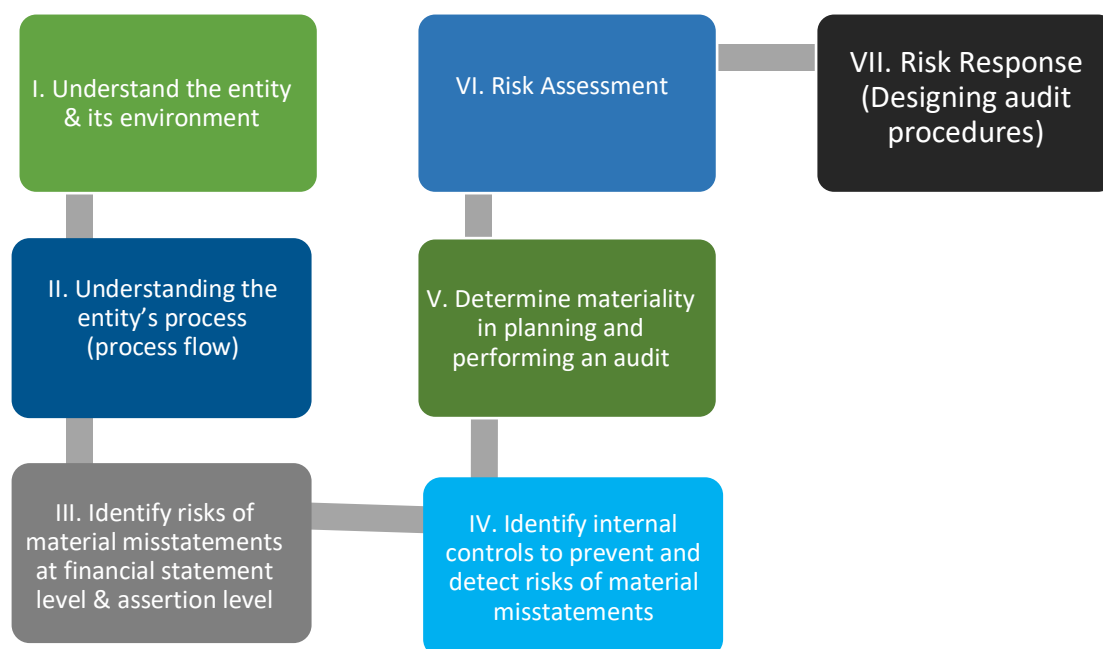
- 4.49.** The engagement team needs to organize an **audit entry meeting** with the entity's management and those charged with its governance as a communication process. As part of the specific agenda for this meeting, the engagement team may want to discuss the terms of audit engagement mentioned in the audit engagement letter.

CHAPTER 5

Planning an Audit

- 5.1. After the pre-engagement activities have been completed, the audit team needs to prepare the audit plan, having regard to the requirements of ISSAI 2300. A planning phase of the audit mainly entails assessing the risks of material misstatements (ISSAI 2315), determining materiality in planning and performing the audit (ISSAI 2320), and the auditor's response to assessed risks (ISSAI 2330), which determine the nature, timing and extent of further audit procedures.
- 5.2. The auditors are encouraged to adopt a risk-based approach to the audit of financial statements. That means devoting considerable time to assessing the risk of material misstatements in the financial statements, in line with the ISSAI. Other focus areas may be added depending on the resources required and their availability.
- 5.3. There are other ISSAI requirements relevant to planning an audit of financial statements, such as ISSAI 2220 "Quality Control, for an audit of financial statements"; ISSAI 2240 "Auditor's responsibilities relating to fraud in an audit of financial statements"; ISSAI 2250 "Considerations of laws and regulations in an audit of financial statements"; and ISSAI 2230 "Audit documentation". Since all thirty-seven ISSAI are interlinked, some of the requirements from ISSAI other than those mentioned here may be relevant to planning an audit of financial statements, and therefore the auditor needs also to take these into consideration in planning a financial statements audit.
- 5.4. While planning the audit, the engagement team should estimate the time required to complete the audit and should consider how efficiently it can use that time in the audit. The team can allocate appropriate time to those areas that were identified as posing a high risk of material misstatement in the financial statements. The engagement team can prepare a time budget for guidance, which can be revised as the audit progresses.
- 5.5. The audit time schedule also needs to fit within the financial reporting cycle of entities being audited. Typically, most SAIs would have prepared an annual plan to come into force at the beginning of the year, based on which the respective functional divisions carry out the audit.
- 5.6. The auditor needs to consider if management has prepared the financial statements in accordance with the applicable financial reporting framework. Quite often, it may be that the audit has been scheduled but management has not yet prepared the financial statements. This will affect not only the scheduled audit but also the overall annual plan of the SAI. However, prior year financial statements can be used to plan the audit engagement where current year results are not yet known since the financial audits are typically recurring in nature. The audit plan can be updated upon receiving the current year's draft financial statements.
- 5.7. The auditor also needs to consider the location of the audit entity, its branches and units, etc., so that any necessary visits out of its head office can be properly planned. The audit engagement supervisor, in consultation with the team leader/audit manager, can assign audit work to the respective team members.
- 5.8. The planning phase of the audit is shown in **Figure 5(a)**.

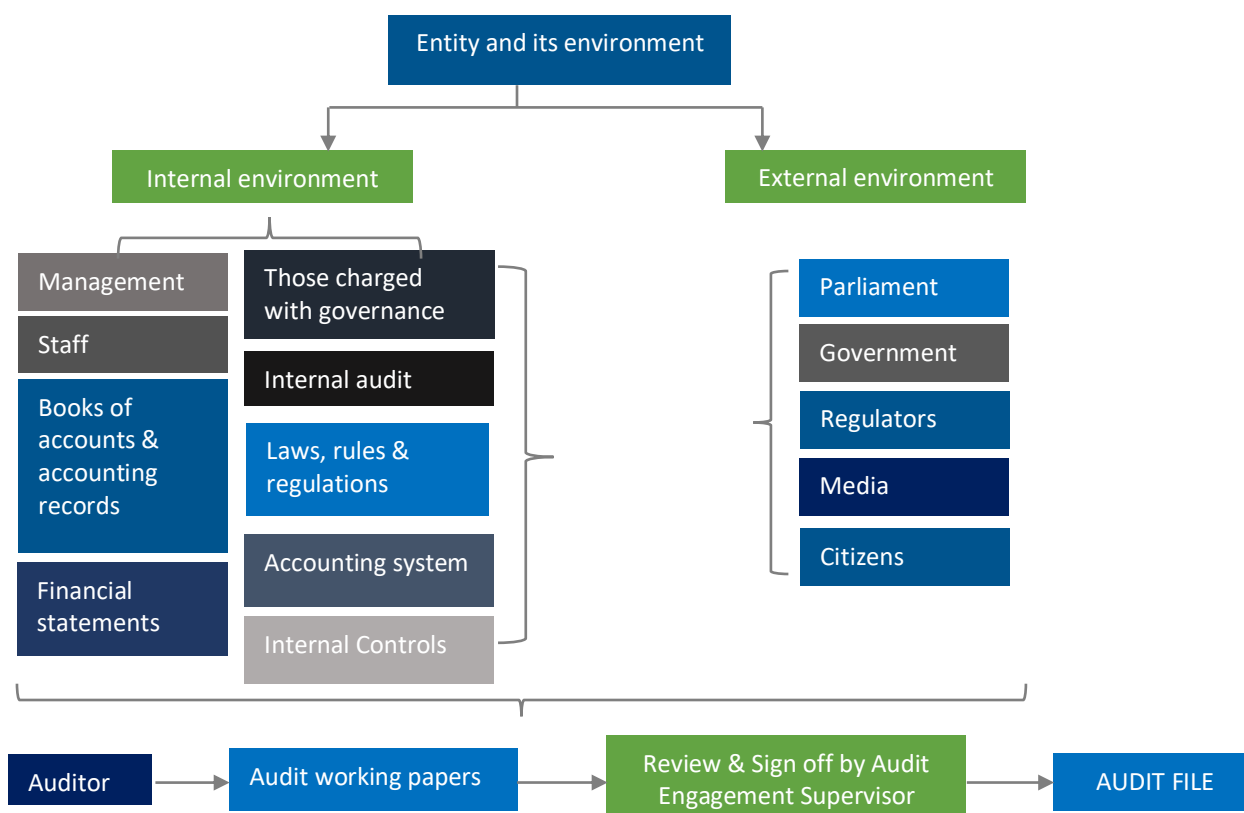
Figure 5(a): Detailed audit planning process



Understanding the entity and its environment

5.9. At the financial statements and assertion levels, ISSAI 2315 broadly requires auditors to identify and assess the risks of material misstatement due to fraud or error by developing an understanding of the entity and its environment, including the entity's internal control. This understanding provides a basis for designing and implementing responses to the assessed risks of material misstatement. A snapshot of understanding the entity and its environment is shown in **Figure 5(b)** below.

Figure 5(b): Snapshot of understanding the entity and its environment



- 5.10. Knowledge of an entity is important to conduct the audit efficiently and effectively. While auditors would be expected to have prior knowledge of entities audited over many years, an audit of a new entity would require more time to gain the detailed understanding required. Where entities were audited in the past by the same auditors, any changes would need to be identified and documented accordingly.
- 5.11. Understanding the entity as a whole helps the auditor identify business risks or entity risks that may have an impact on the financial statements.
- 5.12. An auditor may establish an understanding of the entity through documenting the process flow or providing a narrative write-up, which can then be validated by entity's management to ensure accuracy of the auditor's understanding of the entity's business processes and other operational affairs. An example of how the auditor can establish the understanding of an entity and its environment is given in audit working paper template **AWP 5.1**.

The understanding of the entity's legal framework

- 5.13. It is the responsibility of management and those charged with governance to ensure that the entity's operations are conducted in accordance with the provisions of applicable laws and regulations, including compliance with those provisions that determine the reported amounts and disclosures in an entity's financial statements. It is the responsibility of the auditor to identify any risk related to laws and regulations breached that could lead to financial effects on financial statements (refer to ISSAI 2250).
- 5.14. In an audit of financial statements, the auditor needs to have an understanding of the legal and regulatory framework within which the entity operates. This includes identifying the applicable laws, rules and regulations affecting the entity's operations. In the context of public sector entities, those applicable laws and regulations may be in the form of environmental regulation, public finance acts, financial regulation, procurement regulation, employment acts, parliamentary resolutions, etc.
- 5.15. In addition, the government is composed of different sectors such as agriculture, forestry, finance, treasury, education, health, transport, communication, culture, foreign affairs, etc., and consequently the auditor needs to gather sector-specific knowledge regarding the laws, rules and regulations applicable and relevant to different sectors. The entity's vision and mission statements, if any, also indicate the nature of and basis for its existence.
- 5.16. In public sector operations, especially in the government, the amounts reflected in the financial statements are often impacted by laws enacted by the parliament, such as budget law, regulations and other standing orders and circulars issued by the government. In addition, the applicable financial reporting framework that provides the basis for the preparation of financial statements of a government may be based on laws and regulations. Public sector auditors must carefully consider the scope of ISSAI 2250 to identify laws and regulations that have direct and indirect effects on the financial statements.

The understanding of the entity's internal control

- 5.17. It is the responsibility of an entity to establish internal controls to prevent and detect material misstatements in the financial statements. The auditor's responsibility is to ascertain whether those controls were effectively designed. However, not all internal controls designed and implemented by management may be relevant to an audit. ISSAI 2315.12 requires an auditor to obtain an understanding of internal controls that are relevant to an audit. In adopting the risk-based approach to auditing, auditors are expected to identify those controls relevant to risks identified by the auditor. This is explained in detail under the section of this chapter, **"Identifying and assessing the risks of material misstatements."**

- 5.18.** ISSAI 2315 requires that when identifying internal controls, the auditor considers and establishes an understanding of all five components of internal controls. These consist of the control environment; the entity's risk assessment process; the information system including the related business processes, relevant to financial reporting, and communication; control activities; and monitoring of controls.

Control environment

- 5.19.** ISSAI 2315.A76 states that the control environment includes governance and management functions; attitudes, awareness and actions of those charged with governance and management towards the entity's internal control; and the importance of internal control within the entity.
- 5.20.** The control environment sets the tone of an organisation, influencing the control consciousness of its staff and management. As such, it determines the effectiveness of other components of internal controls: internal control activities may not function unless a culture of honesty, integrity and ethical behaviour exists in an organisation. Deficiencies in the control environment undermine the effectiveness of controls that are put in place, particularly in relation to fraud. Therefore, in assessing the risks of material misstatement due to error or fraud, evaluating the control environment is very important. The checklist for evaluating the control environment is given in audit working paper template **AWP 5.2**.

The entity's risk assessment process

- 5.21.** In understanding the entity and its environment, ISSAI 2315.15 requires the auditor to obtain an understanding of entity's risk assessment process. That process is a component of internal control that is aimed at managing the risks faced by the entity in its business operations and that assists the auditor in identifying the risks of material misstatements.
- 5.22.** The extent of audit procedures to be performed in this regard depends on the entity's environment and whether a risk assessment process exists. If there is such a process, the auditor should gain an understanding of it and document the results as suggested in audit working paper template **AWP 5.1**. The auditor's responsibility is not to understand just the entity's risk assessment process but also how management has responded to the assessed risks (management's action).
- 5.23.** If a risk assessment process does not exist, the auditor shall also evaluate the impact on the preparation and presentation of the financial statements. Depending on the circumstances and the size of the entity, the absence of a risk assessment process may represent a significant deficiency in internal controls.

The information system, including the related business processes, relevant to financial reporting, and communication

- 5.24.** ISSAI 2315.18 requires the auditors to obtain an understanding of the information system, including the business processes relevant to financial reporting.
- 5.25.** Pertinent information must be identified, captured, and communicated in a form and time frame that enable people to carry out their responsibilities. Information systems produce reports containing operational, financial, and compliance-related information that make it possible to run and control the organisation's operations. They deal not only with internally generated data, but also information about external events, activities, and conditions necessary to informed business decision making and external reporting. Effective communication also must occur in a broader sense, flowing down, across, and up the organization.
- 5.26.** All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating

significant information upstream. There also needs to be effective communication with external parties. The understanding of the information system, including the business processes, can be documented as suggested in audit working paper template **AWP 5.1**.

Control activities relevant to audit

- 5.27.** Control activities are the policies and procedures that help to ensure that the organisation's activities are carried out as required and the financial statements are free from material misstatements.
- 5.28.** It is the responsibility of management to institute control activities that will prevent and detect errors, omissions and fraud in preparing and presenting the financial statements. The auditor's responsibility is to see whether the controls are designed and implemented and operate effectively in preparing and presenting financial statements that are free from material misstatements.
- 5.29.** In public sector entities, the relevant control activities in the preparation of financial statements are by and large defined in rules, regulations and standard operating procedures. Effective enforcement of and adherence to these rules and regulations will prevent material misstatements in the financial statements depending on the attitude (ethics and integrity) of management and those charged with governance. The auditor needs to obtain an understanding of those rules and regulations and other controls that are relevant to audit and risk identification.

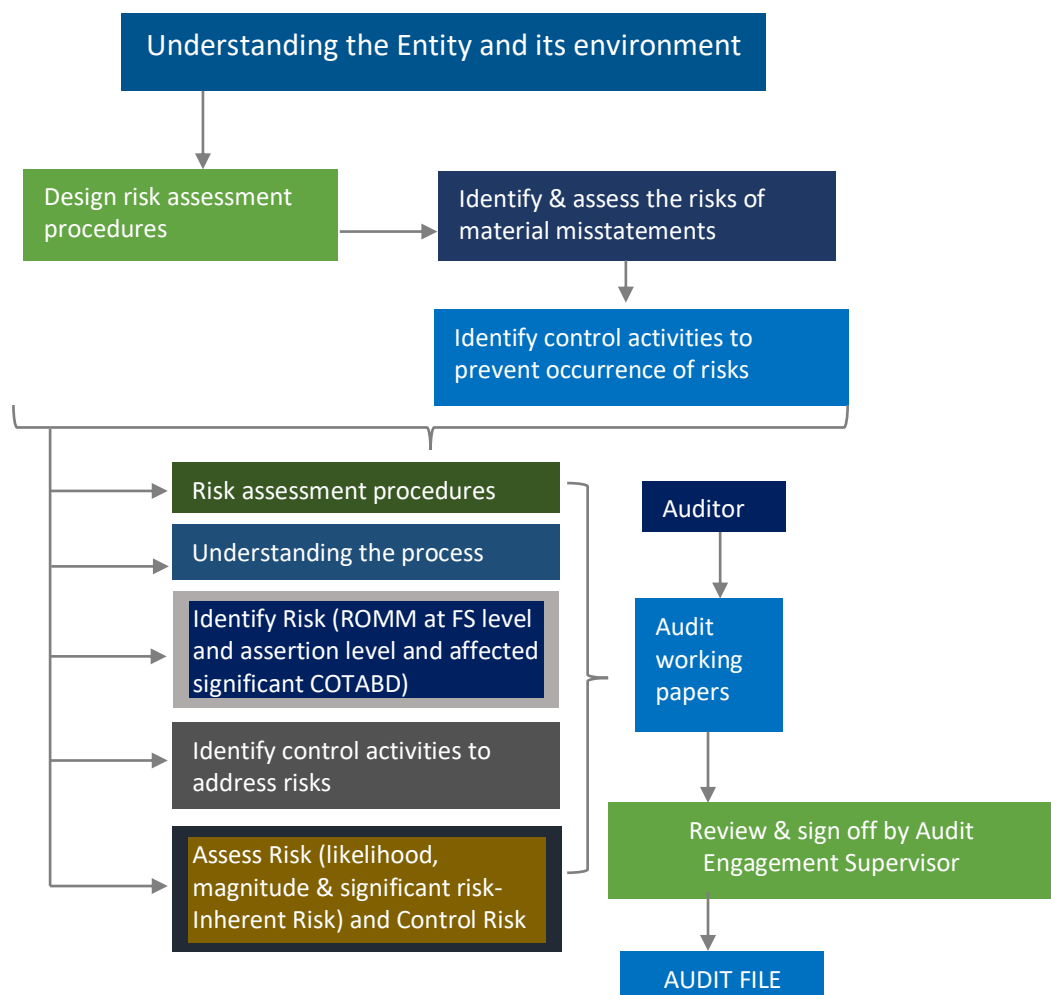
Monitoring of control

- 5.30.** Internal control systems need to be monitored — a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and other actions personnel take in performing their duties.
- 5.31.** The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.
- 5.32.** The **internal audit function** plays an important role in monitoring the implementation of internal controls within an entity. It is a management tool, and its effectiveness depends on how independently it is situated within the entity's structure, to whom it reports, and what action on the internal auditor's report is taken by management and those charged with governance.
- 5.33.** An effective internal audit function may reduce the level of work to be done by the external auditors. However, not all work by internal audit will be relevant to an audit of financial statements.
- 5.34.** Where an entity has an internal audit function, the auditor is required to obtain an understanding of that function, its responsibilities, its organisational status and the activities it performs. The procedure for obtaining this understanding is suggested in audit working paper template **AWP 5.1a**.
- 5.35.** The work done by internal audit may also impact the nature and extent of audit procedures if an entity has an internal audit function whose work can be used, after a positive evaluation of the IA function as required by ISSAI 2610. The auditor can, in this regard, confirm whether the entity has an internal audit function and in which areas and to what extent the internal auditors' work can be used.
- 5.36.** Since internal auditors are expected to monitor the implementation of internal controls and will have wider knowledge of the entity, they can provide direct assistance to external auditors in planning and performing the audit. Direct assistance as per ISSAI 2610.14 refers to the use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor. The auditor needs to agree with the entity, if planned to seek direct assistance of internal auditor as suggested in audit working paper template **AWP 5.1b** and **AWP 5.1c**.

Identifying risk of material misstatement through understanding the process

- 5.37.** ISSAI 2315.25 requires the auditor to **identify** and **assess** the risk of material misstatement at the **financial statements level** and the **assertion level** for particular classes of transactions, account balances or disclosures to provide a basis for designing and performing further audit procedures.
- 5.38.** After obtaining a complete understanding of the entity and its environment as explained in paragraphs 5.9 to 5.36, the next step is to identify the processes involved in the entity, which will include routine and non-routine processes undergone by classes of transactions, account balances and disclosures presented in the financial statements to identify risk of material misstatement. **Figure 5(c)** below provides a snapshot of risk assessment process, which includes risk identification. The guidance on assessing the identified risk as to its likelihood, magnitude and significance is provided after the section on materiality in this chapter.

Figure 5(c): Snapshot of risk assessment process



- 5.39.** While documenting the understanding of this process, the auditor needs to **identify** risks at every stage of the process. In other words, the auditor should be able to identify “*what could go wrong*” at every stage of the process or at the assertion level given the risks—for instance, while processing a payment to the supplier as provided in **Illustration 5.1**.

Illustration 5.1: Risk and what could go wrong in the financial statement

Payment process	Risk	What could go wrong
Processing final payment for purchase of computer equipment	Inflated rate in the final invoice (over and above quoted rate)	Overstatement of expenditure

- 5.40.** A process flow can be documented in the form of narrative write up, flow chart, etc. by following the guidance provided in audit working paper template **AWP 5.3**.
- 5.41.** The auditor is expected to apply professional judgement while identifying the risks of material misstatement in the financial statements. The risks identified by the auditor can be documented in the risk register (using audit working paper template **AWP 5.4**) and linked to every stage of the process documented by the auditor.
- 5.42.** Upon identifying risks of material misstatement at the assertion level, the auditor needs to identify significant classes of transactions, account balances and disclosures and their relevant assertions, which are affected by those risks. (A significant class of transactions, account balance and disclosure are those where there is one or more relevant assertions).

Identify risks of material misstatement due to fraud

- 5.43.** ISSAI 2240 prescribes what is expected of the auditor in an audit of financial statements about fraud. This standard prescribes the requirements related to risk assessment procedures and related activities, responses to assessed risks of material misstatement due to fraud, audit evidence, etc. This section of the chapter covers the risk assessment procedures and related activities. The other requirements are covered in relevant chapters of this Handbook.
- 5.44.** Unlike error, fraud is an intentional act of deception by one or more individuals to obtain an unjust or illegal advantage. Its effect might be fraudulent financial reporting or misappropriation of assets.
- 5.45.** Primary responsibility for prevention and detection of fraud lies with management and those charged with governance of the entity, through implementing and operating an adequate accounting and internal control system.
- 5.46.** Unless the audit reveals evidence to the contrary, the auditor is entitled to accept representations as truthful, and records and documents them as genuine. However, the auditor should plan and perform the audit with an attitude of professional scepticism, recognizing that conditions or events may be found that indicate that fraud may exist. But the auditor should neither assume that the entity management or employees are dishonest nor assume unquestioned integrity. Instead, the auditor should objectively evaluate the conditions and circumstances observed.
- 5.47.** Notwithstanding the auditor's experience, the risk of material misstatements due to fraud may arise because there have been changes in circumstances, of which the auditor needs to be aware (ISA 2240.12).
- 5.48.** Risk of material misstatement may occur because of an error or fraud. The risks identified and documented in the Risk Register (see audit working paper template **AWP 5.4**) will contain the risks due to fraud or error. ISSAI 2240.27 requires the auditor to treat those assessed risk of material misstatement due to fraud as significant risks and accordingly, to the extent not already not done so, the auditor should obtain an understanding of the entity's related controls, including control activities, relevant to such risks.
- 5.49.** Provided the audit procedures are adequately designed, the auditors may be able to detect an indication of fraud in an audit of financial statements. While some SAIs may have a mandate to

investigate fraud, others may not; in the latter case it would be necessary to report any possible indication of fraud to the investigating authority (ISSAI 2240.43).

- 5.50.** It is common in developing countries that a major share of national budgets is allocated for procurement, construction and the development of infrastructure. As part of identifying and assessing the risks of material misstatements due to fraud in government departments, the auditor may review the components of capital expenditure and identify the amounts spent on building public infrastructure.
- 5.51.** With different laws in different jurisdictions, public sector entities are required to have systems and procedures in place to identify and respond to risks of fraud. If such a system exists, the auditor should assess whether it operates effectively and should document the conclusions. Depending on the system's effectiveness, the level of risk assessment procedures the auditor needs to perform could be largely reduced.

Identifying internal control activities to prevent occurrence of risks

- 5.52.** To mitigate the risks of material misstatements in the preparation and presentation of financial statements, management and, where relevant, those charged with governance are expected to put internal controls in place. Based on obtaining an understanding of the entity process through process flow or narrative write-up (as provided in audit working paper template **AWP 5.3**) and linking the risks to every stage of the process, the auditor needs to identify those controls that are intended to mitigate the risks identified at an assertion level. These control activities may be recorded in an internal control log as suggested in audit working paper template **AWP 5.5**.
- 5.53.** In public sector entities, the control activities relevant to the financial reporting process may be in the form of financial rules and regulations, government circulars, government policies, procurement rules and regulations, etc. In following the risk-based approach to auditing, the auditor is expected to take account of the rules, regulations and policies that are related to identified risks of material misstatements. See **Illustration 5.2** for an example.

Illustration 5.2: Identifying control activities that address the risk

Risk	Control activity
Travel claim of an employee being paid at incorrect rates.	An independent check should be performed of standing data (eg: government approved travel claim rates) to travel claim processed by an employee.

Note: This risk will occur at the assertion level in the financial statement. Financial Statements assertions are explained later in this section.

- 5.54.** Based on audit working paper template **AWP 5.5** the auditor is expected, where the control activities are recorded, to transfer these control activities to **AWP 5.8** and register them against each risk already recorded. This ensures that each of the control activities is linked to risks of material misstatements identified and assessed at the assertion level. Further, by following this process, the auditor is constantly reminded to consider the link between risks and internal control activities.
- 5.55.** It is important for the auditor to understand the link between risk assessment and audit assertions. The auditor identifies the risks that could cause material misstatement in the financial statements. Management of an entity makes various assertions while preparing the financial statements, which are referred as financial statements assertions. Therefore, the auditor should ensure that the identified risk is relevant to the assertion(s). After identifying the risk, the auditor must assess “*what could go wrong*” at the assertion level as a result of that risk. This will be further explained in the next

section on designing further audit procedures, where the linking of audit assertion, risk and further audit procedures will be illustrated.

- 5.56. As per ISSAI 2315.A129, assertions used by the auditor to consider different types of potential misstatements that may occur fall into the two categories in the table below and may take the following forms as described.

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

- 5.57. As recognized by ISSAI 2315.A131, the additional assertions in the audit of public sector financial statements need to be considered while planning the audit. This is very much related to risks of material misstatements due to non-compliance with law, regulations and authorities, which determine the design of appropriate audit procedures (additional assertion included in the preceding table as 'compliance'). The "compliance" assertion below is an example of an assertion not prescribed by the financial audit ISSAI that may be added if deemed necessary to effectively evaluate the risks of material misstatement of the financial statements. It would not be appropriate to add

such an assertion to evaluate the compliance with all laws and regulations that may be evaluated by a public sector auditor including those that may not be relevant to the audit of the financial statements. The scope of ISSAI 2250 must be understood and respected when setting the scope of the ISSAI financial audit. A separate section considering these aspects and how they should be dealt with by the auditor is included in this Chapter (ISSAI 2250 “Consideration of laws and regulations in an audit of financial statements”).

Illustration 5.3: Financial Statement Assertions and examples

Transactions and Events

For a transaction such as the purchase of office equipment, the management is asserting in the financial statements that:

Occurrence	The purchase really did take place.
Completeness	All purchase transactions are included in the financial statements.
Accuracy	The quantities and prices are correctly stated.
Cut-off	The transaction was dealt with in the correct accounting period.
Classification	It really is a purchase of equipment, not a payroll cost or a motor vehicle and it has been accounted for accordingly.
Compliance	The payment of travel allowance was made in accordance with travel regulations.

Account balances at the year end

For account balances at the year end, the assertions are slightly different, because the things about which the assertions are made are different:

Existence

- Are all these motor vehicles, office equipment, land and buildings, inventories real? Do they exist?
- Are these trade receivables real? Have we sold them something for which they owe us money?
- Was something effectively bought from these trade payables and therefore do we really owe them some money?

Rights and obligations

- Do we own the factory? The car? The computer?
- The trade receivables may exist, but have we factored them or otherwise transferred our rights to them?

Accuracy, Valuation and allocation

- Has depreciation been calculated correctly on the non-current assets?
- Are the trade debtors going to pay us?
- Is the inventory damaged, slow moving or obsolete?

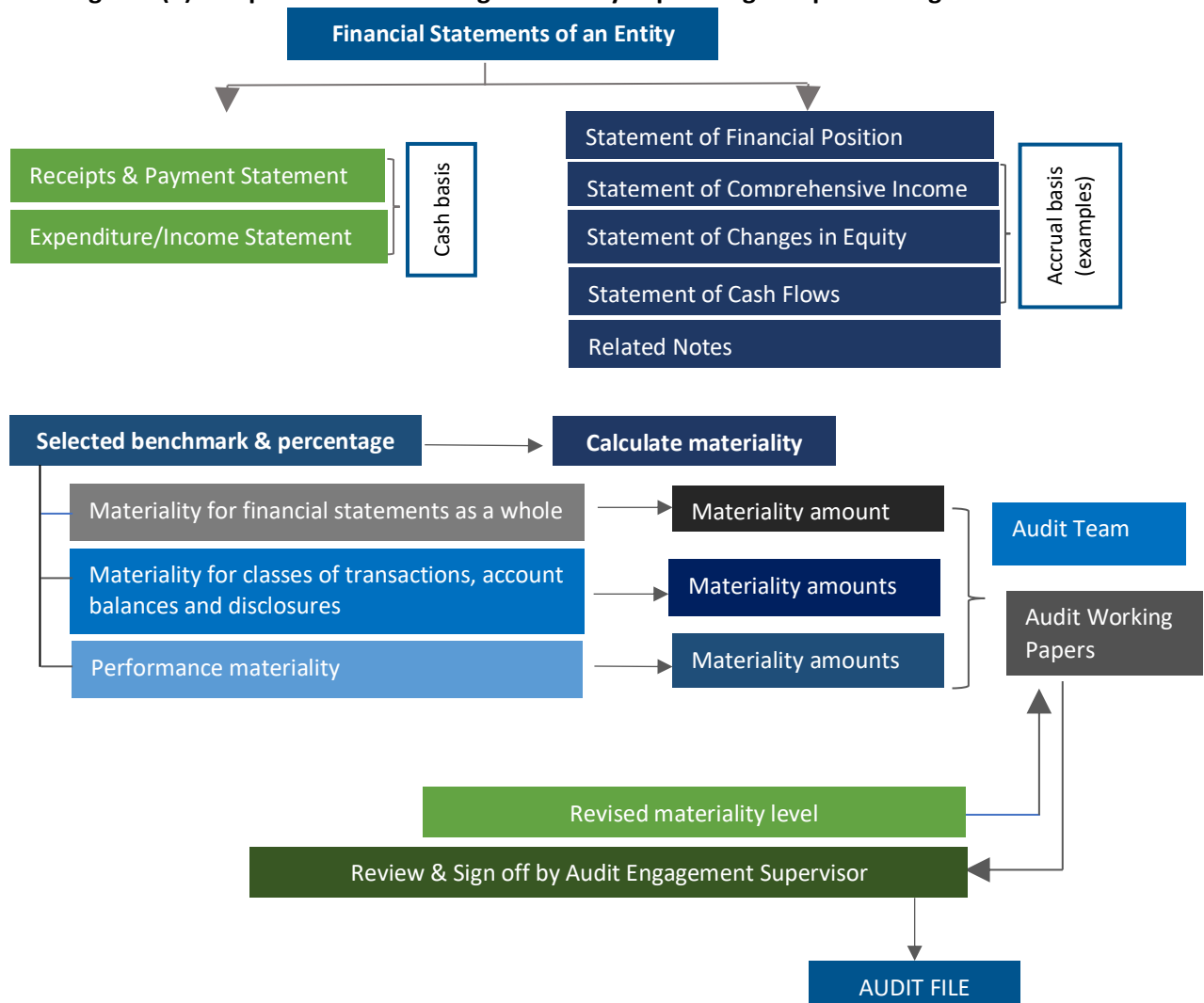
Determining materiality in planning and performing an audit

- 5.58.** According to the *International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements*, information is material "if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements."
- 5.59.** There is no standard rule as to how materiality should be calculated. ISSAI 2320 refers to "professional judgment" and the "amount" and "nature" of misstatements as considerations. Professional judgement may be based on an understanding of the entity, the nature and extent of misstatements in previous audits, etc. The basis for professional judgement in determining materiality shall be recorded in the working paper.
- 5.60.** The management of the SAI should perhaps have a policy covering the benchmarks that may be relevant and the percentages to be used in determining materiality.
- 5.61.** ISSAI 2320 sets a framework of reference for auditors to use in determining materiality, if there is no discussion of this concept in the applicable FRF:
- Information is material if its omission or misstatement could influence the economic decisions of users, taken based on the financial statements.
 - Judgements about materiality are influenced by surrounding circumstances and the size or nature of a misstatement, or both.
 - Judgements about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as an identifiable group.

The materiality must be relevant to the user rather than to the preparer of financial statements. Materiality must be considered in the planning, performing and evaluation phases of the audit.

- 5.62.** The process for determining materiality is given in **Figure 5(d)** below - in both planning and performing an audit.

Figure 5(d): Snapshot of determining materiality in planning and performing an audit



The concept of materiality applied in planning an audit

- 5.63.** When establishing the overall audit strategy, the auditor is required to determine the materiality to be applied for the financial statements as a whole during the audit (ISSAI 2320.10).
- 5.64.** There may be items (classes of transactions, account balances or disclosures) where misstatements of less significant amounts could reasonably be expected to influence the economic and non-economic decisions of financial statements users. If the auditor concludes that such possibilities exist, then the auditor should calculate materiality for those particular classes of transactions, account balances, or disclosures.
- 5.65.** The engagement team needs to discuss the matter of materiality from the users' perspective. When the materiality to be applied has been determined, it needs to be documented and communicated to the whole team involved, as materiality will affect the extent of the audit work that needs to be performed and the evaluation phase of the audit.
- 5.66.** Where the engagement team can identify significant components and material classes of transactions, account balances and disclosures, materiality is determined based on the draft financial statements provided by management of the entity. This will provide an overview for at least the line manager/supervisor, allowing for the identification of areas where there may be high risk of material misstatement and on which the team needs to concentrate and focus attention.

- 5.67.** Based on the identification of significant components and material classes of transactions, account balances, and disclosures, the engagement team may have identified areas where there may be high risk of material misstatement. Accordingly, the team leader/audit manager or the audit supervisor can allocate those high-risk areas to competent and experienced auditors on the team. These areas may even require the attention of the supervisor or team leader.
- 5.68.** In determining materiality for financial statements as a whole, an appropriate benchmark may be used such as either total receipts, total expenditure, or net expenditure (expenditure less receipts) in cash-based accounting. In accrual-based accounting, the asset based benchmarks such as total equity or net asset value, and income statement based benchmarks such as profit before tax, total revenue, gross profit and total expenses can be used. Profit before tax is often used for profit oriented entities (cf ISSAI 2320.A5). The following example illustrates the calculation of materiality for financial statements, based on this possible approach:

Illustration 5.4: Calculating materiality for financial statement as a whole

Benchmark	Amount (CU)	Percentage used	Materiality amount (CU)
Total receipts	10,000,000	0.5%	50,000
<i>Reason for applying 0.5% - why 0.5%?</i>			

Note: The percentage used here is just for example. It should not be used as a prescribed basis for calculating materiality while conducting the audit. The SAI or the auditor should use professional judgement to determine the percentage to be used in calculating materiality. The SAI may have its own policy for determining the level of materiality.

- 5.69.** The identification of a benchmark for calculating the materiality would depend on many factors, such as the criticality/importance of the chosen benchmark to the users of the financial statements, nature of the entity, etc. In the above illustration, if an entity is a revenue-generating entity, total receipts become critical to users of the financial statements. Misstatements higher than CU 50,000 (as shown in the illustration) will be considered a material misstatement in the financial statements. Table A of audit working paper template **AWP 5.6** suggests a template for calculating and documenting the planning materiality for financial statement as whole.
- 5.70.** The same principle applies to calculating materiality for particular classes of transactions, account balances or disclosures. **Illustration 5.5** is an example of the calculation of materiality in this regard.

Illustration 5.5: Calculating materiality for classes of transactions

Benchmark	Amount (CU)	Percentage used	Materiality amount (CU)
Classes of transaction:			
Travel	1,000,000	0.1 %	1,000
Employee Cost	5,000,000	0.2%	10,000
<i>Reasons for applying given percentages</i>			

Note: The percentage used here is just for example. It should not be used as a prescribed basis for calculating materiality while conducting the audit. The SAI or the auditor should use professional judgement to determine the percentage to be used in calculating the materiality. The SAI may have its own policy for determining the level of materiality.

- 5.71.** From this illustration, any travel expenditure misstatement above CU 1,000 will be considered material. However, in comparison with materiality for the financial statements as whole, the misstatement may not be material but could still influence the decisions of users of the financial statements; travel expenses could be a critical area of expenditure.
- 5.72.** Table C of audit working paper template **AWP 5.6** suggests a template for determining materiality for particular classes of transactions, account balances or disclosures.

Performance materiality applied in planning an audit

- 5.73.** In addition to the overall materiality level, ISSAI 2320 requires the auditor to determine the **performance materiality level** for the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. This concept refers to the amount or amounts set by the auditor at less than materiality for the financial statements as a whole, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In other words, the performance materiality is set lower than the materiality for financial statements as a whole. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period. The reduction of overall materiality to arrive at performance materiality is often referred to as a "haircut" and professional judgement must be applied to establish the appropriate haircut. The larger the haircut the larger the difference between overall and performance materiality. A larger difference is needed to allow for an increased risk that material misstatements may not be detected by the auditor.
- 5.74.** The following example provides an illustration for calculation of performance materiality for financial statements as whole. Table No. B of audit working paper template **AWP 5.6** suggests a template for calculating and documenting the performance materiality:

Illustration 5.6: Calculating performance materiality for financial statement as a whole

Benchmark	Overall materiality (from illustration 5.4) (CU)	Percentage used	Performance materiality amount (CU)
Total receipts	50,000	75%	37,500

Note: As a general principle, Performance Materiality could be in the range of 60-80% of Overall Materiality. Normally auditors use 75% of Overall Materiality as Performance Materiality.

- 5.75.** The same principle applies when determining performance materiality for particular classes of transactions, account balances, or disclosures. **Illustration 5.7** shows an example of the calculation of performance materiality for particular classes of transactions, account balances or disclosure.

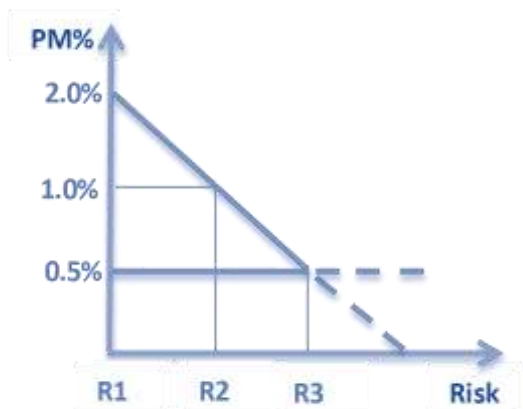
Illustration 5.7: Calculating performance materiality for classes of transactions

Benchmark	Materiality (from illustration 5.5) (CU)	Percentage used	Performance materiality amount (CU)
Classes of transaction:			
Travel	1,000	75 %	750
Employee Cost	10,000	75%	7,500

- 5.76.** Table No. C of audit working paper template **AWP 5.6** also includes determining materiality for particular classes of transactions, account balances or disclosures.

Performance Materiality and risk

- 5.77.** The choice of performance materiality levels will depend on the detection risk of material misstatement: the higher the detection risks the lower the level of performance materiality, leading to more tests of controls or substantive procedures (and vice versa). Hence, there is an "inverse" relationship between performance materiality and detection risks of material misstatement.



Note: If the detection risk is the lowest (R1), the highest possible performance materiality percentage can be applied. If the detection risk is the highest (R3), then the lowest possible percentage can be applied by an auditor. If the detection risk is somewhere in the middle (R2) then a percentage can be selected from between the lowest and the highest possible percentage terms. Which corresponding percentage can be selected is based on the auditor's judgement.

- 5.78. In the process of determining materiality, **sensitivity** of the items of underlying accounts should also be taken into consideration by the auditor. If the audited entity or financial statement account is more sensitive, the auditor should lower the materiality level respectively. Sensitivity is considered in terms of the users of the financial statements: in the public sector, main users of information who may be considered when determining materiality can be parliament, the media, state authorities and the public. Based on the users' expectations, different thresholds may be applied.

Revision of materiality level as the audit progresses

- 5.79. During an audit, there may be new situations or changes in circumstances that were not foreseen while determining materiality at the planning stage of the audit. In such circumstances, ISSAI 2320.12 requires the auditor to revise materiality for financial statements as a whole and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures. The revision of materiality levels and the reasons underlying the revision should be documented in the audit file.
- 5.80. As a result, the auditor needs to determine whether there is also a need to revise the performance materiality based on the revised overall materiality for the financial statements as a whole, and/or for particular classes of transactions, account balances or disclosures. The revised performance materiality should be documented in a similar manner.
- 5.81. The revised materiality can be recorded in the audit working paper template on materiality (suggested as **AWP 5.6**).

Assessing risks of material misstatement

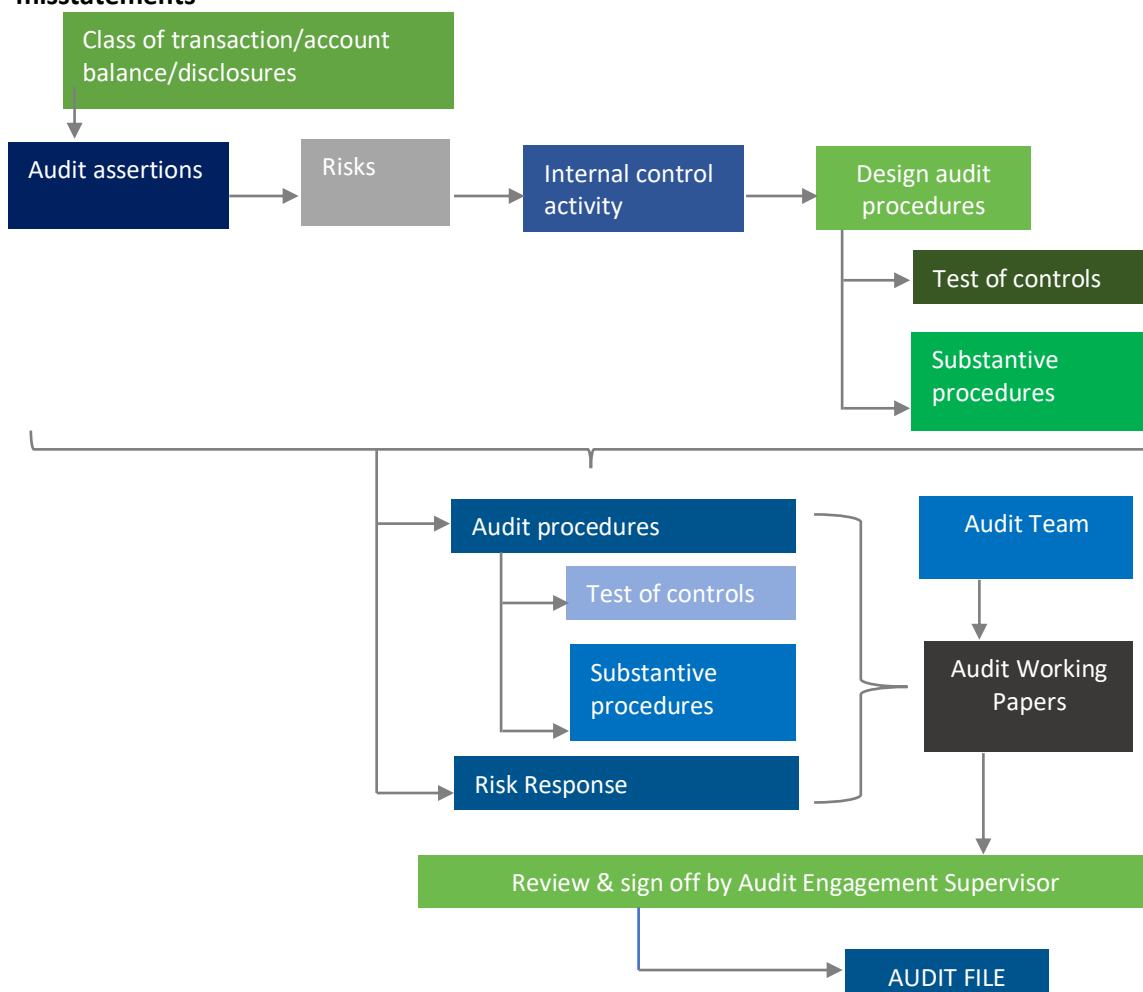
- 5.82.** As explained in ISSAI 2320.5.A1, materiality and audit risk are considered when identifying and assessing the risk of material misstatement in classes of transactions, account balances and disclosures. To maintain the link and to follow the process of risk assessment, the methodology on determining the materiality is included before a section on risk assessment. However, this methodology needs to be followed and read in an iterative process, and the materiality can be determined simultaneously while identifying and assessing the risks of material misstatement.
- 5.83.** After completing the risk identification process, the auditor needs to **assess** the risks of material misstatement at the financial statement level and the assertion level.
- 5.84.** At the financial statement level, the auditor determines whether the risks of material misstatement relate pervasively to the financial statement as a whole and affects many assertions. If applicable, the auditor needs to identify the affected assertions.
- 5.85.** At the assertion level, the auditor needs to assess the risks of material misstatements in terms of likelihood and magnitude (inherent risks) and their significance and impact on the presentation of the financial statements—that may result in material misstatements in the financial statements. At the same time, the auditor needs to assess the control risk which will have an impact on auditor's plan to test the operating effectiveness of controls.
- 5.86.** ISSAI 2315.6 prescribes the risk **assessment procedures**, which include inquiries of management and appropriate individuals within the entity, analytical procedures, observation and inspection.
- 5.87.** Whether an identified risk requires special audit consideration, i.e. if it is a **significant risk** or not, is also to be evaluated by the auditor using professional judgement and taking account of likelihood and magnitude of misstatements as a result of inherent risks assesses. However, in this regard ISSAI 2315.28 prescribes that the auditor must at least consider whether the risk involves:
- a possibility of fraud;
 - recent significant developments (e.g. accounting reforms, political or economic instability, new contract arrangements of significant amount, etc.) that require specific attention to the risk;
 - complex transactions;
 - significant related-party transactions;
 - transactions that are outside the normal course of entity's activity, or appear to be unusual;
 - a degree of subjectivity in the measurement of the financial information related to the risk, especially where there is a wide range of measurement uncertainty.
- 5.88.** In this assessment, the auditor should also account for a degree of subjectivity in the measurement of financial information of the entity as a whole or the complexity of transactions or events the financial statements may represent.
- 5.89.** The need to identify significant classes of transactions, account balances and disclosures based on the identified risks of material misstatement is highlighted under the section identifying risk of material misstatements at the assertion level. There may be classes of transactions, account balances or disclosures that are quantitatively and qualitatively material but were not determined as significant. These needs to be identified since the auditor is required to perform minimum substantive auditor procedures as required by ISSAI 2330.18.
- 5.90.** The auditor can use audit working paper template **AWP 5.7** for assessing and documenting the risk of material misstatement at both the financial statement level and the assertion level. Those classes of transactions, account balances or disclosures identified as material but significant can be derived from AWP 5.6 and document in **AWP 5.7** to address appropriately at conducting phase of the audit.

5.91. The risks identified and assessed either due to fraud or error may change during an audit as the auditor obtains additional audit evidence. ISSAI 2315.31 requires the auditor to revise the risk assessment and modify planned audit procedures (see also ISSAI 2330 “Auditor’s response to assessed risks”). The revisions made to the assessment and the reasons for them need to be documented and signed off by the reviewer.

Designing further audit procedures in response to risk

5.92. The purpose of designing audit procedures is to gather sufficient appropriate audit evidence. Risk assessment procedures are considered audit procedures under ISSAI 2315. Upon identifying and assessing the risks of material misstatement, an auditor is expected to respond appropriately to those risks by designing appropriate “further audit procedures” as defined in ISSAI 2330. **Figure 5(e)** provides a snapshot of designing further audit procedures.

Figure 5(e): Designing further audit procedures as a response to assessed risks of material misstatements



5.93. In a risk-based approach to auditing, audit procedures not linked to assessed risks will not serve the purpose. The risks identified and assessed at both the financial statement and the assertion levels are transferred to the Risk Response audit working paper template **AWP 5.8**.

5.94. Before suggesting how the requirements of ISSAI 2330 can be met, it is important for auditors to understand different categories of audit procedures as provided in ISSAI 2330:4 and detailed below:

Test of controls: An audit procedure designed to evaluate the operating effectiveness of controls in preventing or detecting and correcting material misstatements at the assertion level.

- These tests are necessary when the auditor's risk assessment includes an expectation of the operating effectiveness of controls, requiring the testing of those controls to support the risk assessment; and where substantive procedures alone do not provide sufficient appropriate audit evidence, requiring tests of controls to obtain audit evidence about their operating effectiveness.
- Considering **Illustration 5.2**, let us look at how the auditor can design the test of control as provided in **Illustration 5.8** below. This is linked to material misstatement at the assertion level. Here, the auditor needs to link the risk and control activity to audit assertion to design a test of control procedures.

Illustration 5.8: Designing test of control against identified risk and control activity

Risk	Control activity	Test of control procedure	Financial Statement Assertion
Travel claim of an employee being paid at incorrect rates.	An independent check should be performed of standing data (eg: government approved travel claim rates) to travel claim processed by an employee.	Inspect the travel claim of an employee for evidence of independent check being performed.	Accuracy (<i>checking if rates of travel claim were applied correctly</i>).

Substantive procedure: An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise tests of details (particular classes of transactions, account balances or disclosures); and substantive analytical procedures.

- Following the reasoning from **Illustration 5.8** above, let us look at how the auditor can design substantive audit procedures as shown in **Illustration 5.9** below:

Illustration 5.9: Designing substantive audit procedure (test of detail) against identified risk

Risk	Control activity	Test of control procedure	Substantive audit procedure	Financial Statement Assertion
Travel claim of an employee being paid at incorrect rates.	An independent check should be performed of standing data (eg: government approved travel claim rates) to travel claim processed by an employee.	Inspect the travel claim of an employee for evidence of <i>independent check</i> being performed.	Obtain printout of standing data (eg: government approved travel claim rates) and <i>compare</i> with the rates being applied in travel claim of an employee.	Accuracy (<i>checking if rates of travel claim were applied correctly</i>).

- As can be seen from the above, both tests of controls and substantive audit procedures deal with detecting material misstatements at the assertion level. The difference is that the test of controls deals with evaluating the operating effectiveness of internal controls that are supposed to prevent and detect material misstatements at the assertion level, while the substantive procedure is a detailed test that needs to be designed and performed on classes of transactions, account balances or disclosures, irrespective of whether internal controls exist or not. The basis for designing and performing tests of controls will depend on internal controls put in place by the entity.
- Substantive procedures include the **testing of details** of components, classes of transactions, account balances or disclosures—e.g. reconcile general ledger expense account totals to purchase journal; reconcile (a sample of) quantities on purchase invoices to goods received. They also include **substantive analytical procedures**—e.g. calculating the average inventory holding period and comparing to the prior year (ratio analysis); calculating the percentage increase in revenue and comparing to forecast and to prior year (trend analysis); performing a calculation to test the reasonableness of interest received as, for instance, the average bank balance against average interest rate for the year (proof in total).
- In summary, **test of details** includes tracing figures to relevant supporting documents to determine the validity of transactions, proper classification, and completeness. **Substantive analytical procedures** consist of comparing financial information in the financial statements with other reliable information or with the auditor's expectation, to determine if reported information is accurate. The unexpected variations or differences identified by performing analytical procedures may lead to further review and investigation. An example of substantive analytical procedures is illustrated in **Illustration 5.10**:

Illustration 5.10: Substantive analytical procedures

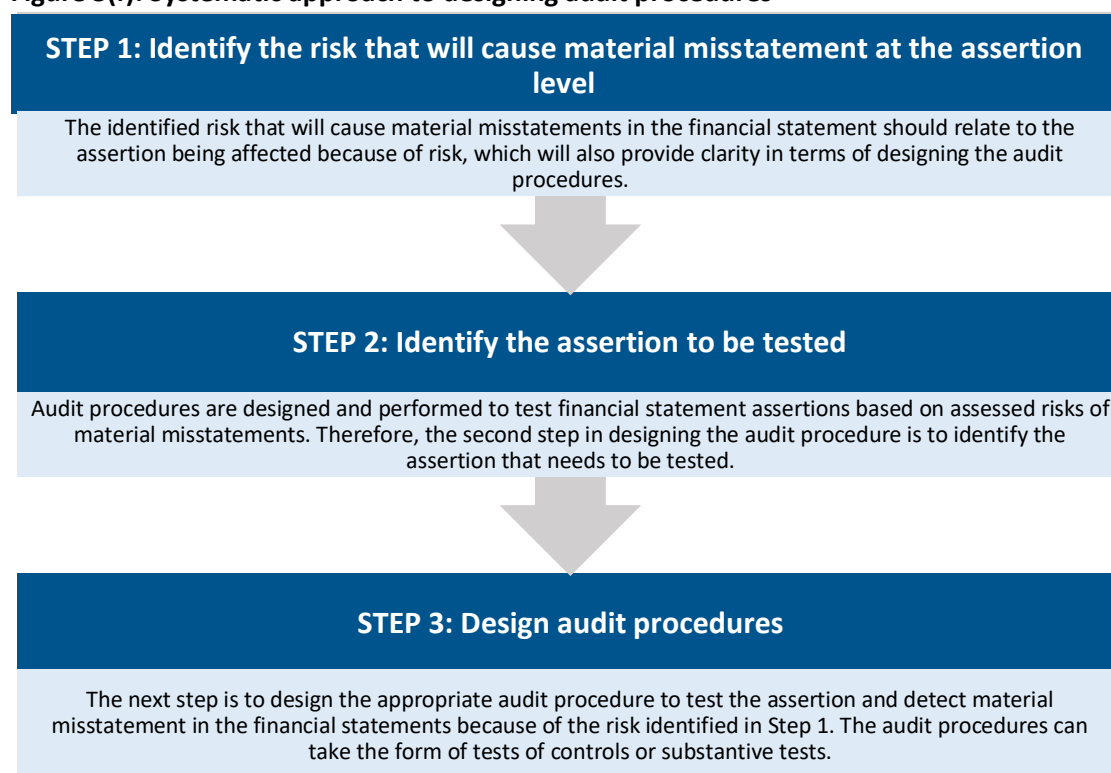
Financial Statement Assertion	Account balance	Substantive Analytical procedures
Accuracy	Payroll cost	<ul style="list-style-type: none"> • Define the acceptable tolerance for the difference between the independent expectation of the total 20X1 employee basic salary expense and the actual total employee basic salary expense recognized in the 20X1 financial statements. • Develop an independent expectation of the total employee basic salary expense for 20X1. • Determine the actual basic salary expense recognized in the 20X1 financial statements. • Calculate the difference between the independent expectation and the actual outcome. • Explain a difference that exceeds the acceptable tolerance.

- The choice of appropriate procedures is a matter of professional judgement in the circumstances. The factors to be considered in determining the relative mix of tests of details and analytical procedures include the following:
 - Nature of the transactions and balances in relation to the assertions involved.
 - Availability of historical data or other criteria for use in analytical procedures. It would become an area of concern, if historical data is not available for the financial year in question or the immediately preceding year.
 - Availability of records required for effective tests of details and the nature of the tests to which they are susceptible.

5.95. Under different categories of audit procedures as explained above, there are different techniques in designing and performing audit procedures such as examination, inquiry, recalculation, inspection, confirmation of individual items or transactions, inspection and observations.

5.96. In designing every “further audit procedure”, it is important to state the assertion to be tested, the audit procedure, and the reason for the procedure. The steps in **Figure 5(f)** below may be followed for designing further audit procedures:

Figure 5(f): Systematic approach to designing audit procedures



5.97. The following illustration explains the link between assertion, risk and audit procedure.

Illustration 5.11: Audit assertion, risks and audit procedures

Financial Statement Assertion	Accuracy
Account balance	Closing balance (Cash & Bank)
Risk	Incorrect closing balance of cash
Substantive audit procedure	Obtain an independent bank confirmation letter from the bank and compare the balance provided by the bank with that of closing balance reflected in the Cash Book and the financial statements to ensure that the balance agrees.

5.98. While designing the audit procedures, the auditors may take note of the suggestions in **Illustration 5.12** below.

Illustration 5.12: Considerations while designing audit procedures

Ensure clarity of audit procedure

Audit procedures should be designed in such a way that even a new or junior auditor and a reviewing auditor in an audit team will be able to understand what is to be done. Procedures should not be stated in vague terms such as *“Check employee travel claims”*. This does not specify what is to be checked in the travel claims. For example, a travel claim would contain many details such as dates of travel, the per diem/daily allowance rates, mileage for use of personal car/payment of taxi fares, time of travel, etc. Therefore, the procedure should specify what needs to be checked in the travel claims.

Mention the reason for performing the audit procedure

There should be a purpose for designing and performing the audit procedure. In the travel claim example, an audit procedure stating, *“Check employee travel claims”* does not mention why the travel claim is to be checked. Instead, this procedure can be designed as *“Agree the per diem/daily allowance amount reflected in the travel claim form of an employee with that of the government-approved rates to ensure that the per diem/daily allowance is paid as per the approved government rates”*. Designing and performing this procedure confirms that the per diem/daily allowance to an employee was paid as per the government-approved rates.

What is the assertion that is being tested?

Audit procedures are supposed to test the assertions made in the financial statements. In other words, the reason for performing the audit procedure as indicated above is to test the assertion. However, it is important for an auditor to understand which assertion will be tested before designing the audit procedure. Using the travel claim example, *“Agree the per diem/daily allowance amount reflected in the travel claim form of an employee with that of the government approved rates⁽¹⁾ to ensure that the per diem/daily allowance is paid as per the approved government rates⁽²⁾”*. This will confirm the assertion of accuracy of travel expenditure in the financial statement⁽³⁾.

[¹ audit procedure; ² the reason for audit procedure; and ³ the assertion] Having these three components ensures the completeness of the audit procedure.

Commonly used terminologies in designing audit procedures

The terminologies relating to audit such as ‘agree’, ‘cast’, ‘trace’ may be used while designing an audit procedure so that it is very specific.

The word ‘cast’ would mean totalling up a list—for example, cast the travel expenditure reflected in the financial statements. The words ‘agree’ or ‘trace’ would mean matching/reconciling information from two documents/records—for example, agree the per diem claim made by an employee with government-approved rate, or trace total travel expenditure in the financial statements to travel ledger to confirm accuracy.

5.99. The illustrations provided for designing audit procedures are further corroborated in in audit working paper template **AWP 5.8**. SAs or auditors can adapt this methodology to document further audit procedures in an audit of financial statements.

5.100. The planning phase of the audit of financial statements ends with designing further audit procedures based on risks of material misstatements identified and assessed at the financial statement and assertion levels. However, the audit procedures designed at the planning phase may change in the conducting phase of the audit, based on new circumstances and situations that may arise in the field and that were not considered while planning. The planning phase of the audit is a very iterative process and should be updated as the audit progresses.

Consideration of laws and regulations in an audit of financial statements

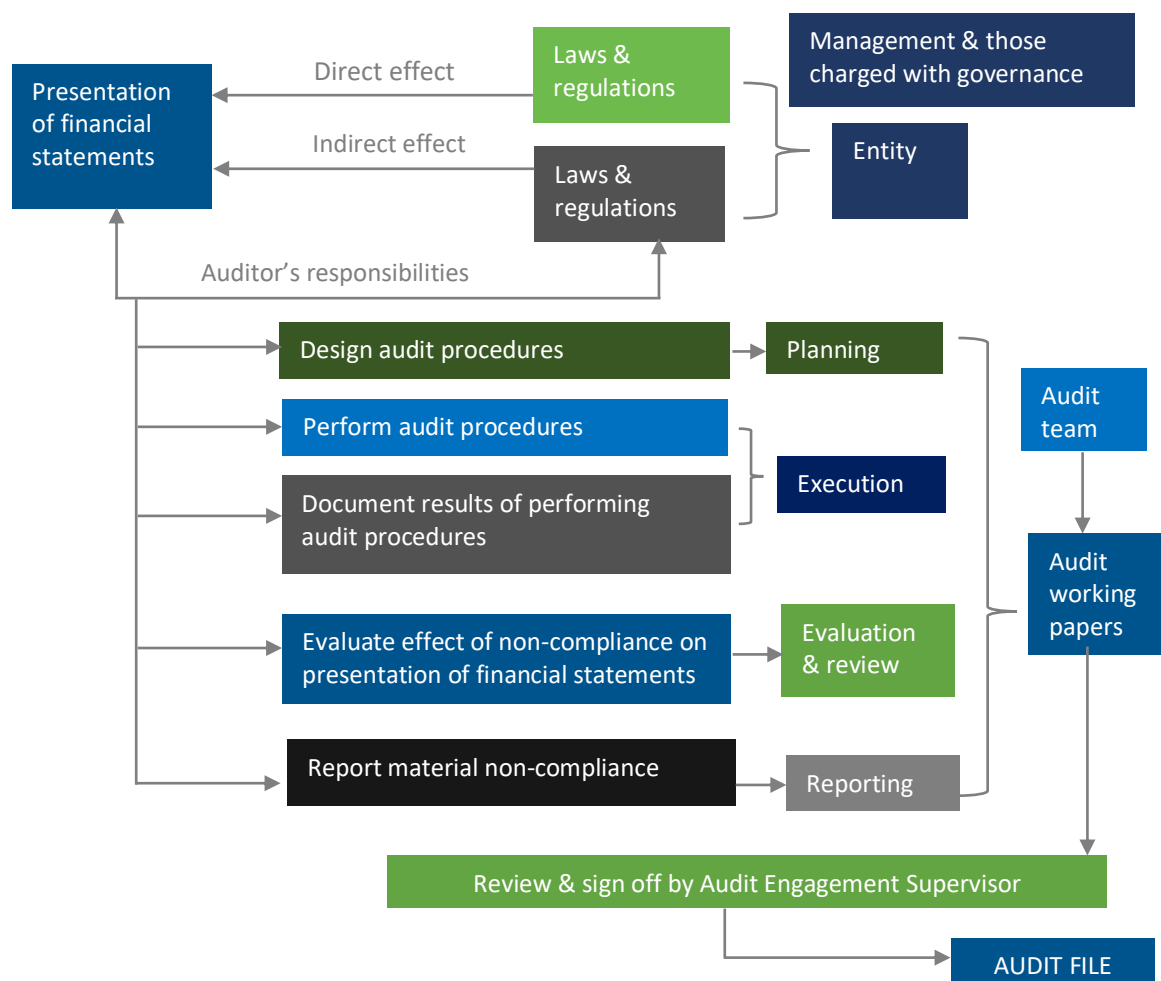
5.101. The principles related to consideration of laws and regulations in an audit of financial statements are discussed in Chapter 2 (refers Paragraph 2.32 to 2.36). This section builds upon those principles and outlines the methodology on consideration of laws and regulations in an audit of financial statements.

5.102. In considering laws and regulations in an audit of financial statements, the objectives of the auditor as per ISSAI 2250.10 are:

- To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have direct effect on the determination of material amounts and disclosure in the financial statements;
- To perform specific audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and
- To respond appropriately when non-compliance or suspected non-compliance with laws and regulations is identified during the audit.

5.103. While some of the applicable laws may have direct effects on the presentation of the financial statements, in other cases effects may be indirect. Non-compliance with both may have a material effect on the presentation of financial statements. **Figure 5(g)** below provides a snapshot of how laws and regulations should be considered by the auditor at the time of planning and performing the audit.

Figure 5(g): Snapshot of consideration of laws and regulations while planning and performing an audit of financial statements



5.104. It is the responsibility of management and those charged with governance to ensure that the entity's operations are conducted in accordance with the provisions of applicable laws and regulations, including compliance with those provisions that determine the reported amounts and disclosures in the entity's financial statements.

5.105. As part of obtaining an understanding of the entity in an audit of financial statements, the auditor needs at the planning stage to identify applicable laws and regulations affecting the entity's operations. In the context of public sector entities, those applicable laws and regulations may be in the form of environmental regulation, public finance act, financial regulation, procurement regulation, employment act, parliamentary resolutions, etc.

5.106. In public sector operations, especially in the government, the amounts reflected in the financial statements may be based on laws enacted by the parliament such as budget law, regulations, and other standing orders and circulars issued by the government, the applicable financial reporting framework that provides the basis for preparation of financial statements may be based on laws and regulations. These laws and regulations may have a direct effect on the determination of material amounts and disclosures in the financial statements. Non-compliance with these laws and regulations might have a material effect on the financial statements, as in **Illustration 5.13** below:

Illustration 5.13: Non-compliance with regulation having direct effect on the financial statements

Class of transaction	Government Financial Regulation – Travel abroad	Amount paid	Amount entitled as per government financial (eligible for 50% of DSA)	Excess amount paid
Travel	Section 9 states; ‘An employee shall be paid 50% of daily allowance per day as per the applicable rate of the country to which the travel has been performed, if the accommodation is provided by the host’	CU5000	CU2500	CU2500
<p>Case: An employee of X entity performed business travel abroad to attend a seminar on challenges and opportunities in implementing IPSAS in the government. An invitation from the organiser and host of the seminar stated that accommodation for the entire period of the seminar would be provided by the host. The seminar was for five days and was held in Faraway Land. The daily allowance rate applicable for the government employee in Faraway Land as per Schedule 9 of the financial regulation of the Government of Homeland is CU1000 per day.</p>				
<p>Fact: Section 9 of the Government Financial Regulation determines the amount of daily allowance to be paid to an employee for attending 5 days seminar in Faraway Land, which worked out to be CU2500. However, an employee was paid CU5000, which was in deviation to Section 9 of the government regulation. Therefore, this is a case of non-compliance with Section 9 of the regulation. In this case, it is assumed that an excess payment of CU2500 will have a material effect on the financial statements. However, in the real scenario, whether an excess payment will have a material effect or not will depend on the materiality determined for Travel (class of expenditure).</p>				

5.107. An entity is also required in its day-to-day operations to comply with other laws and regulations such as environmental law, employment law, labour acts, etc. that do not have a direct effect on the determination of amounts and disclosures in the financial statements. However, non-compliance with those laws and regulations may have a material effect on the financial statements. For instance, violation of a provision of environmental law may attract fines and penalties that will have a material effect on the financial statements. See **Illustration 5.14** below:

Illustration 5.14: Non-compliance with regulation having an indirect effect on the financial statements

Class of transaction	Section of Solid Waste Management Act – Environment Authority	Amount of fines & penalties
Miscellaneous (fines & penalties)	Section 55 states; ‘Dumping of solid waste in an area other than the designated ones will result in fines and penalties prescribed by the Environment Authority’.	CU50000
<p>Case: In a routine monitoring of office premises and public places by the Environment Officers from the Environment Authority during the year, it was observed that the X entity had dumped e-waste across the road about 100 metres from its office premises, instead of dumping in the designated area about 20 kilometres away from the city. The X entity was penalised for violation of Section 55 of the Solid Waste Management Act and issued a demand notice to pay CU50000 to the Environment Authority by 31 July 2018. The notice further states that failure to pay the penalty within the given deadline will attract penal interest of 15%.pa. The rate of penalty was in accordance with the Schedule of rates of fines and penalties prescribed by the Environment Authority in 2014. In accordance with the demand notice, the X entity paid the penalty by issuing bank cheque No.000100 dated 25 July 2013 for CU50000 in favour of the Environment</p>		

Authority. The penalty amount of CU50000 was booked under Miscellaneous account – fines & penalties.

Fact: The payment of CU50000 to the Environment Authority and booked under the Miscellaneous account is not a payment that was incurred for the normal course of business in the X entity. The payment was on account of violation of the law. The payment of CU50000 not only has a material effect on the financial statements in terms of the amount (to be compared with materiality set at the planning stage of the audit), but the violation of law is by nature material. The environmental law itself may not have a direct effect on the presentation of the financial statements, but violation of the law—non-compliance—would have an effect, as stated in this case.

5.108. For those laws and regulations that will have direct effect on the determination of material amounts and disclosures in the financial statements, the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations, such as the Ministry of Finance rules, as given previously in **Illustration 5.13**.

5.109. The auditor needs to design and perform audit procedures to gather sufficient appropriate audit evidence regarding compliance with the laws and regulations. The procedures could be in the form of an inquiry of management and, where appropriate, those charged with governance, and inspection of documents within and outside of the entity. An example is provided in **Illustration 5.14** where the documents can be obtained from the Environment Authority to see whether there were any instances of non-compliance by the entity with relevant environmental laws. The audit procedure for the case in **Illustration 5.13** above can be designed as presented in **Illustration 5.15** below:

Illustration 5.15: Audit procedures to detect non-compliance with laws and regulations

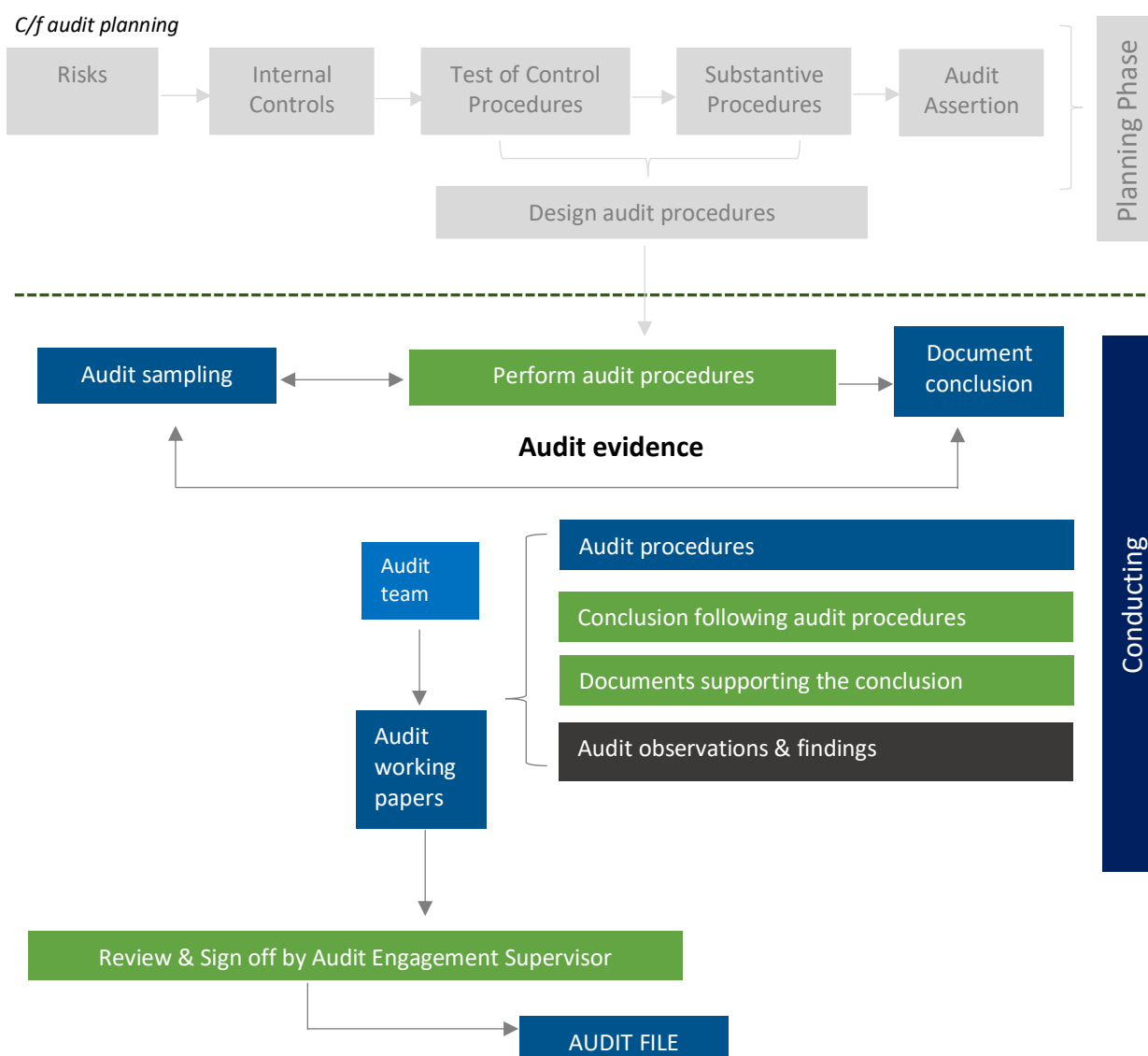
Class of transaction	Financial Statement Assertion	Audit procedures	Conclusion
Travel (Travel abroad)	Accuracy	Extract five samples of travels made abroad by the employees from the travel ledger and agree that the Daily Subsistence Allowances paid were in accordance with rates prescribed by Clause 9 of the Rules on Travel abroad issued by the Ministry of Finance.	Out of five samples tested, the payment for one employee was made in excess by CU2500. The travel expenditure has been overstated to that extent in the financial statement.
<p>Purpose: The objective of performing this procedure is to see that the payment for travel abroad was made in accordance with the rules issued by the Ministry of Finance. By performing this procedure, it ensures the accuracy of expenditure booked against travel abroad in the financial statements. Besides ensuring the correct treatment of travel expenditure in the Books of Accounts of an entity, the management is also responsible to ensure that the expenditure incurred for the purpose complies with the rules issued by the Ministry of Finance.</p>			
<p>Evidence: The audit procedure, conclusion of audit procedure performed, extract of Clause 9 & Schedule 9 of Ministry of Finance Rules, printed extract of five samples of travel abroad for five employees (generated from the entity's accounting system) are the audit evidence.</p>			

CHAPTER 6

Conducting an Audit

6.1. The conducting phase of an audit covers performing the audit procedures and gathering audit evidence. **Figure 6(a)** provides a snapshot of the conducting phase of the financial audit process:

Figure 6(a): Snapshot of conducting phase of an audit (performing audit procedures and gathering audit evidence)



Performing audit procedures and documenting the conclusion

- 6.2. The auditor performs audit procedures to gather audit evidence, which would form the basis of the auditor's conclusion. The auditor is required to gather sufficient appropriate audit evidence. While the sufficiency is related to quantity of audit evidence, the appropriateness relates to the quality in terms of relevance and reliability.
- 6.3. After performing the audit procedures, the auditor needs to record the conclusions arrived at and should also indicate therein whether the purpose of the audit procedures has been met. The act of documenting the conclusions also ensures that the auditor has performed the audit procedures designed at the planning stage, and the documentation serves as audit evidence. In other words, properly documented, the conclusion is evidence that the audit procedures have been performed.

Illustration 6.1: The importance of documenting conclusion from the audit procedures performed

The SAI ABC (real situation) in 2014 engaged a team from SAI XYZ of another country to conduct the SAI's PMF assessment. While reviewing the audit file of one financial audit conducted in 2013, the assessment team found that the audit team had designed the audit procedures based on the assessed risk of material misstatement in the audit planning document. However, the assessment team did not find any evidence of audit procedures performed by the auditors since no conclusions were recorded against each procedure designed at the planning stage. The assessment team interviewed the audit team to ask whether they had performed said audit procedures and the audit team responded that the audit procedures were performed accordingly as designed. When asked whether conclusions arrived at were recorded, the team responded that conclusions against each procedure were not recorded. The team submitted that the audit observations were regarded as their conclusion. As a result, the rating was very low under Domain C of the SAI-PMF assessment report.

Considering the above example, it is very important for auditors to record the conclusion of audit procedures performed irrespective of whether the procedures generated audit observations.

- 6.4. With reference to **Illustration 5.2** in Chapter 5, one of the control activities put in place by the entity for checking the accuracy of travel claim rates being paid is to perform an independent check of standing data to travel claim processed by an employee. Using an example from **Illustration 5.2**, a possible way for the auditor to record the conclusion, based on performing the test of control, is provided in **Illustration 6.2**:

Illustration 6.2: Documenting the conclusion reached upon performing a test of control

Risk	Travel claim of an employee being paid at incorrect rates.
Control activity	An independent check should be performed of standing data (eg: government approved travel claim rates) to travel claim processed by an employee.
Test of control procedure	Inspect the travel claim of an employee for evidence of <i>independent check</i> being performed.
Conclusion	Positive conclusion: <i>An independent check was performed by the designated staff in the entity. The internal control is operating effectively.</i>
	Negative conclusion: <i>An independent check was not performed for travel claim rates being paid.</i>
Financial Statement Assertion	Accuracy (checking if rates of travel claim were applied correctly).

Note: The conclusion could be of two types. Positive conclusion is where the control activity is operating effectively, and Negative conclusion is where the control activity is not operating effectively. Negative conclusion would then lead to formulating audit observations and recommendations to be communicated to the management and those charged with governance.

- 6.5. After performing the test of control, the auditor should record the conclusions in audit working paper **AWP 6.1**, which will be signed off by the reviewer upon verification that control- testing procedures were performed.
- 6.6. An auditor applying the financial audit ISSAIs when auditing financial statements must understand the audited entity's internal controls that are relevant to the preparation of the financial statements. At a minimum, the auditor must evaluate the design and implementation of the internal controls identified in processes that may have a material effect on the financial statements. This means identifying these internal controls and evaluating if they were properly designed to effectively mitigate the risk they were designed to address. This also means evaluating if such internal controls were actually implemented (that the controls are actually being performed). It is necessary to do this because poorly designed internal controls or a failure to implement internal controls can give rise to risks of material misstatement of the financial statements. The evaluation of design and implementation of internal controls can be documented using audit working paper **AWP 5.5**. The auditor must test the operating effectiveness of internal controls when the auditor decides that this is the appropriate audit response to an identified risk or when the auditor simply cannot obtain sufficient appropriate audit evidence from other audit procedures performed. Testing the operating effectiveness means testing to make sure the control is being performed effectively by the audited entity.
- 6.7. Audit working paper template **AWP 6.1** suggests the way the auditor can perform procedures for testing the operating effectiveness of controls and can document the procedures performed and conclusions arrived at.
- 6.8. Regardless of performing tests of controls and arriving at a conclusion on the operating effectiveness of internal controls, the auditor should perform substantive procedures for **material components** and classes of transactions, account balances or disclosures because the auditor's risk assessment is judgemental and may not be sufficiently precise to identify all risks of material misstatements. Additionally, there are inherent limitations to internal control, including the risk of management override, the possibility of human error, and the effect of systems changes.
- 6.9. ISSAI 2330.6 requires the auditor to design and perform further audit procedures whose nature, timing and extent are based on, and are responsive to, the assessed risks of material misstatement at the assertion level. The travel claim example in **Illustration 6.3** illustrates how the auditor can document the conclusion reached by performing substantive audit procedures and how they address the risks and audit assertion identified.

Illustration 6.3 Documenting the conclusion reached upon performing substantive audit procedures

Risk	Travel claim of an employee being paid at incorrect rates.
Control activity	An independent check should be performed of standing data (eg: government approved travel claim rates) to travel claim processed by an employee.
Test of control procedure	Inspect the travel claim of an employee for evidence of <i>independent check</i> being performed.
Substantive Audit procedures (test of details)	Obtain printout of standing data (eg: government approved travel claim rates) and <i>compare</i> with the rates being applied in travel claim of an employee.
Conclusion	Positive Conclusion: <i>The rates applied in an employee's travel claim agreed with the standing data (government approved travel claim rates).</i>
	Negative conclusion: <i>The rates applied in an employee's travel claim did not agree with the standing data (government approved travel claim rates). There was a difference of XX amount between the two records.</i>
Financial Statement Assertion	Accuracy (checking if rates of travel claim were applied correctly).

Note: The conclusion could be of two types. Positive conclusion is where the travel claim rates in two records agree, and Negative conclusion is where there were differences, and hence misstatements in the financial statements. The negative conclusion, depending on the materiality level would then have an impact on audit opinion on the financial statements.

- 6.10.** The auditor needs to perform substantive audit procedures to gather substantial and corroborative audit evidence. The way the auditor can perform and document the substantive audit procedures is suggested in audit working paper template **AWP 6.2**.
- 6.11.** Certain conditions or circumstances may indicate the possibility of a material misstatement. Examples include:
- analytical procedures that disclose significant differences from expectations (see below);
 - significant differences between the reconciliation of a control account and the subsidiary records or between a physical count and a related account;
 - confirmation requests that disclose significant differences or yield fewer responses than expected;
 - transactions selected for testing that are not supported by proper documentation or not appropriately authorized;
 - supporting records or files that should be readily available but are not promptly produced when requested; and
 - audit tests that detect errors that apparently were known to the entity personnel but were not voluntarily disclosed to the auditor.
- 6.12.** When the foregoing conditions or circumstances exist, the substantive procedures as originally planned may not be sufficient to detect material misstatements that might have occurred. The auditor should consider whether the initial assessment of the risk of material misstatements and the planned substantive tests are still appropriate. Additional substantive tests should be performed as necessary to determine whether material misstatements have occurred and to quantify the amount of such misstatements. The choice of appropriate procedures, including the extent of performing a combination of analytical procedures and tests of details, is a matter of professional judgement.

External confirmations

- 6.13.** External confirmation is a substantive test of detail that involves obtaining information directly from a third-party. Therefore, this type of audit procedure yields very reliable audit evidence. External confirmation is a direct written response to the auditor from a third party, in paper form or by electronic or other medium.
- 6.14.** External confirmation procedures to obtain audit evidence are guided by ISSAI 2505, which provides, among others, that corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from evidence within the accounting records or from representations made by management (ISSAI 2505.2).
- 6.15.** In the public sector, external confirmations can be used to obtain evidence about bank account balances, payables; and receivables (common areas).
- 6.16.** Confirmation from third parties is an important audit procedure because ordinarily, evidential matter obtained from independent sources outside an entity may provide greater assurance of reliability than evidence secured solely within the entity.
- 6.17.** The auditor is expected to exercise controls to provide reasonable assurance that the confirmation requests are directed to the third parties it has selected. This requires the following:
- Control over the preparation and sending the requests (either personal delivery, by mail, fax or email);
 - Investigation of the reasons for addressing requests to specific individuals within an entity;

- Mailing of requests in envelopes bearing the auditor's return address so that any items undelivered by the post office are returned to the auditor for redirection, if possible;
 - Investigation of undelivered requests; and
 - Alertness to replies that are suspiciously uniform in some respect, e.g., handwriting, address, etc.
- 6.18.** The external confirmation can be a positive or negative confirmation. The differences between the two are in the formulation of the content of the confirmation letter and an indication of whether and how the third party should respond to such a request from the auditor. The templates of positive and negative confirmation letters are provided in audit working paper templates **AWP 6.3** and **AWP 6.4**.
- 6.19.** A positive external confirmation request requires the respondent to respond to the auditor in all cases regardless of whether the party agrees or disagrees with the balance reflected in the confirmation request. The auditor may also use positive confirmation requests that do not state the amount (or other information) on the confirmation request and ask the confirmation party to fill in the amount or furnish other information. A response to a positive confirmation request generally provides reliable audit evidence. A negative external confirmation request requires the respondent to reply only in the event of disagreement with the balance reflected in the letter.
- 6.20.** Confirmation exceptions may be given to the entity's management for investigation after the auditor establishes control by making a copy or other record of the confirmation reply. If the entity personnel investigate exceptions, the auditor should inspect, at least on a test basis, the evidence explaining and reconciling the exceptions.
- 6.21.** The auditor should determine whether significant and/or frequently recurring exceptions may be indicative of a pattern of errors in the unconfirmed accounts. The auditor should also exercise professional scepticism when dealing with unusual or unexpected responses to confirmation requests. (e.g. significant change in the number or timeliness of responses to confirmation requests relative to prior audits), or a non-response when a response would be expected. These circumstances may indicate previously unidentified risks of material misstatement due to fraud.
- 6.22.** When the auditor does not receive replies to confirmation requests, alternative audit procedures to the non-respondents should be carried out to obtain the evidence necessary to reduce audit risks to an acceptably low level. The nature of alternative procedures to be performed varies according to the account and the assertion. The auditor should apply alternative procedures to each of the items that make up the entire balance of the confirmations that were not received.
- 6.23.** The most common example of confirmation procedures is the confirmation of bank balances. The auditor confirms the year-end cash balance by direct correspondence with all banks for which the entity has had accounts during the period. Confirmation procedures provide evidence that the cash in the Statement of Financial Position or Receipts and Payments exist at the year-end and that it is owned by the entity.
- 6.24.** Bank confirmation requests ask a bank to provide independent confirmation of the entity's account balances and other information held by the bank on behalf of the client, including securities, treasury management instruments and documents. The information contained in the confirmation relates to the normal banking activities. An example of Bank Confirmation Request format is presented in audit working paper template **AWP 6.5**.

Analytical procedures

- 6.25.** "Analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigations as are necessary to identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount (**ISSAI 2520.4**).

It is mandatory for auditors to perform analytical procedures at the planning and completion stage of the audit.

6.26. Analytical procedures may be used for the following purposes:

- To assist in planning the nature, extent and timing of the audit procedures;
- As a substantive test to detect possible misstatements in the financial statements; and
- As an overall review of the financial statements.

6.27. Analytical procedures performed during audit planning and as an overall review would generally consist of relatively simple methods applied at aggregate levels, such as financial statements balances. Those performed as substantive audit procedures may include higher-precision analytics, depending on the effectiveness and efficiency of these tests relative to other audit procedures.

6.28. ISSAI 2520 provides guidance for the performance of analytical procedures as substantive audit procedures. As per ISSAI 2520.12, in performing analytical procedures either as substantive analytical procedures or to assist when forming an overall conclusion, public sector auditors may also consider such relationships as the following:

a) Comparisons

- Expenditure versus budget or appropriations;
- Benefit payments, such as child support and pensions versus demographic information;
- Tax revenues versus demographic information or economic conditions or indicators;
- Interest as a percentage of national debt compared to the government borrowing rate;
- Results accomplished in relation to expenditure, where performance information is included as part of the financial statements; and
- Government grants for economic and social development, e.g. grants for low-income farmers and grants for school buildings versus economic and demographic indicators.

b) Proof in total, i.e. when the auditor predicts the value of a balance and compares it to the reported balance

c) Consideration of relationships, e.g. payroll costs to number of employees

6.29. In planning the analytical procedures as a substantive test, the auditor should consider the amount of difference from the expectation that can be accepted without further investigation. The level of assurance desired from analytical procedures is affected by the following factors:

- **Nature of account balance or assertion**

Analytical procedures may be effective and efficient tests for account balances or assertions, when potential misstatements would not be apparent from an examination of the detailed evidence or when detailed evidence is not readily available.

- **Plausibility and predictability of the relationship**

There needs to be a high level of predictability if using analytical substantive audit procedures to address risk at the assertion level. If the predictability is low, then this audit procedure might become ineffective and not relevant.

Relationships involving income statement accounts tend to be more predictable than relationships involving only balance sheet accounts or accounts indicating the financial position, since income statement accounts or similar statements represent transactions over a period, whereas balance sheet accounts or accounts indicating the financial position

represent amounts at a point in time. Relationships involving transactions subject to management discretion are sometimes less predictable.

- **Availability of data**

Data may or may not be readily available to develop expectations for some account balances or assertions.

- **Reliability of data**

Factors influencing the auditor's consideration of the reliability of data for the purposes of achieving audit objectives include whether:

- data was obtained from independent sources outside the entity or from sources within the entity;
- sources within the entity were independent of those responsible for the amount being audited;
- data was developed under a reliable system with adequate controls;
- data was subjected to audit testing in the current or prior year; or
- expectations were developed using data from a variety of sources.

- **Precision of the expectation**

The expectation should be precise enough to provide a level of assurance such that differences would be identified that may be potential material misstatements, individually or accumulated with other misstatements. As expectations become more precise, the range of expected differences becomes narrower and, accordingly, significant differences from the expectations are more likely to indicate misstatements. Any of the following may be used to improve the precision of analytical procedures:

- Increase the level of detail; or
- Analyse results over shorter time periods.

6.30. The auditor should consider how much difference from the expectation can be accepted without further investigation. This consideration is influenced primarily by materiality and should be consistent with the level of assurance desired from the procedures. Determining the acceptable amount of difference involves considering the possibility that a combination of misstatements in the specific account balances or classes of transactions or in other balances or classes could aggregate to an unacceptable amount. Reconsidering the methods and factors used in developing the expectation and inquiring of entity management may assist the auditor in this regard. Management responses, however, should ordinarily be corroborated with other evidence.

6.31. In cases when an explanation for the difference cannot be obtained, the auditor should obtain sufficient evidence about the account balance or assertion by performing other audit procedures, to be satisfied whether the difference is a likely misstatement. In designing other procedures, the auditor should consider that unexplained differences might indicate a material misstatement.

Selecting items for testing

6.32. Application of audit procedures often involves the selection of items for testing to gather audit evidence from a population. The auditor should determine the appropriate means of selecting items for testing to gather audit evidence. These include the following:

Selecting all items (100% examination). This is appropriate when

- the population constitutes a small number of large-value items;
- there is a significant risk and other means do not provide sufficient appropriate audit evidence; and

- the repetitive nature of calculation or other process performed automatically by an information system makes 100 per cent examination cost effective, for example, using computer-assisted audit techniques (CAATs).

Selecting specific items. This is appropriate for

- high-value or key items that could individually result in a material misstatement;
- cases when the auditor wants to cover all transactions over a specific value;
- any unusual or sensitive items or financial statement disclosures;
- any items that are highly susceptible to misstatement;
- items that will provide information about matters such as the nature of the entity, the nature of transactions and internal control; and
- items to test the operation of certain control activities.

Use of audit sampling (selection of items from the population). This is appropriate for

- reaching a conclusion about an entire set of data (population) by selecting and examining a representative sample of items within the population, which is possible when the auditor uses both statistical and non-statistical methods of audit sampling.

6.33. The decision would depend on the judgement of the auditor, and on the circumstances. The application of any of the above-mentioned methods or a combination of them may be appropriate in certain cases.

Use of sampling

6.34. Audit sampling involves the application of audit procedures to less than 100% of items within a class of transactions or account balance, such that all sampling units have a chance of selection. It enables the auditor to obtain and evaluate audit evidence about some characteristics of the selected items to form, or assist in forming, a conclusion about the population from which the sample is drawn. The determination of sample size may be made using either statistical or non-statistical methods.

- *Statistical sampling* is a method for randomly selecting a sample, i.e. in such a way that each population item has a known probability of being included in the sample. Probability aids an auditor in designing an efficient sample, in measuring the sufficiency of evidence obtained and in evaluating the sample results.
- *Non-statistical sampling* is a method by which the auditor uses professional judgement to select the sample items (ISSAI 2530.A12) and to evaluate results from the sample. In exercising professional judgement, the auditors use their knowledge, skills and experience to diligently perform the gathering of evidence in good faith and with integrity. The exercise of professional judgement allows auditors to obtain reasonable assurance that any material misstatements or significant inaccuracies in data are likely to be detected.

6.35. Although a properly designed non-statistical sampling application can provide results that are as valid as those from a properly designed statistical sampling, there is one key difference: statistical sampling explicitly measures the sampling risk associated with the sampling procedure.

6.36. The use of sampling offers many benefits. For example, it:

- expedites review of working papers;
- enables the auditors to draw valid conclusions and attain the objective of obtaining reasonable risk reduction and not absolute certainty;

- allows the auditors to combine substantive test results from other tests, such that evidence obtained from one source can be corroborated by evidence obtained from another source to provide increased risk reduction; and
- reduces audit costs. The cost of examining every entry in the accounting records and all supporting evidence would be uneconomical.

6.37. The use of sampling in audit is guided by **ISSAI 2530**. Specifically, **ISSAI 2530.6** requires that when designing an audit sample, the auditor shall consider the purpose of the audit procedures and the characteristics of the population from which the sample will be drawn.

Key steps in the audit sampling process

6.38. Whether the sampling method is statistical or non-statistical, and regardless of the sampling technique applied, the auditor can follow the key steps below in the audit sampling process:

Design the audit sample. The auditors should consider the objectives of the audit procedures and the attributes of the population from which the sample will be drawn. They should

- determine test objectives;
- define error conditions;
- define the population from which the sample will be drawn;
- determine the sampling method and the selection technique; and
- define sampling units, i.e. individual items that the population comprises.

Determine sample size. Sample size is affected by the level of sampling risk the auditor is willing to accept. The lower the acceptable risk to the auditor, the greater the sample size will be. The sample size can be determined by the application of a statistically based formula or through the exercise of professional judgement. Among the factors influencing sample size are the following:

- Confidence level or reliability factor. The greater the auditor's required degree of reliability or confidence that the results of the sample are in fact indicative of the actual incidence of error in the population, the larger the sample size needs to be.
- Extent to which the risk of material misstatement is reduced by the operating effectiveness of controls. The more assurance the auditor intends to obtain from the operating effectiveness of controls, the lower the auditor's assessment of risk of material misstatement will be and the larger the sample size needs to be.
- Assessment of the risk of material misstatement. The higher the auditor's assessment of the risk of material misstatement, the larger the sample size needs to be.
- Tolerable deviation rate, i.e. a rate set by the auditor of deviation from prescribed internal control procedures. The auditor seeks to obtain an appropriate level of assurance that the set rate of deviation is not exceeded by the actual rate of deviation in the population; the lower the deviation rates the auditor is willing to accept, the larger the sample size needs to be. (Tolerable rate of deviation as defined by ISSAI 2530.5j is *a rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population*)
- Expected population deviation rate. The higher the rate of deviation the auditor expects, the larger the sample size needs to be, so the auditor can be able to make a reasonable estimate of the actual rate of deviation.

- Tolerable error. The smaller the error the auditor is willing to accept, the larger the sample size needs to be. (*Tolerable error or misstatement as defined by ISSAI 2530.5i is a monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population*).

Select the sample. Select the sample in the expectation that all sampling units in the population have an equal chance of selection. Among the sample selection techniques are random, systematic, or monetary unit sampling. Each SAI can adopt its own audit sample selection techniques to be uniformly applied by auditors and to avoid bias in selecting the sample. The application of sampling techniques may differ from one audit to another.

Perform the audit procedures. The auditor should perform audit procedures appropriate to the test objective on each item selected, as follows:

- For tests of controls, the auditor selects the sample units and examines them to determine whether they contain deviations from the controls relevant to an audit. Some auditors find it practical to select a single set of samples for more than one test objective and to select several extra sampling units for possible replacement. If the auditor is unable to apply the planned audit procedures because the selected item is unavailable, and no alternative procedure can be done to test whether the control was applied as prescribed, the item should be considered a deviation from the control for purposes of evaluating the sample. In a case where a large number of deviations are found in testing the first part of the sample, the auditor may reassess the level of control risk and consider whether it is necessary to continue the test to support the reassessed level of control risk.
- For tests of details, in instances where the auditor was not able to apply the planned audit procedures to selected sampling units because supporting documentation was missing, how the unexamined items are treated would depend on their effect on the evaluation of the sample. It is not necessary to examine those unexamined items if the auditor's evaluation of sample results would not be altered by considering them to be misstated.

Evaluate the sample results. After testing the samples and summarizing the observed errors, the auditor shall evaluate the results to reach an overall conclusion, as follows:

- Consider the nature and causes of errors. The direct effect of identified errors on the financial statements should be considered by the auditor in the evaluation of the results. It may be possible that errors have a common feature or trend. In such case, the auditor may decide to identify all the items in the population that possess the common feature and extend audit procedures in that stratum. It is also possible that such errors may be intentional and may indicate the possibility of fraud.
- Calculate and project the sample error.
- Reach an overall conclusion. The auditor should evaluate the sample results to determine whether the preliminary assessment of the relevant characteristics of the population is confirmed or needs to be revised, and what the effect of the sample result is on both the test objective and other areas of audit.
- Consider the need to decide whether the identified errors warrant more sampling and additional testing.

Document the sampling procedures. The auditor should document the sampling plan and procedures in the form of working papers.

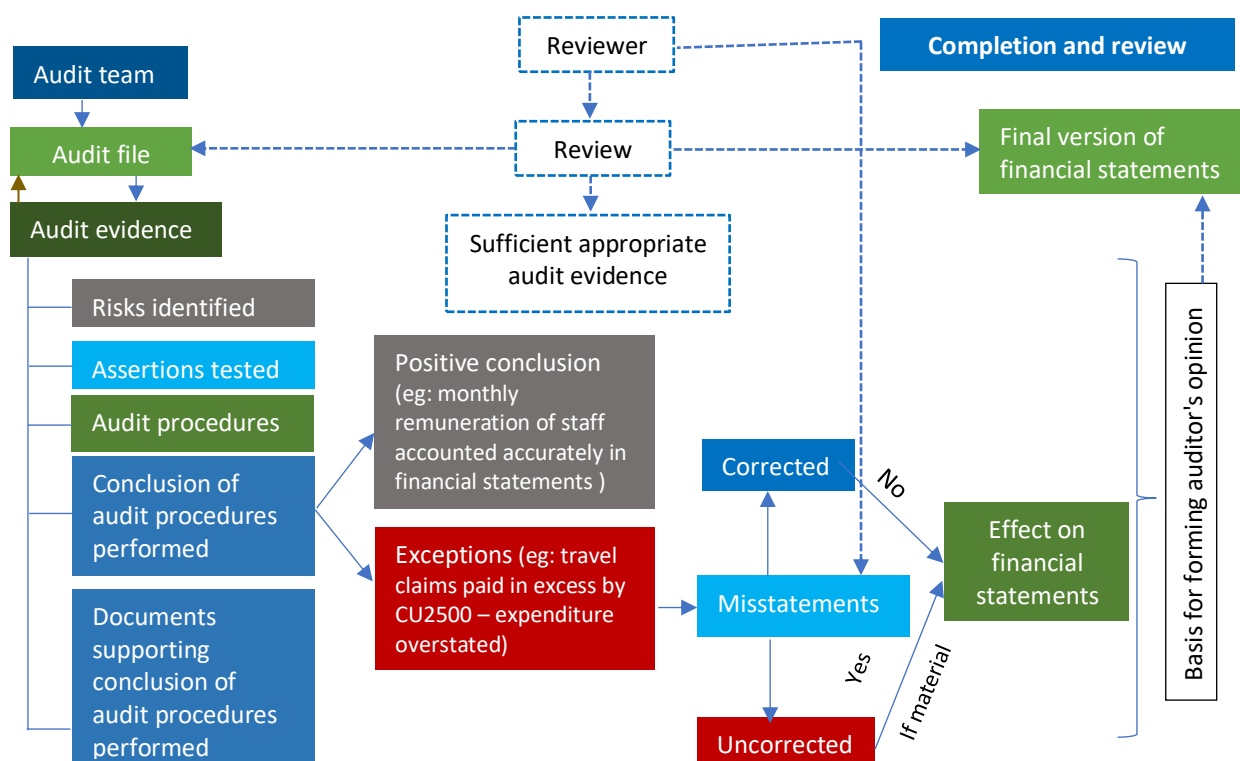
6.39. SAs can either adapt the Monetary Unit Sampling (MUS) method provided in audit working paper template **AWP 6.6** or their own method. The pivot table function in MS Excel can be used for stratifying the population. Further guidance on stratification of population can be referred from Appendix 1 of ISSAI 2530.

CHAPTER 7

Completion and Review

- 7.1. ISSAI 2220 “Quality Control for an Audit of Financial Statements”, besides requiring all audit work to be reviewed throughout the entire audit process, calls for the auditor to be satisfied at the completion stage that sufficient appropriate audit evidence has been obtained to support the conclusions reached and the issuing of the auditor’s report (ISSAI 2220.17). This is done through a review of the audit documentation, together with the final version of the financial statements and discussion with the audit team.
- 7.2. The audit engagement manager/supervisor (or any other designation used by SAI) is expected to play a very important role at this stage of the audit, notwithstanding the review that he/she is supposed to perform at every stage of audit for quality purposes. Inadequate review and evaluation at the completion stage of audit may result in expressing an inappropriate audit opinion on the financial statements.
- 7.3. Other ISSAI require specific procedures to be performed at the completion and review stage, such as final analytical procedures (ISSAI 2520), subsequent events procedures (ISSAI 2560), going-concern procedures (ISSAI 2570), obtaining of management representation (ISSAI 2580), and communication with management or those charged with governance (ISSAI 2260).
- 7.4. The audit file becomes the basis for review, as it contains the audit evidence. Typically, the audit file should contain, the identified and assessed risks, financial statement assertions tested, audit procedures performed, conclusions arrived at through the audit procedures performed, and documents supporting those conclusions. This becomes the basis to conduct the review against the final version of the financial statements provided by the entity.
- 7.5. In this regard, the reviewer needs to revisit the audit plan (can be inferred from audit working paper **AWP 5.8**), where the auditor is supposed to record the audit procedures and audit working papers **AWP 6.1** and **AWP 6.2** in the conducting phase of the audit on the conclusion reached upon performing those procedures and to reassess whether adequate audit procedures have been designed and performed.
- 7.6. As for documents supporting the conclusions arrived at by the auditor upon performing audit procedures, traditionally the copies of documents obtained from the entity and third parties are considered audit evidence, but this cannot be considered sufficient appropriate audit evidence *per se*. The audit evidence is by and large the record of work performed by the auditor.
- 7.7. **Figure 7(a)** provides a snapshot of the completion and review stage of audit. Some additional steps are suggested, which are not the requirements of ISSAIs but are considered best practices that may be adapted by the SAIs. This will be explained in detail in subsequent paragraphs.

Figure 7(a): Snapshot of completion and review stage of audit



- 7.8. In the context of an ISSAI financial audit, a **misstatement** is a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
- 7.9. Upon performing audit procedures on classes of transactions, account balances, or disclosures of a financial statements, the auditor is expected to arrive at either positive or negative conclusions. — Both the conclusions need to be recorded in the audit's working papers.
- 7.10. ISSAI 2450 prescribes the requirements for evaluation of misstatements identified during the audit, which is done at the completion stage of audit: all misstatements identified should be accumulated during the audit for the auditor/reviewer to evaluate both their effect on the audit (performing further audit procedures) and the effect of any **uncorrected** misstatements on the financial statements (implication for the auditor's opinion). Misstatements can be recorded in a working paper named 'Evaluation of uncorrected misstatements on the financial statements', as suggested in audit working paper template **AWP 7.1**.
- 7.11. ISSAI 2450 also requires all misstatements to be communicated to management on a timely basis, along with a request to amend the identified misstatements.¹² The reviewer goes over the misstatements identified during the audit and checks whether they were communicated to management on a timely basis.
- 7.12. Typically, the auditor provides management with a list of misstatements (may use the format suggested as audit working paper template **AWP 7.1**), quantifying the amount of each misstatement

¹² The common understanding is that the auditor communicates with the management throughout the entire audit process, and therefore the misstatements identified and detected during the audit should have been communicated for correction and rectification.

and proposing necessary action and adjustment in the financial statements. Taking the example of difference in travel claim rates applied for an employee's travel claim, the auditor may propose making good the difference and carry out necessary accounting adjustment in the Books of Accounts.

- 7.13.** When management makes the necessary adjustments to the books of accounts and the financial statements, the auditor should check that the adjustments have been made correctly. The auditor then needs to record the revised conclusion on the audit procedures performed, based on the verification of adjustments made by management. The necessary adjustment entries and further supporting documents should be documented by the auditor to support the revised conclusion based on audit procedures performed.
- 7.14.** In response to identified misstatements, the auditor may need to perform further audit procedures, for example to determine whether difference in rates were found in other travel claims (considering the above example), i.e. whether further misstatements exist. The reviewer may direct the auditor to increase the sample size of travel claims, perform further audit procedures, and arrive at a conclusion.

Other completion procedures

Analytical procedures

- 7.15.** ISSAI 2520.6 states that the auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. The conclusions arrived at upon performing analytical procedures at the end of the audit is to corroborate conclusions formed during the audit of individual components or individual elements of financial statements. The analytical procedures performed at the end of the audit may be of a similar design to those performed during the planning phase. For example, the auditor may compare the results of the current year to those of the prior year to ensure that all significant variances are understood based on the information obtained during the audit process.
- 7.16.** Also, because financial statements contain notes to accounts as required by different FRF and other legislation used by the entity, the auditor needs to audit the notes for compliance with the applicable FRF. Notes are technically equivalent to financial statements, and therefore the auditor must ensure that sufficient appropriate audit evidence is obtained to gain comfort over those notes.
- 7.17.** The new audit procedures designed and performed need to be documented in the analytical procedure template suggested as audit working paper template **AWP 7.2** in this Handbook. But as evidence for quality control, it should be clearly indicated in the working paper that these procedures were performed at the end of the audit.

Subsequent events procedures

- 7.18.** 'Subsequent events' affect the presentation of the financial statements and consequently the auditor's opinion, to the extent that management is required to amend the financial statements and the auditor to amend the auditor's report. Subsequent events are the events occurring between the date of the financial statement and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report. Hence, ISSAI 2560 "Subsequent Events" requires that auditors perform audit procedures to obtain sufficient appropriate audit evidence that all events occurring between the date of financial statements and the auditor's report and that require adjustment to, or disclosure in, the financial statements have been identified.

7.19. Based on the FRF used by the entity to prepare the financial statements, management is supposed to identify any subsequent events and how they were dealt with in the financial statements. The auditor needs to see whether management has established adequate procedures to identify relevant subsequent events. The auditor needs to review whether those events are adjusting or non-adjusting events, with reference to the applicable FRF used by the entity to prepare the financial statements. Adjusting events after the reporting date are those that provide evidence of conditions that existed at the reporting date. Non-adjusting events after the reporting date are those that are indicative of conditions that arose after the reporting date.

Going-concern procedures

7.20. The going-concern assumption is that the entity will continue in business for the foreseeable future. Hence, when preparing financial statements, the entity's management uses assumptions as to whether it believes the entity will be able to continue as a going concern.

7.21. This assumption significantly impacts the financial statements of the entity, because entities that are not a going concern report on a different basis from those that are (e.g., assets and liabilities would be recognised at their liquidation value rather than their expected value in the future).

7.22. The going-concern assumption is adopted unless evidence indicates otherwise. That is why ISSAI 2570 "Going Concern" states that the auditor shall remain alert throughout the audit for evidence of events or conditions that may cast doubt on the entity's ability to continue as a going concern.

7.23. At the end of the audit, the auditor needs to perform audit procedures (eg. review cashflow forecast to meet its liabilities) on the going concern assumptions used by management in preparing the financial statements, including obtaining evidence that can be used to assess the appropriateness of management's going-concern assumptions and forming a conclusion as to whether that evidence indicates any material uncertainties about the entity's ability to continue as a going concern. In fact, the going-concern assumption involves judgements about events occurring in the future, which are inherently uncertain.

7.24. Management is supposed to prepare the financial statements on a going-concern basis on the assumption that the entity will continue its operations for the foreseeable future, which is 12 months from the date that the auditor's report is signed.

7.25. The concept of the going concern assumption in the public sector, especially in government, may be less relevant than in the private sector, since public finance is mobilised through taxes and other sources of non-tax revenue. However, the applicability of the concept cannot be ruled out. In fact:

- In the public sector, the application of the going concern concept could be more relevant when the whole-of-government accounts are audited by the SAI, as the government's influence or interest in enterprises, either public or private, shall be accounted for in those consolidated financial statements. Hence, as governments corporatize and privatize government entities and maintain influence or interest in them, going concern issues will become increasingly relevant to the public sector.
- In addition, when auditing public sector entities with government-backed funding arrangements that may be withdrawn, their existence may also be at risk, and thus ISSAI 2570 provides useful guidance for auditing them.

Where there is significant uncertainty about the entity's ability to continue as a going concern and this has been disclosed in the entity's financial statements, the auditor will include wording in the Emphasis of Matter paragraph to direct users' attention to the applicable note in the financial statements. If the auditor does not agree with management's assumption regarding going concern, it shall modify its opinion in the audit report.

Written representations

- 7.26.** Written representations, often referred to as management representations, are one form of audit evidence on their own, or one that corroborates another audit evidence obtained by the auditor.
- 7.27.** ISSAI 2580 also requires the auditor to perform certain audit procedures on management representations by the end of the audit. The auditor should ensure that the date of written representations is as close as possible to, but not after, the date of the auditor's report. The auditor cannot express an opinion on the presentation of the financial statements on a date before the date of the written representations, because those representations are audit evidence.
- 7.28.** Audit working paper template **AWP 7.3** provides a sample of written representations, which needs to be adapted according to the needs of the SAI or the auditor. The sample provides an overview of what the written representations need to include. Depending on the governance structure of the entities audited by SAIs of different jurisdictions, the SAI's management should decide and communicate to the entity what party should sign the written representations.

Legal Inquiry

- 7.29.** In accordance with ISSAI 2700 (Revised), the auditor is required to date the auditor's report 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. Audit evidence about the status of litigation and claims up to the date of the auditor's report may be obtained by inquiry of management, including in-house legal counsel, responsible for dealing with the relevant matters. In some instances, the auditor may need to obtain updated information from the entity's external legal counsel.

Communicating deficiencies in internal control to those charged with governance and management

- 7.30.** In accordance with ISSAI 2260, the auditor is required to communicate with those charged with governance or management on significant deficiencies observed in internal controls relevant to financial reporting process on the basis of audit work performed (refer control testing section in Chapter 6). This communication needs to be in a written form. The communication with the management and those charged with governance is a continuous process in an audit. ISSAI 2260.A13 states that in determining when to issue the written communication, the auditor may consider whether receipt of such communication would be an important factor in enabling those charged with governance to discharge their oversight responsibilities in relation to financial reporting process, that includes approval of the financial statements. SAIs may have policies as to when such matters need to be communicated to those charged with governance and management for taking appropriate action.

Documentation of review process

- 7.31.** ISSAI 2230 "Audit Documentation" requires that the documentation of the review process include who reviewed the completed audit work and the date and extent of that review. In the working papers suggested in this Handbook as various Exhibits, designated rows and columns were created to record '*who performed the audit work*' and '*who reviewed the work completed*'. The evidence of review at different levels also ensures that the due process for quality control of ISSAI financial audit has been followed in the audit.
- 7.32.** The documentation of working papers with specific numbering is suggested in **AWP 7.4**. SAIs may adapt this practice.

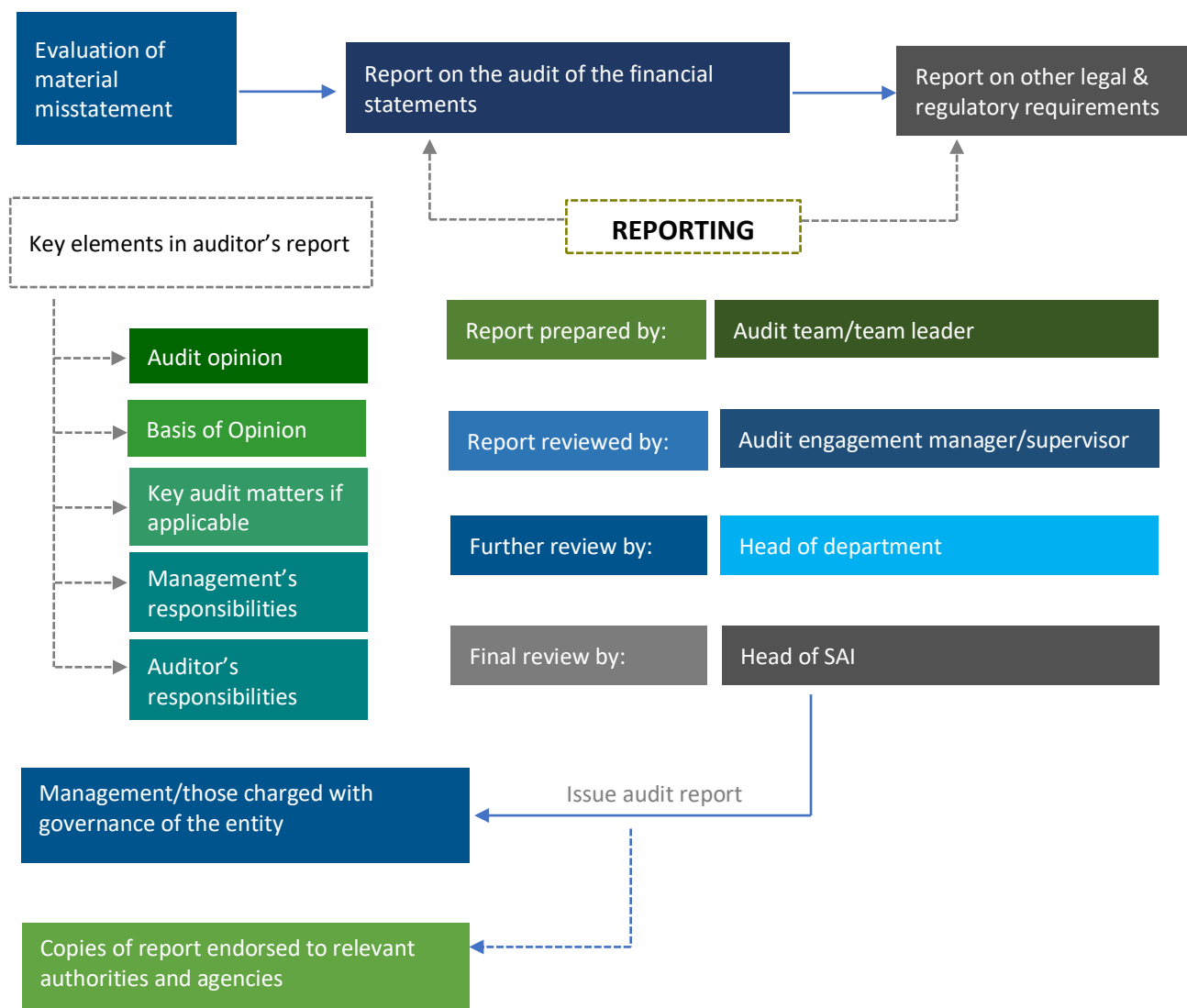
- 7.33.** An audit exit meeting is not a requirement of ISSAI but is often used to ensure that the preliminary auditor's report, audit findings, management's response, and the final version of the financial statements are discussed and agreed with management and, where relevant, those charged with governance. This meeting also reduces the risks of misunderstanding between the management and the auditor at a later stage on issues reflected in the final audit report. Some refer to this as the audit clearance meeting.
- 7.34.** Other matters relevant to the audit can also be discussed, such as difficulties encountered during the audit process, so they can be addressed in the next audit, details of any ethical matters that can be clarified with management, etc.
- 7.35.** The auditor and management should maintain the minutes of the exit meeting detailing the discussions of the auditor's report and the specific audit findings, and the decisions reached on each discussion point. The minutes should then be dated and signed by representatives of the audit team and the management. The minutes of the audit exit meeting also become audit evidence, which is used as the basis to finalise the audit report.
- 7.36.** Upon conducting the audit exit meeting, the audit team prepares the audit report considering the response provided by management and those charged with governance.

CHAPTER 8

Audit Reporting

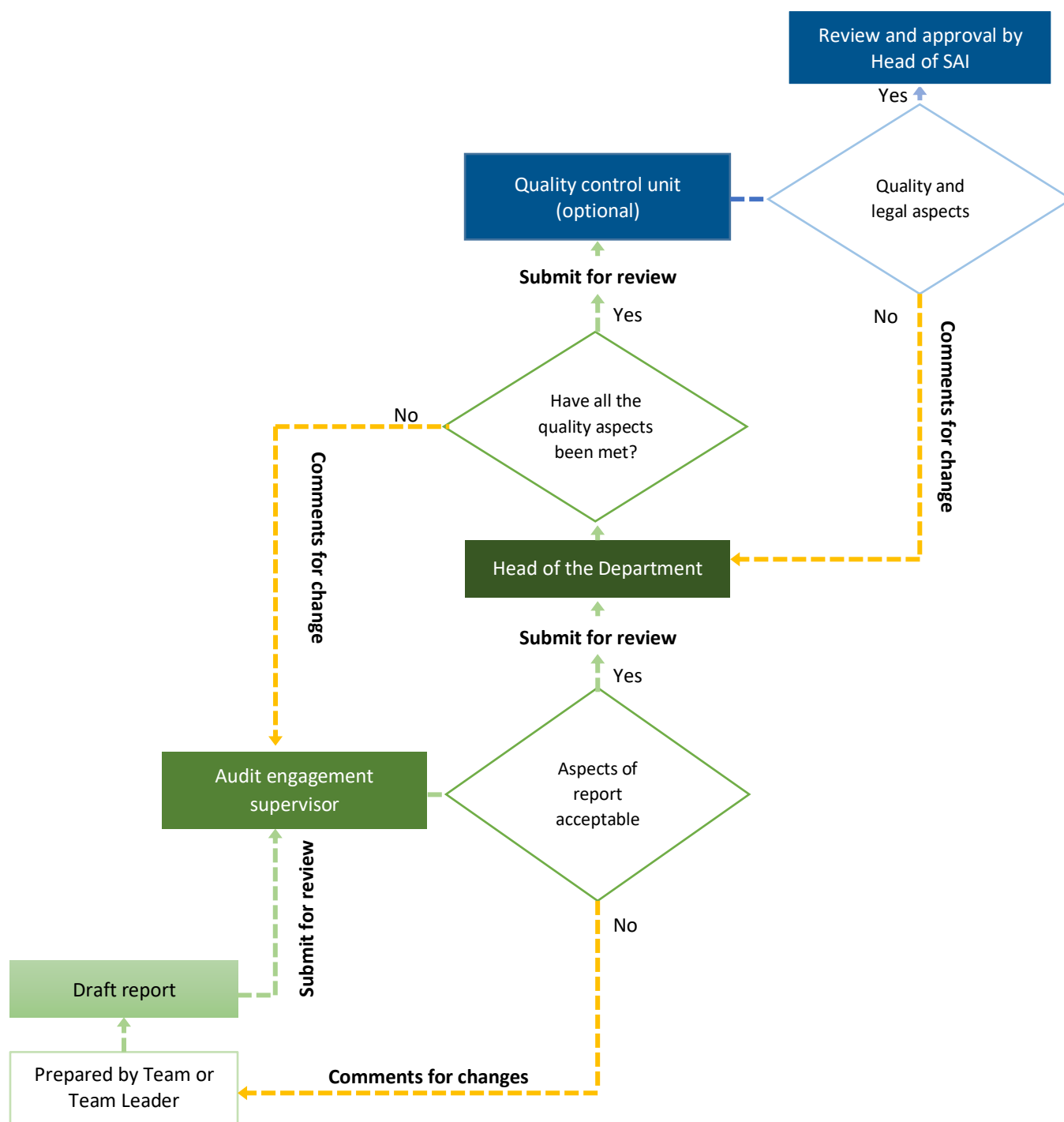
- 8.1.** The audit report is the final product of the entire audit process, which is prepared based on sufficient appropriate audit evidence gathered by auditors through performing audit procedures. In this regard, according to ISSAI 2700, the objectives of the auditor are to form an opinion on the financial statements, based on an evaluation of the conclusions drawn from the audit evidence obtained; and to express clearly that opinion through a written report that also describes the basis for that opinion.
- 8.2.** Based on the evaluation of the effect of the conclusions drawn from the audit evidence, the auditor prepares and issues the audit report. **Figure 8(a)** below illustrates an example of a reporting process in a financial audit that can be adapted to the SAI's organisation and division of responsibilities.

Figure 8(a): Snapshot of audit reporting



- 8.3.** The reporting requirements are provided in ISSAI 2700 “Forming an opinion and reporting of financial statements”; ISSAI 2701 “Communicating Key Audit Matters in the Independent’s auditor’s report”; ISSAI 2705 “Modifications to the Audit opinion in the independent auditor’s report”; ISSAI 2706 “Emphasis of Matter Paragraph and Other Matter Paragraphs in the independent auditor’s report”, ISSAI 2710 “Comparative Information-Corresponding Figures and Comparative Financial Statements; and ISSAI 2720 “The Auditor’s responsibilities relating to other information”. Besides these requirements, SAIs may have additional reporting responsibilities as determined by law and regulation in their respective jurisdictions. This is emphasized in the practice notes to ISSAI and even the respective ISSAIs.
- 8.4.** To maintain consistency and achieve an audit report of high quality, the report should go through a quality review process in the SAI as highlighted in **Figure 8(b)** (this is an example, which can be adapted to the SAI’s organisational structure). The figure is self-explanatory and the structure would depend on the review process established in the SAI.

Figure 8(b): Quality control review process for audit report



- 8.5. The wording of the audit opinion would depend on the FRF used for preparing the financial statements (explained by ISSAI 2200.13), as it broadly determines the form, content and structure of the financial statements.

Forming an opinion on the financial statements

8.6. The auditor considers or evaluates the following conditions while forming an opinion on the financial statements:

- Whether the financial statements are prepared in all material respects, in accordance with the applicable FRF.
- Whether the financial statements as a whole are free from material misstatement due to fraud or error. This conclusion should be based on the following (ISSAI 2700.11):
 - Whether sufficient appropriate evidence has been obtained, as required by ISSAI 2330; and
 - Whether uncorrected misstatements are material individually, or in aggregate, in accordance with ISSAI 2450.
- Consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements (ISSAI 2700.12).

8.7. **Illustration 8.1** below will help the auditor carry out the evaluation to form an opinion.

Illustration 8.1: Auditor's considerations in forming an opinion

Audit evidence	Sufficient appropriate				Relevant	
	Yes	No			Yes	No
Uncorrected misstatements	Material		Information presented in the financial statements	Reliable		
	No	Yes		Yes	No	
Significant accounting policies	Disclosed adequately			Comparable		
	Yes	No		Yes	No	
Accounting policies	Consistent with FRF ¹³		financial statements disclosures	Understandable		
	Yes	No		Yes	No	
	Appropriate		Terminology used	Adequate		
	Yes	No		Yes	No	
Accounting estimates	Reasonable			Appropriate		
	Yes	No		Yes	No	

8.8. The financial audit is an independent assessment of the financial statements, wherein the auditor expresses an opinion providing reasonable assurance (high level of assurance but not absolute assurance). There are broadly two types of audit opinion:

- unmodified opinion; and
- modified opinion.

Unmodified opinion

8.9. The audit opinion is unmodified when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

8.10. The wording of the opinion paragraph of the auditor's report will depend on the type of reporting framework used by the entity in preparing the financial statements, i.e. either the fair presentation

¹³ Financial Reporting Framework.

framework or the compliance framework. Examples extracted from illustrations provided in ISSAI 2700 are reproduced below:

Illustration 8.2: Applicable FRF and auditor's opinion

Auditor's opinion under a fair presentation framework

- a) In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the entity as at 31 December 20X1, the financial performance and its cash flows for the year then ended in accordance with (the applicable financial reporting framework); OR
- b) In our opinion, the accompanying financial statements give a true & fair view, in all material respects, of the financial position of the entity as at 31 December 20X1, the financial performance and its cash flows for the year then ended in accordance with (the applicable financial reporting framework)

Auditor's opinion under a compliance framework*

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with XYZ law of Jurisdiction X.

*Compliance with requirements of statutes or law.

The description of what the financial statements are designed to present (e.g. financial position, results of operations) in the above illustrative examples will vary depending on the financial reporting framework being applied (IFRS, IPSAS, Cash Basis, etc.)."

- 8.11.** The applicable financial reporting framework adopted by the audited entity may be IFRS issued by the International Accounting Standards Board (IASB) or IPSAS issued by the International Public-Sector Accounting Standards Board (IPSASB). However, some entities may prepare the financial statements based on national accounting standards that are consistent with either IFRS or IPSAS or based on neither of them. Typically, the financial statements of government entities are based on law enacted by the parliament or on rules and regulations issued by the government (finance or treasury department).
- 8.12.** A financial reporting framework such as IFRS and IPSAS is deemed to be a fair presentation framework. When the financial statements are prepared in accordance with the fair presentation framework, the auditor should evaluate whether those statements achieve fair presentation. As per ISSAI 2700.14, the auditor's evaluation as to whether the financial statements achieve fair presentation framework should include:
- the overall presentation, structure and content of the financial statements; and
 - whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
- 8.13.** When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether they achieve fair presentation (ISSAI 2700.19).
- 8.14.** Illustrations of an unmodified audit report, where the reporting framework is fair presentation framework is given in **Appendix 8.1** and compliance framework is given in **Appendix 8.2**.

Modified opinion

- 8.15.** ISSAI 2700.17 states that the auditor shall modify the opinion in the auditor's report if the auditor:
- concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement (disagreement)—for example, disagreeing with the

accounting policies used by the entity or the accounting transactions made in the books of accounts; or

- is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement (limitation of scope)—for example, a limitation such lack of access to certain areas of accounting transaction documents or failure by management to produce documents to the auditor.

8.16. The extent of the modification in the auditor’s opinion will depend on the circumstances and the pervasiveness of the effects of the matter, or its possible effects, on the financial statements. ISSAI 2705 provides the requirements for modifying the opinion in the independent auditor’s report; they should be read in conjunction with requirements of ISSAI 2700, as they are interrelated.

Determining types of modification to the auditor’s opinion

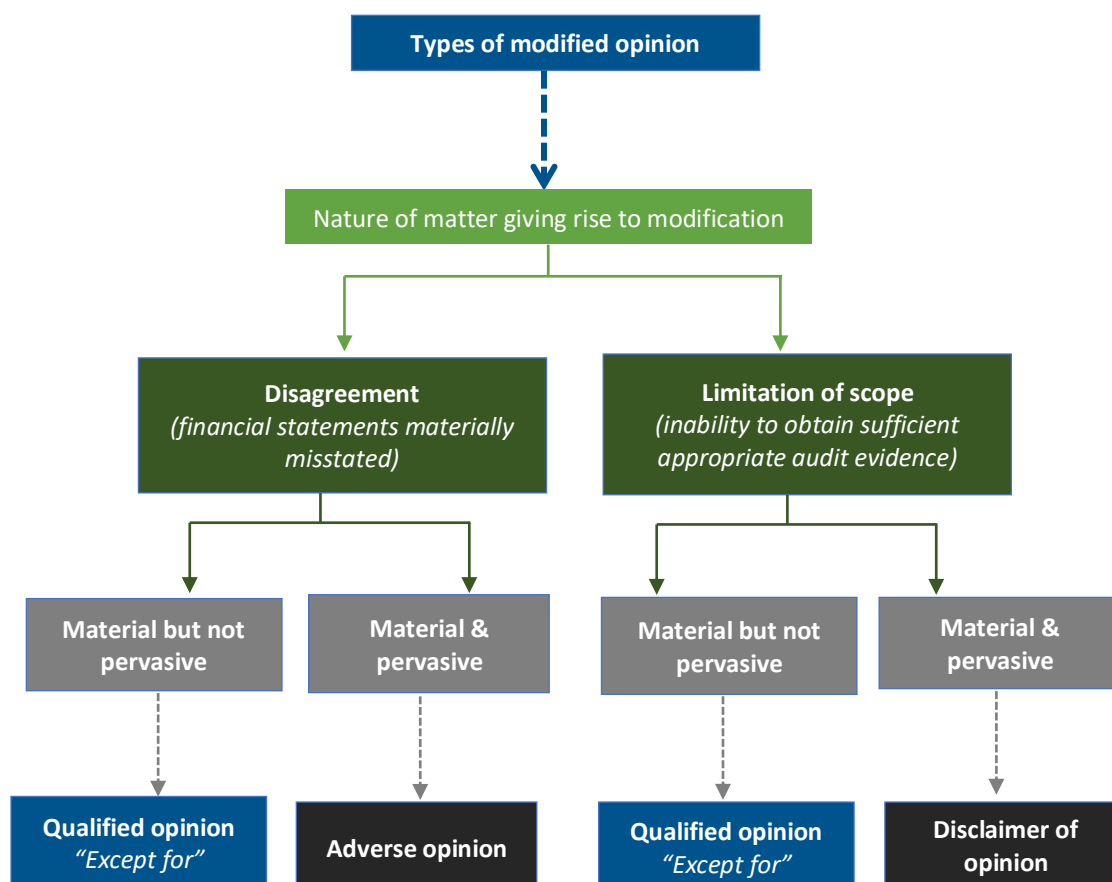
8.17. When determining the types of modification to the auditor’s opinion, auditors’ professional judgement plays a crucial role in determining the pervasiveness of the effects or possible effects of the matter that gave rise to a modification of the auditor’s opinion on the financial statements.

Figure 8(c) provides a decision tree to arrive at different types of modified audit opinion.

8.18. As can be seen from **Figure 8(c)**, the matter giving rise to a modified audit opinion could be due to a material misstatement in the financial statements or an inability to obtain sufficient appropriate audit evidence. In other words, the basis for modification could be a disagreement with management on certain matters in the financial statements or a limitation of scope preventing the auditor from performing further audit procedures to gather sufficient appropriate audit evidence.

8.19. If the matter giving rise to modification is due to material misstatement in the financial statements, the auditor needs to assess whether the misstatement is material or pervasive, either individually or in aggregate. If the matter is material and not pervasive, the auditor can express a qualified audit opinion with an “except for” paragraph. This type of audit opinion is very common in the audits conducted by SAIs.

Figure 8(c): Judgement analysis to form different types of modified audit opinion

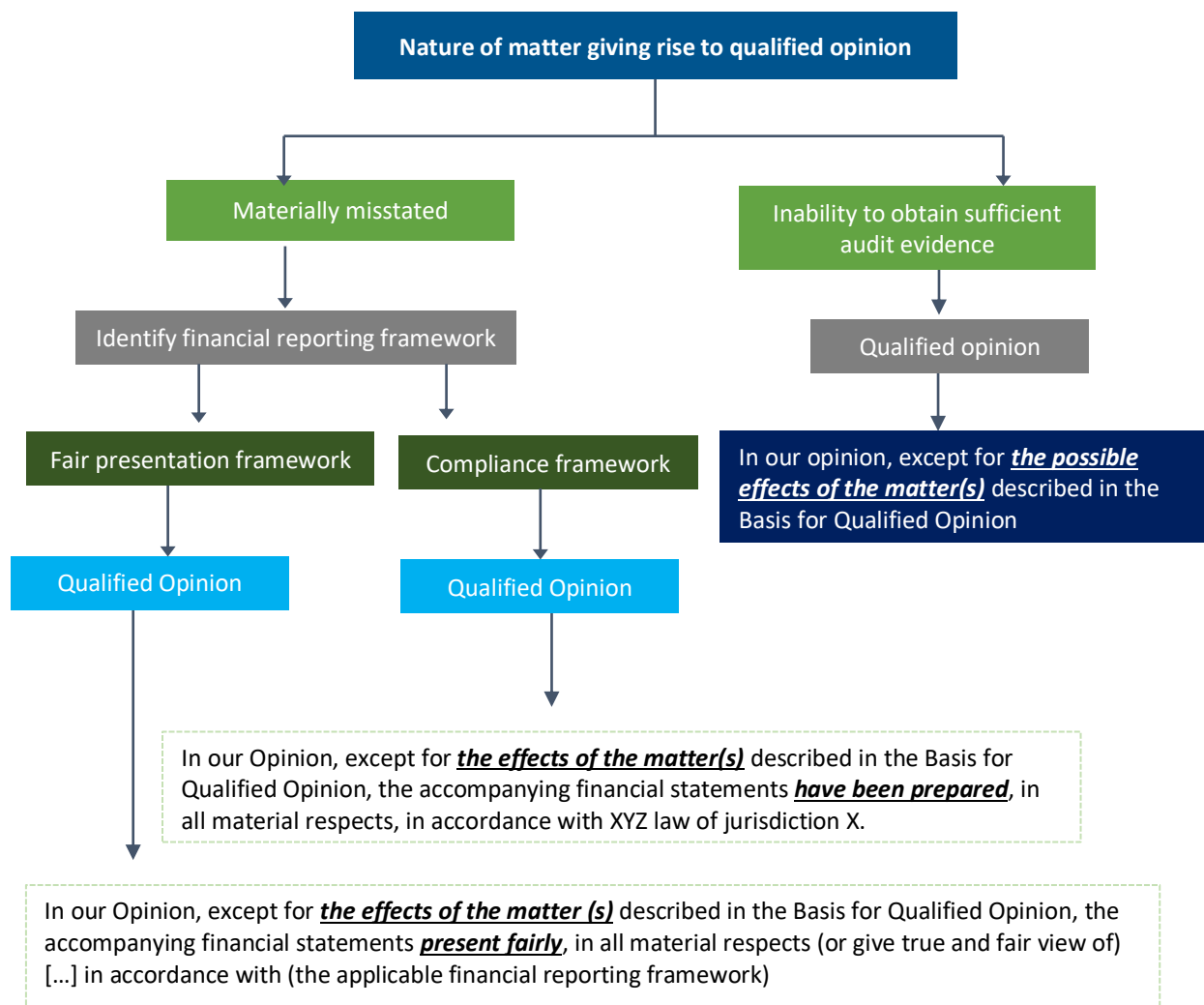


- 8.20.** If the matter giving rise to modification as a result of material misstatement is material and pervasive, the auditor should express an adverse opinion.
- 8.21.** Similarly, if the matter giving rise to modification is due to the auditor’s inability to gather sufficient appropriate audit evidence, the auditor should assess whether the matter is material or pervasive. If the matter giving rise to modification is material and not pervasive, the auditor can express qualified opinion with an “except for” paragraph.
- 8.22.** If the auditor’s inability to obtain sufficient appropriate audit evidence is material and pervasive, the auditor should then disclaim an opinion on the financial statements. In this situation, the auditor is unable to perform further audit procedures to obtain the sufficient appropriate audit evidence that forms the basis for providing an opinion on the financial statements.
- 8.23.** How the auditor’s judgement about the nature of the matter giving rise to the modification and the pervasiveness of its effects or possible effects on the financial statements affects the type of opinion to be expressed are further illustrated in **Figure 8(d)** below.

Qualified opinion

- 8.24.** The wording and phrases used in the Qualified Opinion paragraph of the auditor’s report is determined by whether the applicable financial reporting framework is a fair presentation framework or a compliance framework. In the case of an inability to obtain sufficient appropriate audit evidence, the auditor is required to amend the Auditor’s Responsibility paragraph in the auditor’s report. The form and content of a qualified opinion is illustrated in **Figure 8(d)**:

Figure 8(d): Form and content of auditor's qualified opinion

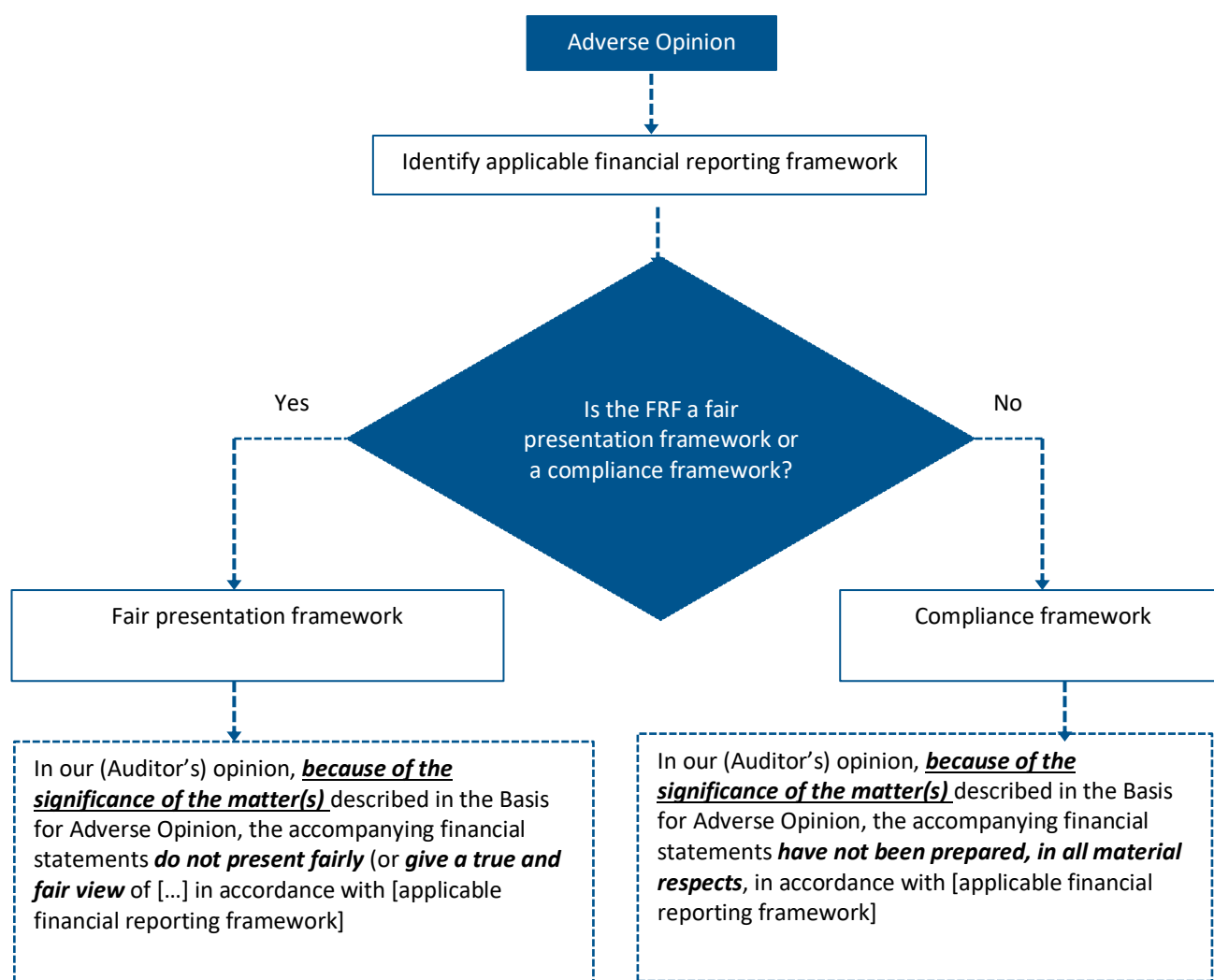


8.25. Appendix 8.3 provides an illustration of Qualified Opinion due to misstatement of the financial statements of a government entity prepared in accordance with a general-purpose fair presentation framework. Similarly, **Appendix 8.4** provides an illustration of Qualified Opinion due to misstatement of the financial statements of a government entity prepared in accordance with a general-purpose compliance framework. **Appendix 8.5** provides an illustration of Qualified Opinion due to auditor's inability to obtain sufficient appropriate audit evidence on an item(s) recognised in the financial statements.

Adverse opinion

8.26. The adverse opinion paragraph under either a fair presentation framework or a compliance framework is illustrated in **Figure 8(e)** below:

Figure 8(e): Forming adverse opinion on the financial statements



8.27. An illustration of Adverse Opinion due to misstatement of the financial statements of a government entity prepared in accordance with a general-purpose fair presentation framework is provided in **Appendix 8.6**.

Disclaimer of opinion

8.28. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the wording of the Disclaimer of Opinion will be as prescribed in ISSAI 2705. This would also require modifying the standard formulation and wording of auditor's responsibility paragraph as compared to other forms of opinion (refers ISSAI 2705.28).

Disclaimer of Opinion

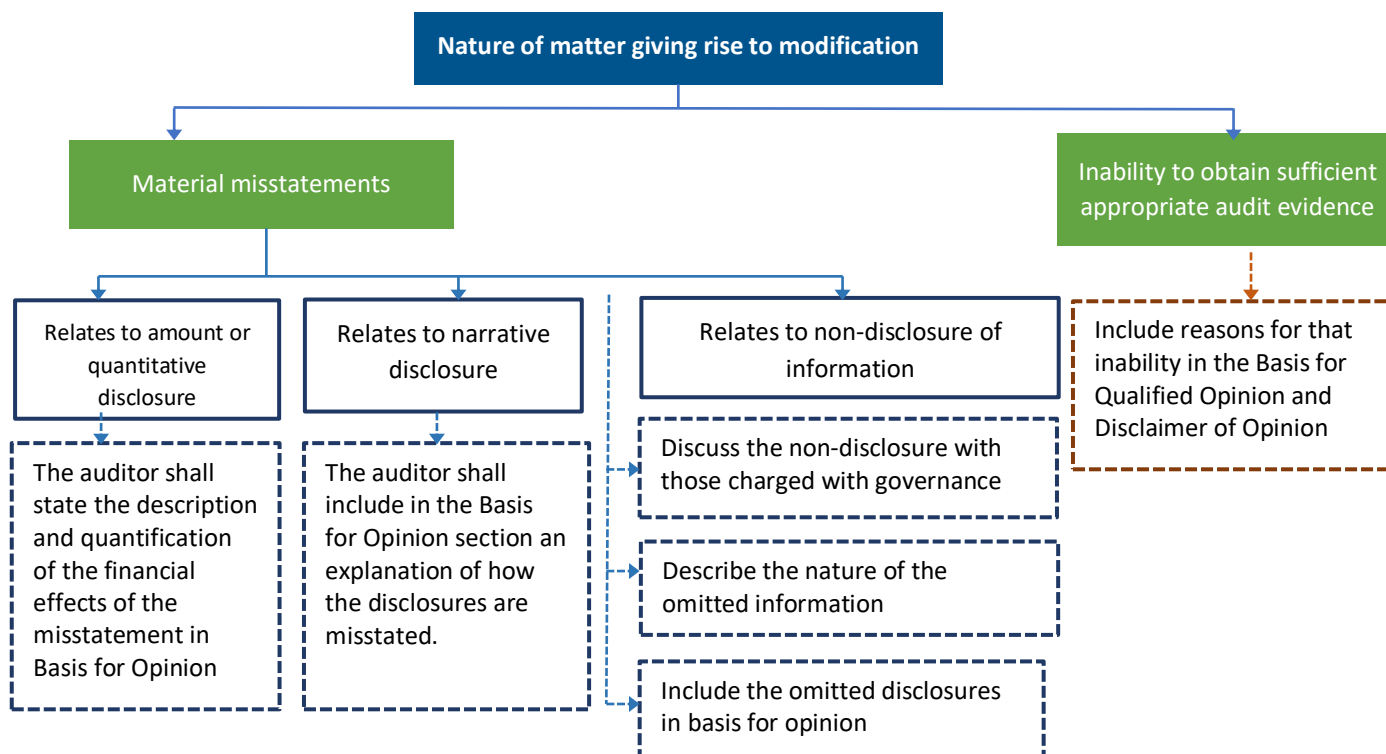
*We do **not express an opinion** on the accompanying financial statements. Because of the **significance of the matter(s)** described in the 'Basis for Disclaimer of Opinion' section, we have **not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.***

8.29. An illustration of Disclaimer of Opinion due to the auditor's inability to obtain sufficient appropriate audit evidence is provided in **Appendix 8.7**.

Amending the basis for opinion

8.30. As required under ISSAI 2705.20, when the opinion is modified the auditor should amend the heading of the basis for opinion as “Basis for Qualified Opinion,” “Basis for Adverse Opinion,” or “Basis for Disclaimer of Opinion,” including a description of the matter giving rise to the modification. In the case of inability to obtain sufficient appropriate audit evidence, the auditor is required to amend the Auditor’s Responsibility paragraph in the auditor’s report. The requirements given under Paragraph 21-27 of ISSAI 2705 are further illustrated in **Figure 8(f)** below:

Figure– 8(f): Conditions required to be described in basis for opinion



Basis for Disclaimer of Opinion

8.31. When auditor disclaims an opinion on the financial statements, the auditor is required to amend the description in the Auditor’s Responsibility paragraph to include the following, as required by ISSAI 2705.28:

- 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.
- A statement that 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.
- The statement about auditor independence and other ethical responsibilities required by ISSAI 2700.28(C).

8.32. If the matter is material and pervasive, the auditor should then disclaim the opinion on the financial statements. In both situations, the auditor is unable to perform further audit procedures to obtain the sufficient and appropriate audit evidence that forms the basis for providing an opinion on the financial statements.

Emphasis of Matter paragraph

- 8.33.** An “Emphasis of Matter” paragraph reflected in the auditor’s report emphasizes a matter already presented or disclosed in the financial statements. The purpose is to draw the attention of financial statements users to those matters that, in the auditor’s judgement, are fundamental to the user’s understanding of the financial statements. ISSAI 2706 provides the requirements related to the Emphasis of Matter paragraph. An Emphasis of Matter example is:

*“We draw attention to **note X** to the financial statements, which describes the uncertainty regarding the future outcome of an outstanding litigation against Hospital Y. However, we have not qualified our opinion in respect of this matter.”*

- 8.34.** The Emphasis of Matter paragraph, which is included immediately after the Opinion paragraph in the auditor’s report, does not affect the audit opinion and that fact should be clearly indicated in the report (ISSAI 2706.9).

Other Matter paragraphs in the auditor’s report

- 8.35.** The Other Matter paragraphs differs from an Emphasis of Matter paragraph: the former includes matters other than those presented or disclosed in the financial statements that, in the auditor’s judgement, are relevant to the user’s understanding of the audit and the auditor’s responsibilities or the auditor’s report (ISSAI 2706.10).
- 8.36.** The Other Matter paragraphs comes immediately after the Opinion paragraph and any Emphasis of Matter paragraph. ISSAI 2706 provides the requirements related to Other Matter paragraphs. The need for Other Matter paragraph in the auditor’s report may arise in the following situations:

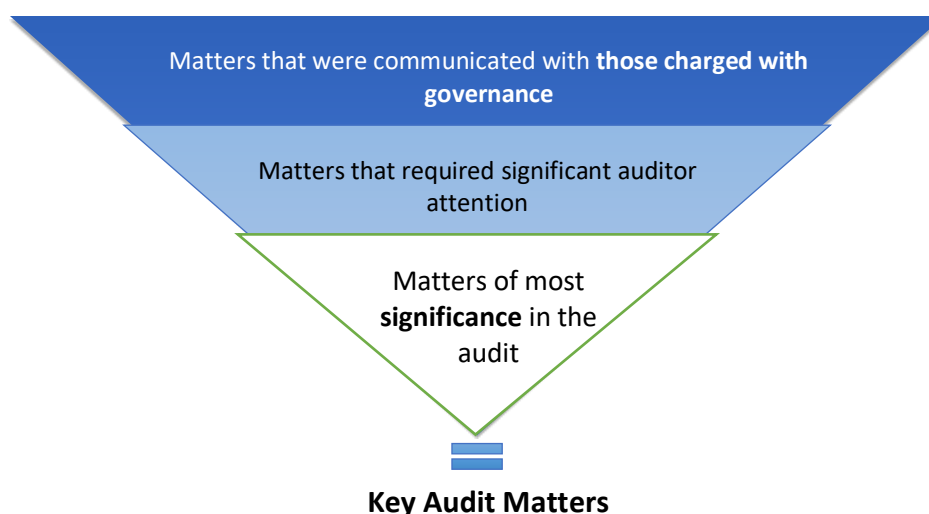
- The auditor is unable to withdraw from an engagement, even though an inability to obtain sufficient appropriate audit evidence due to a management-imposed limitation on the scope of the audit could have a pervasive effect (ISSAI 2706.A10).
- Law, regulation or generally accepted practice in a jurisdiction requires, or permits, the auditor to elaborate on matters that provide further explanation of the auditor’s responsibilities in the audit of the financial statements or of the auditor’s report thereon.
- An entity prepares one set of financial statements in accordance with a general-purpose framework (for example, the national framework) and another set of financial statements in accordance with another general-purpose framework (for example, IFRS), and the auditor is engaged to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include Other Matter paragraphs in the auditor’s report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general-purpose framework and that the auditor has issued a report on those financial statements.
- financial statements are prepared for a specific purpose are prepared in accordance with a general-purpose framework because the intended users have determined that general-purpose financial statements meet their financial information needs. Since the auditor’s report is intended for specific users, the auditor may consider it necessary, in the circumstances, to include Other Matters paragraph stating that the auditor’s report is intended solely for the intended users and should not be distributed to or used by other parties.

- 8.37. An Illustration of auditor's reporting having an Emphasis of Matter Paragraph, and Other Matter Paragraph is given in **Appendix 8.8**. An independent Auditor's report containing a qualified opinion due to a departure from the applicable financial reporting framework and that includes an Emphasis of Matter Paragraph, and Other Matter Paragraph is illustrated in **Appendix 8.9**.

Communicating key audit matters in the independent auditor's report

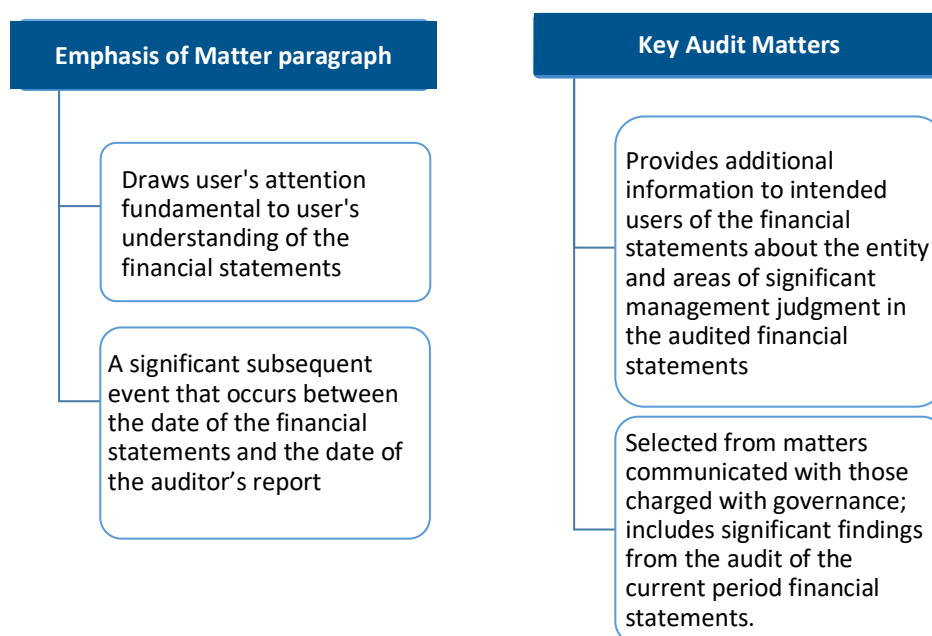
- 8.38. ISSAI 2701 defines key audit matters (KAM) as those matters that, in the auditor's judgement, were of most significance in the audit of current-period financial statements.
- 8.39. As per ISSAI 2701, the auditor is required to communicate KAM in an audit of listed companies and can apply voluntarily to audit entities other than listed entities. As stated in Paragraph 3 of PN of ISSAI 2701, *"Given that the public sector is a significant participant of any economy and is responsible for maintaining and providing important functions that affect citizens, public sector auditors should also consider reporting KAM for auditees other than listed entities."*
- 8.40. KAM are abstracted from matters communicated to management and those charged with governance that, having required significant auditor attention, are considered the most significant in the audit of the financial statements of the current period. The decision-making process for KAM is shown in **Figure 8(g)** below.
- 8.41. The intent of communicating KAM is to enhance the communicative value of the auditor's report by providing greater transparency about the audit. It also provides additional information to intended users of the financial statements.
- 8.42. ISSAI 2705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation. A matter giving rise to a modified opinion in accordance with ISSAI 2705 (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 ISSAI 2570 (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. Rather, the auditor shall:
- Report on these matter(s) in accordance with the applicable ISA(s); and
 - 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.

Figure 8(g): The decision-making framework for key audit matters (KAM)



8.43. In the auditor's report, the Key Audit Matters paragraph is placed after the Emphasis of Matter paragraph and before the Other Matters paragraph.

Figure 8(h): Relationship between Emphasis of Matter paragraph and Key Audit Matters in the Auditor's Report



Form and content of auditor's report on financial statements

8.44. The auditor's report should include the following elements as per ISSAI 2700.20 to ISSAI 2700.49:

- Title
- Addressee
- Auditor's Opinion
- Basis for Opinion
- Going Concern (If applicable)
- Key Audit Matters (only when relevant and applicable)

- Other information (if applicable in accordance with ISSAI 2720)
- Responsibilities of management and those charged with governance for the Financial Statements
- Auditors Responsibilities for the Audit of the Financial Statements
- Other Reporting Responsibilities (If applicable)-to be reported as 'Report on other Legal and Regulatory Requirements'
- Name of the audit engagement supervisor (Name of a person authorised to sign the auditor's report – will depend on SAI specific policies)
- Signature of the Auditor (Authorised SAI Personnel – Audit Engagement Supervisor, or could be Auditor General – will depend on SAI Policy)
- Auditor's Address
- Date of the Auditor's Report

8.45. The form and content of the auditor's report will change when there is a modification to the opinion. The contents listed above are suggested where the auditor's opinion is unmodified.

Report on other legal and regulatory requirements

8.46. In the context of financial audits carried out by SAIs and also considering the environment within which the public sector operates, the SAIs may have other reporting responsibilities to report on matters that are supplementary to the auditor's responsibilities under the ISSAIs. As per ISSAI 2700.43, these other reporting responsibilities can be addressed in a separate section in the auditor's report with the heading titled "Report on Other Legal and Regulatory Requirements". If the report contains this section, the auditor's report on the financial statements needs to have a clear heading title "Report on the Audit of Financial Statements" (SSAI 2700.45). The format of presenting the report when it contains "Report on Other Legal and Regulatory Requirements" is suggested in **Appendix 8.1**.

Reporting of identified or suspected non-compliance

8.47. ISSAI 2250 prescribes three levels of reporting of identified or suspected non-compliance as given below:

- a) Reporting non-compliance to those charged with Governance (Para 22 to 24);
- b) Reporting non-compliance in the auditor's report on the financial statements (Para 25-27); and
- c) Reporting non-compliance to regulatory and enforcement authorities (Para 28).

8.48. Instances observed by the auditor of non-compliance with laws and regulations can be reported to management and those charged with the governance, and to other concerned authorities depending on the line of authorities within the entity. The need to report to concerned authorities would depend on the significance and severity of non-compliance that cannot be dealt with at the entity level.

8.49. The instances of non-compliance that need to be reported in the auditor's report on the financial statements would depend on whether those non-compliances have material effect on the financial statements. If the auditor concludes that the non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements, the auditor is required to express either a qualified opinion or adverse opinion in accordance with ISSAI 2705. Similarly, if there is a limitation of scope to evaluate whether the non-compliance may have material effect on the financial statement, the auditor is required express either a qualified opinion or disclaim an opinion on the financial statements in accordance with ISSA 2705.

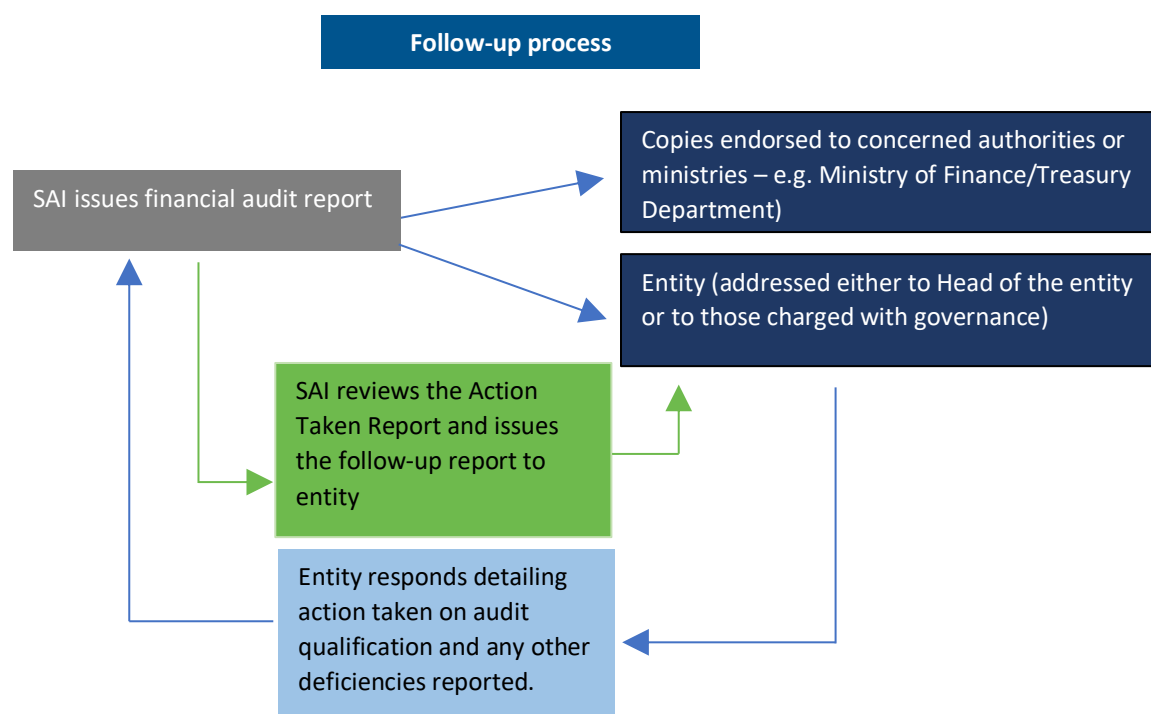
- 8.50.** If an instance of non-compliance warrants the attention of the concerned higher authorities (for eg; the parliament), the auditor is required to determine whether the auditor has the responsibility to report to such authorities and may act accordingly. ISSAI 2250.A20 (Considerations specific to Public Sector Entities) provides an explanatory note that the public sector auditor may be obliged to report on instances on non-compliance to the legislature or other governing body or to report them in the auditor's report.

CHAPTER 9

Follow-up procedures

- 9.1. Auditors must always follow-up on material observations they have raised to ensure the issues that have been identified have been resolved by the audited entity. In the context of an ISSAI financial audit, the auditor will typically perform this follow-up as part of the audit process of the subsequent year audit since unresolved prior year issues may represent risks of material misstatement of the financial statements of the subsequent year. As explained in previous sections, public sector auditors may report additional information that is not required to be reported when applying the financial audit ISSAIs to perform the audit. Such additional reporting may require additional follow up activities to be performed.
- 9.2. The audit report as discussed in Chapter 8 may contain a qualified audit opinion on the financial statements, key audit matters, audit findings covering deficiencies in internal controls and non-compliance with laws and regulations that may or may not have direct effect on the financial statements.
- 9.3. Follow-up is deemed to be one of SAI's good practices under Principle 3 of INTOSAI-P 20. In addition, ISSAI 100 recognizes that SAIs have a role in monitoring action taken by the responsible party in response to those matters raised in their audit reports.
- 9.4. Follow-up focuses on whether the audited entity has adequately addressed the matters raised by the audit, including any wider implications. Insufficient or unsatisfactory action taken by the audited entity may call for a further report by the SAI.
- 9.5. Besides statutory requirements, one of the purposes of conducting financial audits is to help improve the systems and procedures including the financial reporting process in the entity. By conducting a follow-up, the SAI would also be able to establish the value added by the financial audit in terms of improvements introduced in the system. Unless this follow-up is put in practice, the SAI cannot gauge whether the desired impact of audit has been effective or not. Therefore, a follow-up audit is one of the important components of the audit process, and that process cannot be complete without it. Further, even management and those charged with governance may not be motivated to take action if there is no follow-up system in the SAI.
- 9.6. Different SAIs may have different follow-up processes depending on SAI model being followed (Court model, Westminster model, Board model, etc.). **Figure 9(a)** provides a snapshot of a suggested follow-up process.
- 9.7. Depending on the issues reflected in the audit report and the requirements of relevant laws, SAIs may be required to endorse copies of audit reports to the concerned authorities or government ministries—say, Ministry of Finance—as well as to management and those charged with governance. However, it should be the responsibility of the Head of the entity or those charged with governance to take action on outstanding audit issues referred to in the audit report.
- 9.8. SAIs and/or laws and regulations may indicate the deadline for auditees to respond to the auditor's report having qualified opinion and other deficiencies, for example weaknesses in internal controls that are reported in the form on audit findings, detailing the corrective action to be taken by the entity (suggested as Action Taken Report).

Figure 9(a): Snapshot of follow-up process



- 9.9. The SAI reviews the *Action Taken Report on audit findings* and prepares a follow-up report. The follow-up can be done as either a desk review or a visit to the entity for factual confirmation of the response provided by management or those charged with governance. The follow-up report should also go through the due process of quality control. This would also depend on how the follow-up function is structured in the SAI, if there is one in place.
- 9.10. It may be appropriate to have an independent follow-up function in the SAI to carry out objective assessment of the action taken by management and to exercise professional judgement. If, for instance, the same functional division/unit or audit team who conducted the audit does the follow-up, it may tend to defend its audit findings and audit qualification, even if management or those charged with governance have taken appropriate action on those audit issues.
- 9.11. Based on different SAI model and the parliamentary structure prevalent in SAIs' jurisdictions, the Public Accounts Committee plays an active role in the review and follow-up of the audit reports tabled in Parliament. Therefore, there could be two levels of follow-up of audit findings and recommendations, i.e. one at the SAI level and another at the Public Accounts Committee/parliamentary level.
- 9.12. A template for preparing the summary of follow-up report and detailed follow up report is suggested as **Appendix 9.1**, which may be adapted by SAIs according to their needs and the environment in which they function.
- 9.13. A follow-up of an audit report could be for just one accounting year/fiscal year on which the audit was conducted, and the report issued. However, there could be outstanding issues from earlier years' audit reports (financial or other) regarding the same entity, which may also have to be followed up along with the report recently issued.

- 9.14.** Follow-up in the SAI should be a continuous process, until the outstanding audit findings are resolved based on appropriate action taken by management or those charged with governance. After issuance of the initial audit report and upon receiving a first response from management or those charged with governance, the frequency of the follow-up thereafter may be decided by the SAI, or the SAI may have certain regulations or laws guiding this process. However, it is in the best interest of both the SAI and the entity to resolve outstanding audit issues, including any qualified opinion on the financial statements, as early as possible.

CHAPTER 10

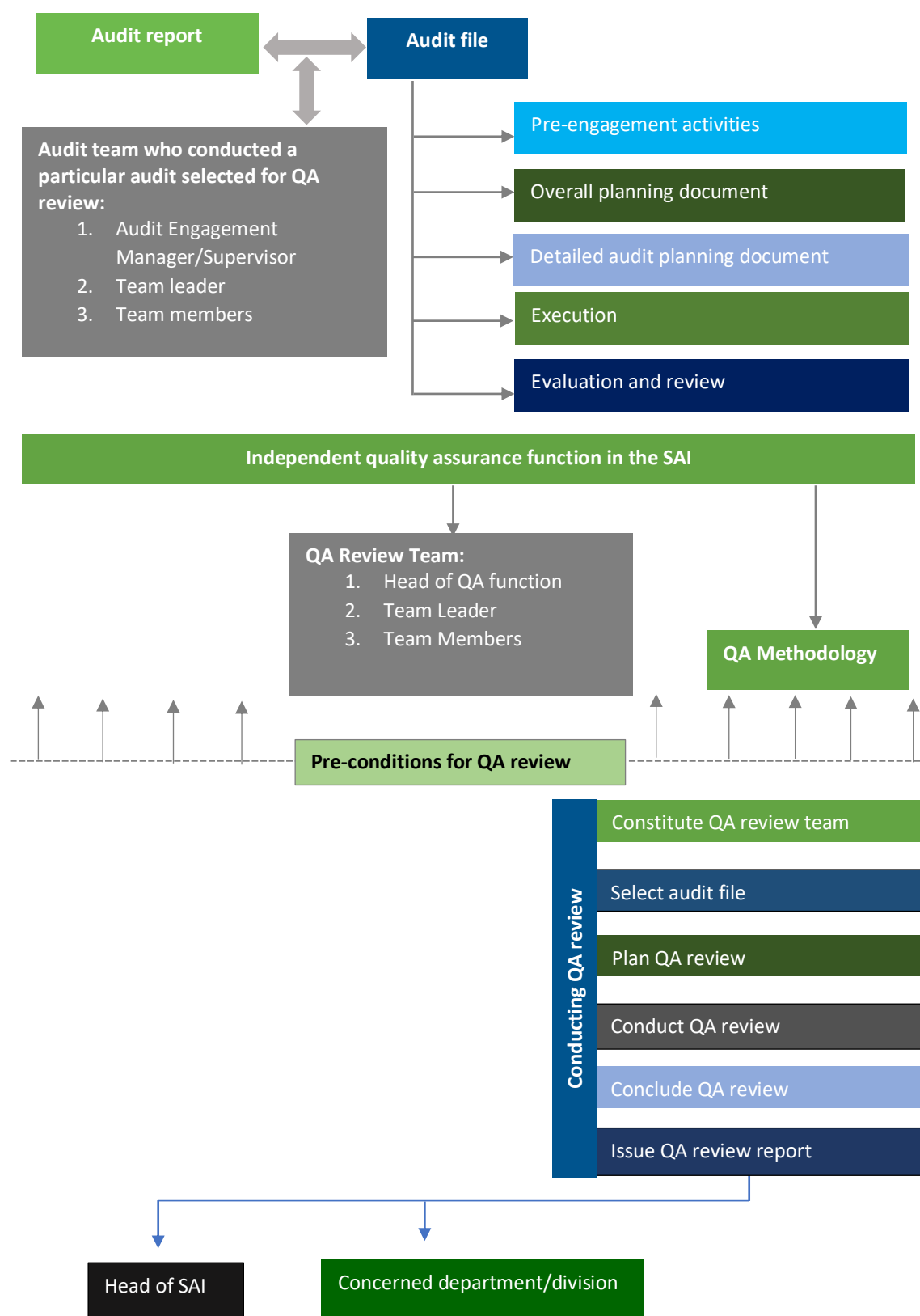
Quality Assurance at the Engagement Level

- 10.1.** At the engagement level SAIs should establish quality control measures specifically to ensure the high quality of each audit product. High quality is achieved when the SAI and its personnel comply with professional standards and applicable legal and regulatory requirements and the auditor's report is appropriate in the circumstances (cf. ISSAI 2220.6).
- 10.2.** However, to be effective those measures should be subject to ongoing monitoring (ISSAI 2220.23) to provide independent and reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively¹⁴.
- 10.3.** In this regard, IDI has developed a Quality Assurance Guidance and Tool to help SAIs to implement a QA system. The QA tool prescribes a set of questions and statements, the replies to which would indicate the extent of the SAI's compliance with the appropriate level of ISSAI. The replies thus obtained can be validated through the documents provided by the SAI that must be inspected during the QA review, since they provide an insight into the quality of the processes undertaken by the SAI and its personnel in general, and the quality of the financial audits and issuance of the corresponding audit reports in particular. The QA referred in this chapter relates to conducting QA review after audit is completed and report issued.
- 10.4.** Institutionally, a QA function may be established within the SAI, supported by independence from the object to be quality assured¹⁵ and performed by an office (in bigger SAIs) or by a professional (in smaller SAIs) within the SAI or, alternatively, by a peer, whereby one SAI performs the QA review process on another. Irrespective of who carries out the QA review, the team should consist of a mix of professionals who have extensive knowledge of applicable standards, and/or experience, and/or supervisory skills in financial auditing.
- 10.5.** Most SAIs have established (either formally or informally) QA practices that can be strengthened through the above-mentioned tools developed by IDI. Initially, the SAI can create an ad hoc team to assess the extent to which a QA function needs to be created. The results of the assessment will be the basis for drafting a QA policy, which would include, among others, the purpose of the QA policy; establishment of the QA office; nature and frequency of QA reviews; criteria for QA object's selection; and reporting and follow-up requirements. In establishing the QA office, care must be taken to be adequately staffed. A QA manual should also be developed to guide the conduct of the QA function, particularly reviewing financial audit's processes and outputs.
- 10.6.** At the financial audit function level, a typical QA review would briefly take the steps shown below in **Figure 10(a)**:

¹⁴ At an **institutional level**, for a system to be effective it needs to be part of an SAI's strategy, culture, policies and procedures. As for quality, at this level, SAIs shall develop a quality policy probably comprising a quality mission statement and the SAI's quality objectives.

¹⁵ Viewing the SAI's work from an external perspective provides objectivity in forming a conclusion as to whether the audit was done in accordance with international standards or other equivalent. While in some circumstances quality assurance is perceived to be a fault-finding activity, a review from an external perspective is often considered more credible: a QA reviewer, as an external professional, can make straightforward, bias-free recommendations based on his or her professional judgment to recommend improvements.

Figure 10(a): Snapshot of quality assurance review in financial audit



- 10.7.** After the selection of the financial audits for QA, the QA tool can be used to check/inspect the audit documentation's compliance with the ISSAI. The questionnaires cover the financial audit methodology, the different phases of the audit and the quality control procedures. In gathering evidence, the following methods are used, among others: document review; physical observation; focus group; interview or external confirmation (i.e. audit evidence obtained as a direct written response to the auditor from a third party—the confirming party—in paper form or by electronic or other medium).
- 10.8.** Information obtained from the QA questionnaires is analysed and any deficiencies are noted along with the corresponding recommendations.
- 10.9.** The results of the QA review are discussed first with the audit team concerned, in an exit meeting to ensure that the findings are clearly understood by all concerned. The QA team should obtain the agreement of the audit team to the QA observations and recommendations. Should there be any disagreement between the QA team and the audit team, especially on a high-risk issue, the SAI may establish policies and procedures for dealing with and resolving disagreements within the audit team, with those consulted and, where applicable between the audit team supervisor and QA reviewer (adapted from ISQC1.43). The QA results may also indicate some competency gap in the auditors. Therefore, it may also provide a basis for determining the training needs of auditors to address those competency gaps.
- 10.10.** Then, QA results (observations and recommendations) are to be reported to the Head of the SAI, who then ensures that the deficiencies are corrected to improve the SAI's quality control system.
- 10.11.** Implementation of the QA recommendations is aimed at enhancing or correcting the practices of the SAI using ISSAI and best practices as the yardstick. Doing so will allow the SAI to evolve into a more empowered, credible and professional organization (INTOSAI-P 12).

References

1. ISSAI available on www.ISSAI.org
2. Strategic Development Plan of IFPP 2017-19
3. 2016-2017 IAASB Handbook – Volume 1
4. ACCA Technical Article – Completing the Audit (written by a member of the ACCA Paper P7 examining team)
5. ACCA Technical Article – Audit Procedures by Vijaya Swaminathan

Audit Working Paper Templates

PRE-ENGAGEMENT ACTIVITIES

AWP 4.1: Assessing an acceptability of an applicable Financial Reporting Framework

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

Assessed by	Signature	Reviewed & agreed by	Signature
Name:			
Designation			
Date:			

Assessing acceptability of applicable financial reporting framework	Assessment conclusion												
<div>1. Is there an applicable financial reporting framework (FRF) adopted by the entity/government?</div> <div>If yes, indicate the name of the FRF adopted and proceed to following questions. If no, there is no basis for preparation of the financial statements, and as such the auditor/assessor need not proceed with the following questions.</div>	<table><tr><td></td><td>Yes</td><td></td><td>No</td></tr></table> <div></div> <div>Comments (if any):</div>		Yes		No								
	Yes		No										
<div>2. What is the basis for preparing the financial statements (FSs)?</div>	<table><tr><td></td><td>Accrual basis</td></tr><tr><td></td><td>Cash basis</td></tr><tr><td></td><td>Modified accrual basis</td></tr><tr><td></td><td>Modified cash basis</td></tr></table> <div>Comments (if any):</div>		Accrual basis		Cash basis		Modified accrual basis		Modified cash basis				
	Accrual basis												
	Cash basis												
	Modified accrual basis												
	Modified cash basis												
<div>3. What is the purpose of the FSs being prepared?</div>	<table><tr><td></td><td>For general purpose FSs</td><td></td><td>For special purpose FSs</td></tr></table> <div>Comments (if any):</div>		For general purpose FSs		For special purpose FSs								
	For general purpose FSs		For special purpose FSs										
<div>4. Who are the primary users of the FSs?</div>	<table><tr><td></td><td>Legislatures/Parliament</td></tr><tr><td></td><td>Executive Offices/Government</td></tr><tr><td></td><td>Regulatory Authorities</td></tr><tr><td></td><td>Donors/Lenders</td></tr><tr><td></td><td>Suppliers/Creditors</td></tr><tr><td></td><td>Others (Specify)</td></tr></table> <div>Comments (if any):</div>		Legislatures/Parliament		Executive Offices/Government		Regulatory Authorities		Donors/Lenders		Suppliers/Creditors		Others (Specify)
	Legislatures/Parliament												
	Executive Offices/Government												
	Regulatory Authorities												
	Donors/Lenders												
	Suppliers/Creditors												
	Others (Specify)												

Assessing acceptability of applicable financial reporting framework	Assessment conclusion																
5. Is the FRF a fair presentation framework or a compliance framework?	<table border="1"> <tr> <td></td><td>Fair presentation framework</td><td></td><td>Compliance framework</td></tr> </table> <p>Comments (if any):</p>		Fair presentation framework		Compliance framework												
	Fair presentation framework		Compliance framework														
6. What do these financial statements consist of?	<table border="1"> <tr><td></td><td>Statement of Financial Position/Balance Sheet</td></tr> <tr><td></td><td>Statement of Financial Performance/ Income Statement</td></tr> <tr><td></td><td>Statement of Cash Flows</td></tr> <tr><td></td><td>Statement of Changes in Equity</td></tr> <tr><td></td><td>Statement of Cash Receipts & Payments</td></tr> <tr><td></td><td>Statement of Expenditure</td></tr> <tr><td></td><td>Notes to Financial Statements</td></tr> <tr><td></td><td>Others (specify)</td></tr> </table> <p>Comments (if any):</p>		Statement of Financial Position/Balance Sheet		Statement of Financial Performance/ Income Statement		Statement of Cash Flows		Statement of Changes in Equity		Statement of Cash Receipts & Payments		Statement of Expenditure		Notes to Financial Statements		Others (specify)
	Statement of Financial Position/Balance Sheet																
	Statement of Financial Performance/ Income Statement																
	Statement of Cash Flows																
	Statement of Changes in Equity																
	Statement of Cash Receipts & Payments																
	Statement of Expenditure																
	Notes to Financial Statements																
	Others (specify)																
7. Does the financial reporting framework used for preparing the financial statements exhibits these attributes? (For description of each attribute, refer to Illustration 4.1 of the Handbook)	<table border="1"> <tr><td></td><td>Relevance</td></tr> <tr><td></td><td>Completeness</td></tr> <tr><td></td><td>Reliability</td></tr> <tr><td></td><td>Neutrality</td></tr> <tr><td></td><td>Understandability</td></tr> </table> <p>Comments (if any):</p>		Relevance		Completeness		Reliability		Neutrality		Understandability						
	Relevance																
	Completeness																
	Reliability																
	Neutrality																
	Understandability																
Overall Conclusion: The applicable financial reporting framework exists and is: <table border="1"> <tr> <td></td> <td>Acceptable</td> <td></td> <td>Not acceptable</td> </tr> </table> <p>Note. If concluded as not acceptable, the auditor may undertake some of the proposed action given in the guidance below:</p>			Acceptable		Not acceptable												
	Acceptable		Not acceptable														

Risks identified (if any at this level) while assessing the acceptability of financial reporting framework used by the entity in preparing the financial statements that may result in material misstatements:	
At financial statement level (Trace to Table A, AWP 5.4)	At Assertion level, if applicable (Trace to Table B, AWP 5.4)

(Name of SAI Assessor/ Audit Engagement Supervisor)
 Date of assessment:

Guidance for completing the template on Assessing acceptability of applicable financial reporting framework

Overall Objective of the completing the template	<p>The overall objective of this template is to assess the acceptability of an applicable financial reporting framework as one of the pre-engagement activities. It also provides the auditor in obtaining an understanding of the financial reporting framework used by the entity to prepare the financial statements and helps determine on the wordings of the auditor's opinion on the financial statements.</p> <p>One of the preconditions for an audit is to have an acceptable financial reporting framework.</p>
Applicable ISSAIs	<p>ISSAIs 2200, 2210, 2700, 2705, 2706, 2800</p>
Guidance	<p>The auditor can assess the acceptability of the financial reporting framework using a set of suggested questions given above. This can be performed by interviewing key personnel in the entity and through a document review. The conclusion against every question needs to be recorded under the column called Assessment Conclusion. This is an evidence-based assessment, and therefore the auditor or the SAI staff conducting the assessment should maintain supporting documents to support every conclusion.</p> <p>Considering that similar entities exist across SAIs for conducting financial audits, the acceptability of financial reporting framework can be determined at the SAI level rather than at the level of every audit engagement. The government entities generally use the financial reporting framework issued by the government (specifically issued by the Ministry Finance/Treasury Department) in preparing the financial statements. Therefore, this could be a one-time exercise at the SAI level, rather than for every audit engagement.</p> <p>The auditor may need to determine the acceptability of financial reporting framework at and engagement level only if the entity considered for auditing is using completely different financial reporting framework, although this could be quite rare.</p> <p>The auditor can plan and perform the audit if the applicable financial reporting framework exists and is acceptable.</p> <p>If deemed unacceptable, the auditor may undertake the following;</p> <ol style="list-style-type: none"> 1. Ask management of the entity to prepare additional disclosures. 2. If additional disclosures are presented, add an Emphasis of Matter paragraph in the auditor's report. 3. If management refuses to present additional disclosures, consider a modified opinion (a disclaimer of opinion) explaining the misleading nature of the financial statements. 4. Consider informing the legislature and standard setting bodies about the unacceptability of the FRF. <p>The auditor while assessing the acceptability of the financial reporting framework in preparing the financial statements could also identify the risks that may result in material misstatements at both financial statement level and at the assertion level. The risks may exist in both the situations where the FRF used in preparing the financial statement is either acceptable or not acceptable. Those risks can be recorded in the Table given above and can be traced to AWP 5.4 Risk Register.</p>
Overall Conclusion	<p>Based on the conclusion or factual information arrived against every question in an assessment, the auditor or the assessor from the SAI needs to record an overall conclusion. The overall conclusion could be that the financial reporting framework used in preparing the financial statement is either acceptable OR not acceptable.</p>

Recording the evidence of assessor and reviewer	<p>The table indicating the details of the assessor and reviewer needs to be completed at the end. This is to ensure that there was independent check and balance in the audit engagement team, and that this was completed before commencement of planning the audit. As mentioned above, this exercise could be carried out at the SAI level for all entities using same financial reporting framework, and not necessarily for every audit engagement.</p> <p>In this case, the assessor is usually the audit team member or team leader while the reviewer who signs off the assessment is the audit engagement supervisor if the assessment was carried out at the audit engagement level. However, it would depend on the SAI management or the leadership how these responsibilities can be delegated if the assessment was initiated at the SAI level. This assessment needs to be signed off by both the assessor and the reviewer.</p>
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AWP 4.2: Audit Team Competency Matrix

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

A. Competency Matrix

	1	2	3
Sl. No.	Name & Designation	Academic/Professional Qualification	Financial Auditing experience in public sector environment
1	Audit Engagement Supervisor		
1.1	Mr/Ms. A		
2	Audit Team Leader		
2.1	Mr/Ms. B		
3	Audit Team Members		
3.1	Mr. X		
3.2	Mrs. Y		
3.3	Ms. Z		

B. Consideration of audit engagement specific competencies and capabilities

1	2	3	4	5	6
Audit Team	Understanding of and practical experience with audit engagements of similar nature	Understanding of the systems and processes of the entity including basis of preparation of financial statements (Accrual or Cash) & the financial reporting framework	Technical expertise including expertise with IT systems and computerised environment	Knowledge of the entity and its environment	Understanding of entity's reporting arrangements, including reporting to the legislature or other governing body or in the public interest
Mr./Ms. B Team Leader (insert name)					
Team Members					
X (insert name)					
Y (insert name)					
Z (insert name)					

Note: Based on the nature and complexity of entity identified for audit, the SAI or audit team may add other relevant attributes and considerations in this table.

Conclusion

The engagement team collectively has the appropriate capabilities, competencies and experience to perform the audit.

(Name of Audit Engagement Supervisor)

Designation

Guidance for completing the Team Competency Matrix

Overall Objective of the completing the template	The overall objective of this template is to determine and document that the engagement team collectively has the appropriate competence and capabilities to perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and enable an auditor's report that is appropriate in the circumstances to be issued.										
Applicable ISSAIs	ISSAI 2220, ISSAI 2210										
Guidance	<p>Table No. A: Team competency Matrix – the objective is to document the academic/professional qualification and financial auditing experience of audit engagement team including the audit engagement manager/supervisor, ideally required to perform the given the audit engagement.</p> <table> <tr> <td>Column 1</td><td>List the team members and their designations in the SAI. The designation is expected to serve as a basis to see whether there is a right mix of audit team.</td></tr> <tr> <td>Column 2</td><td>State the academic/professional qualification of individual members in the audit engagement team, which would generally be retrieved from SAI's HR system. This is to ensure whether the engagement team has the right mix of auditors with ideal academic/professional qualification to perform the audit engagement.</td></tr> <tr> <td>Column 3</td><td>State the financial auditing experience of audit engagement team in the public sector environment. This could be recorded in the form of narrative brief write up and the number of years of experience auditing financial statements in the public sector environment.</td></tr> </table>	Column 1	List the team members and their designations in the SAI. The designation is expected to serve as a basis to see whether there is a right mix of audit team.	Column 2	State the academic/professional qualification of individual members in the audit engagement team, which would generally be retrieved from SAI's HR system. This is to ensure whether the engagement team has the right mix of auditors with ideal academic/professional qualification to perform the audit engagement.	Column 3	State the financial auditing experience of audit engagement team in the public sector environment. This could be recorded in the form of narrative brief write up and the number of years of experience auditing financial statements in the public sector environment.				
Column 1	List the team members and their designations in the SAI. The designation is expected to serve as a basis to see whether there is a right mix of audit team.										
Column 2	State the academic/professional qualification of individual members in the audit engagement team, which would generally be retrieved from SAI's HR system. This is to ensure whether the engagement team has the right mix of auditors with ideal academic/professional qualification to perform the audit engagement.										
Column 3	State the financial auditing experience of audit engagement team in the public sector environment. This could be recorded in the form of narrative brief write up and the number of years of experience auditing financial statements in the public sector environment.										
	<p>Table No. B: Consideration of audit engagement specific competencies and capabilities – the objective is to identify the relevant competencies and capabilities to the given audit engagement. These are additional considerations to the qualification and professional experiences of audit engagement team, that may be necessary to perform the audit engagement in accordance with the professional standards.</p> <table> <tr> <td>Column 1</td><td>List the team members and their designations in the SAI.</td></tr> <tr> <td>Column 2</td><td>State each member's understanding of and practical experience with audit engagements of similar nature. This information can provide useful input while preparing the audit plan, especially when assessing the risk of material misstatement.</td></tr> <tr> <td>Column 3</td><td>Identify whether each member has an understanding of the entity's systems and processes and the basis of preparation of the financial statements. It is to identify and assess an understanding of entity specific systems and process for preparing the financial statements, as well as its operations. As an auditor, one is expected to have a good knowledge of Accrual and Cash based accounting treatments of items and transactions in the books of accounts. This needs to be confirmed by interviewing the team members. Whether it is a cash or accrual basis of accounting depends on type of financial reporting framework used by the entity to prepare the financial statements.</td></tr> <tr> <td>Column 4</td><td>Identify whether each member has an understanding of the audited entity's IT systems and computerized environment. The manual system of accounting has become redundant with the advent of IT systems. Each team member is expected to have a good IT knowledge and skills. Lack of such skills may adversely affect the progress of the audit.</td></tr> <tr> <td>Column 5</td><td>Confirm whether audit team members have a prior knowledge of the entity and the environment in which it operates. The entities mandated for financial audit by the SAI may operate in a similar environment,</td></tr> </table>	Column 1	List the team members and their designations in the SAI.	Column 2	State each member's understanding of and practical experience with audit engagements of similar nature. This information can provide useful input while preparing the audit plan, especially when assessing the risk of material misstatement.	Column 3	Identify whether each member has an understanding of the entity's systems and processes and the basis of preparation of the financial statements. It is to identify and assess an understanding of entity specific systems and process for preparing the financial statements, as well as its operations. As an auditor, one is expected to have a good knowledge of Accrual and Cash based accounting treatments of items and transactions in the books of accounts. This needs to be confirmed by interviewing the team members. Whether it is a cash or accrual basis of accounting depends on type of financial reporting framework used by the entity to prepare the financial statements.	Column 4	Identify whether each member has an understanding of the audited entity's IT systems and computerized environment. The manual system of accounting has become redundant with the advent of IT systems. Each team member is expected to have a good IT knowledge and skills. Lack of such skills may adversely affect the progress of the audit.	Column 5	Confirm whether audit team members have a prior knowledge of the entity and the environment in which it operates. The entities mandated for financial audit by the SAI may operate in a similar environment,
Column 1	List the team members and their designations in the SAI.										
Column 2	State each member's understanding of and practical experience with audit engagements of similar nature. This information can provide useful input while preparing the audit plan, especially when assessing the risk of material misstatement.										
Column 3	Identify whether each member has an understanding of the entity's systems and processes and the basis of preparation of the financial statements. It is to identify and assess an understanding of entity specific systems and process for preparing the financial statements, as well as its operations. As an auditor, one is expected to have a good knowledge of Accrual and Cash based accounting treatments of items and transactions in the books of accounts. This needs to be confirmed by interviewing the team members. Whether it is a cash or accrual basis of accounting depends on type of financial reporting framework used by the entity to prepare the financial statements.										
Column 4	Identify whether each member has an understanding of the audited entity's IT systems and computerized environment. The manual system of accounting has become redundant with the advent of IT systems. Each team member is expected to have a good IT knowledge and skills. Lack of such skills may adversely affect the progress of the audit.										
Column 5	Confirm whether audit team members have a prior knowledge of the entity and the environment in which it operates. The entities mandated for financial audit by the SAI may operate in a similar environment,										

	<p>nevertheless, there could be some entities operating in a complex environment.</p> <p>Column 6 The SAIs generally conduct financial audit based on its mandate which are derived from their own law or other relevant laws and regulations. Those laws and regulations and may prescribe other reporting responsibilities. In this column, state each team member's understanding of entity's reporting arrangements, including reporting to the legislature or other governing body or in the public interest</p>
Conclusion	Based on the above assessment, the audit supervisor needs to conclude that the team collectively has appropriate capabilities, competencies and experience to plan and perform the audit. The conclusion should be signed off accordingly by the audit engagement supervisor with his name and designation (appropriate field provided in the template)
Recording the evidence of preparer and reviewer	The table placed before Table No. A above provides relevant fields to record the evidence of a person or official who prepared the audit engagement team's competency, and who had reviewed it. In this case the preparer could be the audit team leader/manager, and the reviewer could be the audit engagement manager/supervisor. This will depend on how SAI has structured its audit departments, divisions, and audit team. This needs to be signed off accordingly once the assessment has been completed and reviewed.

AWP 4.3: Auditor's declaration to comply with Code of Ethics in the conduct of audit

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

1	2	3
Code of Ethics	Declaration I declare that:	Reasons if he or she cannot comply with code of ethics
		Traced to AWP 4.6
Integrity	I will act honestly, reliably, in good faith and in the public interest. I will be trustworthy in the course of my work. I will comply with the policies and standards set by my SAI.	
	I will take due care to exercise responsibilities and use the powers, information and resources at my disposal solely for the benefit of the public interest. I will not use my position to obtain favours or personal benefits for them or for third parties.	
	I will remain aware of integrity vulnerabilities and approaches to mitigate them, and will act accordingly.	
Independence & Objectivity	I will maintain independence from political influence and be free from political bias.	
	I will not be involved in the auditee management's decision-making.	
	I will avoid circumstances where personal interests could impact decision-making.	
	I will avoid circumstances where relationships with the management or personnel of the auditee or other entities could impact decision-making.	
Competence	I will refuse gifts, gratuities or preferential treatment that could impair independence or objectivity.	
	I will perform my job in accordance with applicable standards and with due care.	
	I will act in accordance with the requirements of the assignment, carefully, thoroughly and on a timely basis.	
Professional behaviour	I will maintain and develop my knowledge and skills to keep up with the developments in my professional environment in order to perform my job optimally	
	I will comply with the applicable laws and regulations, as well as with the guidance for my behaviour established by the SAI.	
Confidentiality and transparency	I will not engage in conduct that may discredit my SAI.	
	I will remain aware of the legal obligations and of the SAI's policies and guidelines concerning both confidentiality and transparency	
	I will not disclose any information acquired as a result of my work without proper and specific authority, unless there is a legal or professional right or duty to do so.	
	I will not use confidential information for personal gain or for gain of third parties.	
	I will remain alert to the possibility of inadvertent disclosure to third parties of confidential information.	

	I will maintain professional confidentiality during and after termination of employment.	
--	--	--

Agreement of Team member

I, the undersigned fully understand the requirements and my responsibilities in terms of the Code of Ethics stated in the above table.

I will comply with the ethical requirements set out in the table above relating to the audit of *(Name of audited entity)*

Signature

Name of Auditor

Division/Unit/Section

Conclusion

Based on my knowledge and belief, and after consideration of the above declarations and staff interviews, I conclude that all the requirements contained in the Code of Ethics for SAI auditors are understood by *(insert name)* *(insert designation)*. Any threats to the audit teams' independence have been eliminated or reduced to an acceptable level, which is documented herewith *(Traced to AWP 4.6)*.

Name of Audit Engagement Supervisor:

Signature:

Date:

Guidance for completing Auditor's declaration to comply with Code of Ethics in conduct of audit

Overall Objective of the completing the template	The overall objective is to obtain declaration from each individual audit team member including the audit supervisor that he/she will comply with the SAI's Code of Ethics while conducting the audit. It also ensures that the auditor will maintain objectivity and independence throughout the conduct of the audit.				
Applicable ISSAIs	ISSAI 130, ISSAI 2200 and ISSAI 2220				
Guidance	<p><i>Each member of the audit team including the audit supervisor should complete this declaration to confirm that he/she will comply with the SAI's code of Ethics while conducting the given audit. For instance, if the audit team comprises of five members including the audit supervisor, there should five such declaration in the audit file.</i></p> <p>There are three columns in this template. The explanation on Column 1& 2, and guidance to complete column 3 are given below:</p> <table border="1"> <tr> <td>Column 1</td><td>This contains Code of Ethics in brief. These are the key ethical code of conduct that the auditor needs to comply while conducting the audit. The extent of list would depend on respective SAIs' Code of Conduct, which are assumed to be developed based on ISSAI 130. This template is based on ISSAI 130.</td></tr> <tr> <td>Column 2</td><td>These are some of pre-determined statement or declaration that each member in the audit team is expected to declare on each code of ethics (code description from ISSAI 130). Depending on the nature and type of entity identified for audit, the declaration statements can be customised to the needs of the SAI.</td></tr> </table>	Column 1	This contains Code of Ethics in brief. These are the key ethical code of conduct that the auditor needs to comply while conducting the audit. The extent of list would depend on respective SAIs' Code of Conduct, which are assumed to be developed based on ISSAI 130. This template is based on ISSAI 130.	Column 2	These are some of pre-determined statement or declaration that each member in the audit team is expected to declare on each code of ethics (code description from ISSAI 130). Depending on the nature and type of entity identified for audit, the declaration statements can be customised to the needs of the SAI.
Column 1	This contains Code of Ethics in brief. These are the key ethical code of conduct that the auditor needs to comply while conducting the audit. The extent of list would depend on respective SAIs' Code of Conduct, which are assumed to be developed based on ISSAI 130. This template is based on ISSAI 130.				
Column 2	These are some of pre-determined statement or declaration that each member in the audit team is expected to declare on each code of ethics (code description from ISSAI 130). Depending on the nature and type of entity identified for audit, the declaration statements can be customised to the needs of the SAI.				

	<p>Column 4 If in the event a member of the audit team will be not be able to comply with any of the code of ethics, the reasons thereof needs to be recorded in this column, which can later be traced to AWP 4.6. For instance, the reason could be self-interest or self-review threat. The objective is that these threats can be appropriately dealt with by putting safeguards in place.</p>
Overall undertaking of the member	Based on declaration of each statement under respective SAI's Code of Ethics, the member of the audit team should provide overall undertaking to reaffirm that he/she has understood the responsibilities in terms of Code of Ethics, and that those will be complied with accordingly. This needs to be signed off and submitted to the reviewer for independent review.
Conclusion of the supervisor	The supervisor or the independent reviewer in the SAI or the audit team should conclude that he/she has reviewed the declaration made by the member of the audit team, and re-affirm that a particular member has understood the Code of Ethics and that those will be complied accordingly while conducting the audit.
Recording the evidence of verifier and reviewer	<p>The table indicating the details of verifier and reviewer needs to be completed at the end. This is to ensure that there was independent check and balance system in the audit team, and that this was completed before commencement of audit.</p> <p>In this case, the verifier is usually the audit team leader, and the reviewer is the audit supervisor. Similarly, when the audit team leader and audit engagement supervisor provide a declaration, the verifier and reviewer can then be addressed based on the organisation structure of the SAI. This needs to be signed off accordingly by the verifier and reviewer respectively.</p>

AWP 4.4: Declaration of NO Conflict of Interest

I, Mr./Ms. (.....) have been assigned as Audit Supervisor/Team Leader/team member in auditing(.....) for the period covering 1 July 20..... to 30 June 20..... In accordance with a clause on Conflict of Interest as stated in the SAI's Code of Ethics, I hereby declare that to the best of my knowledge I do not have any of my close relatives holding influential position in.....Further, I undertake to inform my supervisor/team leader should it be known later that the has any close relatives of mine holding influential position or, any circumstances that may conflict or appear to conflict with my own interest. In the event of any adverse situation arising out of a conflict of interest in which I am a part, I understand that I shall be held fully responsible and shall be liable to prosecution as per the laws of the land.

Dated Signature :
Name of the Audit Team Member making the declaration :
Designation & Division/Section/Unit :

Dated Signature :
Audit Engagement Supervisor/Head of Department :
Designation & Division/Section/Unit :

Guidance for completing Declaration of NO Conflict of Interest

Overall Objective of the completing the template	The overall objective is to obtain declaration from the audit supervisor, audit team leader, and audit team member that he/she has no conflict of interest in the context of close relatives occupying influential position in the entity identified for audit. It is also to ensure that the audit is conducted with complete objectivity and independence. The audit team including the audit supervisor should be and be seen to be independent.
Applicable ISSAIs	ISSAI 130, ISSAI 2200 and ISSAI 2220
Guidance	The declaration made by everyone in the audit team needs to be signed off by his or her supervisor. In the event of declaration made by the audit supervisor, it should be signed off by a person to whom he/she is reporting. Different SAIs may have different organisational structures, and audit staff at different levels have different designations. The positions mentioned in this template needs to be modified suiting the SAI's audit team composition and the defined supervisory levels. The texts of the template may also be modified accordingly.

AWP 4.5: Declaration of Conflict of Interest

I, Mr./Ms. (.....) have been assigned as Team Leader/team member in auditing(.....) for the period covering 1 July 20..... to 30 June 20..... In accordance with a clause on Conflict of Interest as stated in the SAI's Code of Ethics, I hereby declare that my close relative(s) given in the following Table are holding influential position in..... As such I have a conflict of interest to be a part of the audit team to conduct this audit. In this regard, I could like to withdraw from this audit team.

Sl. No.	Name of close relatives	Position held in the entity
1	Mr. X	Financial Controller
2	Mr. Y	Human Resource Manager
3	Mr. Z	Procurement Officer

Dated Signature :
 Name of the Audit Team Member making the declaration :
 Designation & Division/Section/Unit :

Dated Signature :
 Audit Engagement Supervisor/Head of Department :
 Designation & Division/Section/Unit :

Guidance for completing Declaration of Conflict of Interest

Overall Objective of the completing the template	The overall objective is to obtain declaration from the audit supervisor, audit team leader, and audit team member that he/she has a conflict of interest in the context of close relatives occupying influential position in the entity identified for audit. The inclusion of supervisor, team leader or team member having a conflict of interest in the audit team may impair objectivity and independent conduct of an audit. The audit team including the audit supervisor should be and be seen to be independent.
Applicable ISSAIs	ISSAI 130, ISSAI 2200 and ISSAI 2220
Guidance	<p>The declaration made by everyone in the audit team needs to be signed off by his or her supervisor. In the event of declaration made by the audit supervisor, it should be signed off by a person to whom he/she is reporting. Different SAIs may have different organisational structures, and audit staff at different levels have different designations. The positions mentioned in this template needs to be modified suiting the SAI's audit team composition and the defined supervisory levels. The texts of the template may also be modified accordingly.</p> <p>In the event where there is more than one close relatives occupying influential position in the an entity, a person making the declaration my mention the names of those in the table provided in the template. Whether a person is influential in the entity will depend on what kind of posts he/she holds. Not all close relatives working in the entity will have an influence in the decision-making process, and hence the need to clearly indicate posts being held by those being included in the list.</p> <p>The declaration made by each individual need to be independently verified by a person signing off, atleast to ensure the post being held by a person declared as close relative valid and correct, and that he/she had influence over decision making process.</p>

AWP 4.6 Assessment of ethical threats and safeguards

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

Name of the Auditor:

Designation:

Ethical Threats (<i>Traced from AWP 4.3</i>)	Suggested Safeguards
Self Interest Threat (<i>Financial or other interests of audit team member or close family of audit team</i>)	
Self-review threat (<i>Auditor performing review of his own work as a result does not identify the shortcomings in his own work</i>)	
Advocacy Threat (<i>Auditor is asked to promote the audited entity's position or represent them in some way</i>)	
Familiarity Threat (<i>The auditor is too trusting of the audited entity because of a close relationship with them</i>)	
Intimidation Threat (<i>Auditors are deterred from acting objectively by threats made against them, such as the threat of litigation</i>)	

Conclusion

The Ethical threats arising as a result of taking up the audit of (*name of audited entity*) have been assessed against the aforementioned auditor and necessary safeguards as indicated above have been put in place to uphold the independence and objectivity in the conduct of the audit of this entity.

(Name of Audit Engagement Supervisor)

Designation:

Division/Unit/Section:

Guidance for completing Declaration of Conflict of Interest

Overall Objective of the completing the template	The overall objective is to assess the ethical threats arising as a result of conducting this audit, and to suggest safeguards to bring such threats to an acceptably low level.
Applicable ISSAIs	ISSAI 130, ISSAI 2200 and ISSAI 2220
Guidance	<p>This working paper template should be used only if there is an ethical threat(s) to an individual auditor, audit team leader, audit supervisor, etc. as a result of conducting the audit of an entity. This template is linked to AWP 4.3. In an event where a particular member in the audit team has stated the reason that he/she will not be able to comply with the given ethical code of conduct, the ultimate solution could be withdrawing that particular member from the audit team. However, given the situation where the SAI has a human resource constraint, the withdrawal of a member(s) and to have a substitute may not be possible as always. Therefore, the SAI or the audit supervisor is supposed to suggest safeguards to bring ethical threats to an acceptably low level.</p> <p>Besides, tracing those reasons provided by the team members in AWP 4.3, an individual auditor as well as audit supervisors and team leader may assess ethical threats, and accordingly suggest the safeguards. This is to ensure that appropriate safeguards are put in place for every threat identified.</p> <p>The list provided herewith is example only, and may not be applicable in all SAIs.</p>
Conclusion	<p>While the team leader assigned for the audit is expected to assess ethical threats and safeguards of every member in the audit team, the audit supervisor will review and provide a conclusion of the assessment.</p> <p>Similarly, if there is an ethical threat to Audit Supervisor, his/her superior is expected make an assessment and provide a similar conclusion as above.</p>
Recording evidence of assessor & reviewer	<p>The table indicating the details of a person assessing ethical threats and reviewer needs to be completed at the end. This is to ensure that there was independent check and balance system in the audit team, and that this was completed before commencement of audit.</p> <p>In this case, the assessor is usually the audit team leader, and the reviewer is the audit supervisor. Similarly, when the ethical threats are assessed against the audit team leader and audit supervisor, the assessor and reviewer can then be addressed based on the organisation structure of the SAI. This needs to be signed off accordingly by the assessor and reviewer respectively.</p>

AWP 4.7: Sample Audit Engagement Letter

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	
<p>As required under the SAI Audit Act and <i>(other relevant laws)</i>, the SAI of <i>(insert name of country)</i> 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 <i>(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)</i>. This is a mandated audit as required by the Laws. We further confirm our understanding of this audit engagement by means of this letter.</p> <p>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 (ISSAIs) 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.</p>	
Responsibilities of the Auditors	
<p>We will conduct our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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:</p> <ul style="list-style-type: none">• 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 ISSAIs.

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

Guidance for draft and issue audit engagement letter

Overall Objective of the completing the template	<p>The overall objective of issuing the audit engagement letter is to establish the terms and conditions of audit engagement. In the context of audit conducted by the SAIs, the issuance of audit engagement letter may further reinforce the mandate, responsibilities of the SAIs, and management of the entities that may have been already defined in various laws, rules and regulations.</p> <p>This letter also establishes the terms and conditions of the audit engagement.</p>
Applicable ISSAIs	ISSAI 2210, ISSAI 2260
Guidance	<p><i>Exhibit 4.6: Audit Engagement letter is adapted from Appendix 1 of ISSAI 2210 (Amended version).</i> Some of the contents are customised that may be applicable in the audit of financial statements of public sector entities.</p> <p>The contents of the audit engagement letter should be amended according to the type of financial reporting framework used by the entity or entities to prepare the financial statements. The framework could be either a fair presentation framework or compliance framework, as such the wording of Para No (a) under Management's responsibilities will have to be amended accordingly. Similarly, if the financial statements are prepared on cash basis, the responsibility of the auditor to evaluate the reasonableness of the accounting estimates become irrelevant (<i>refer bullet point No. 3 under auditor's responsibilities</i>).</p> <p>The paragraph on going concern assumption also needs to be reviewed, since this is more applicable to business entities or the listed companies. It may still be applicable if the whole of government accounts are audited, where outstanding public debt may also appear in the financial statements. It may appear less relevant when government entity is audited.</p> <p>Therefore, the audit engagement letter should be customised accordingly, and made relevant to audit of an entity identified for audit.</p>
Conclusion	<p>The audit supervisor or the team leader should ensure that the management of the entity or those charged with governance have understood the content of the audit engagement letter. Among others, the audit entry conference can be used as a forum to discuss and communicate with the management and those charged with governance where appropriate on the terms and conditions of the audit engagement.</p>

AUDIT PLANNING

AWP 5.1: Understanding the Entity and its Environment

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

1. Background of the entity

--

2. External environment affecting the entity

2.1. Parliamentary directive and interest

--

2.2. Relevant laws and regulations affecting the entity

--

2.3 Issues relevant to audit engagement reported in the media

--

2.4 Significant areas/nature of work affecting the lives of citizens

3. Internal environment affecting the entity

3.1 Organizational set-up and source of financing

3.2 Objectives and strategies of the entity

3.3 Core function or nature of the entity

3.4 Existence and Independence of internal audit function

4. Selection and application of accounting policies

4.1. Applicable financial reporting framework followed by the entity

--

4.2. Accounting policies

--

4.3. Budgeting processes

--

4.4. Budget and accounting systems used (Web-based/Manual/Standalone)

--

4.5. Statutory reporting requirements, structures and deadlines

--

5. Consideration of other factors affecting the business

5.1. Entity's key personnel

--

5.2. List of bank accounts including authorized signatory

--

6. Audit Findings/Observations in prior year that have impact on the current year's risk assessment

7. Analytical Procedure

Financial Statement Items (A)	Prior Year Balance (B)	Current Year Balance (C)	Difference		Explanation for material variances
			Amount (D) =(C) – (B)	% (E) = (D) / (B)	
Cash	1,000.00	1,500.00	500.00	50%	Significant increase in cash is attributable to
Receivables					
Inventory					
...					
...					

8. Overall conclusions: Risks affecting the entity and at the financial statement level (Risk as a result of operation of the entity)

(Trace to Risk Register – AWP 5.4)

Guidance for completing the documentation of understanding of the entity and its environment

Overall objective of completing the template	The overall objective of this audit working paper is to establish and document the understanding of the entity and its environment, including the internal controls relevant to an audit. ISSAI 2315 requires the auditor to assess the risk of material misstatements through understanding the entity and its environment.
Applicable ISSAI	ISSAI 2300, ISSAI 2315, ISSAI 2250
Guidance	In order to assess the risk of material misstatement in the financial statements, the auditor needs to understand the entity and its environment. Based on the list provided in the template (AWP 5. 1), the auditor can gather a general understanding of the entity, taking into account both internal and external factors. It is critical that the auditor understands the core business of the entity. In documenting the understanding of the entity and its environment, the auditor needs to bear in mind the risk related to the entity (business risk or entity risk) that may occur during the course of its operation and that may result in material misstatement in the financial statements. In case there is an existence of internal audit function in relation to Section 3.4, the audit team needs to refer to Annex A (AWP 5.1a. understanding internal audit function, including reliance on its work), Annex B (AWP 5.1b direct assistance request of Internal Auditor template) and Annex C (AWP 5.1c agreement on direct assistance of Internal Auditor template), as applicable.
Conclusion	The audit team needs to conclude that an adequate understanding of the entity has been established, and that every auditor in the team has the knowledge of the entity. The team should also ensure that this documentation is well linked to assessing the risk of material misstatement at the financial statement level, and assessing the control environment and identification of control activities relevant to the risks identified.
Recording the evidence of preparer and reviewer	<p>The Table indicating the names of the person who prepared and documented the understanding and the reviewer needs to be completed at the end. While the team should collectively document the understanding of the entity, the team leader or one of the members who prepared this document could sign as the preparer.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that it has been reviewed.</p>

AWP 5.1a: Understanding the Internal Audit Function, including reliance on its work

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

Work of internal auditor assessed by		Signature	Reviewed by	Signature
Name:				
Designation:				
Date:				

Checklist for understanding the internal audit function and assessing reliance on internal audit work	(Yes/No)	If yes, extent of reliance on work performed by internal auditor and in which area	If No, effect on assessing risk of material misstatement in financial statements Traced to AWP 5.4
1	2	3	4
A. Assessment of objectivity			
a) Is there a clearly defined structure and role of Internal audit in the entity? Is the current set-up conducive to objectivity of internal auditors?			
b) Is there an element of independence in reporting? To whom does IA report?			
c) Are there no conflicting roles entrusted to internal audit?			
d) Are there no constraints or restrictions placed on the internal audit function by management or those charged with governance?			
e) Did management take any action on the recommendations offered by Internal Audit?			
B. Competence of internal auditors			
a) Are the internal auditors members of relevant professional bodies? State the body.			
b) Have they undergone adequate technical training and proficiency as IA?			
c) Is there any policy in place to enhance technical competencies of IA?			
C. Due professional care			
a) Have IA activities been properly planned, supervised, reviewed and documented?			
b) Are conclusions reached supplemented by adequate audit evidence?			
D. Activities of internal audit function			
a) Assigned with review of controls, monitoring, etc.			

Checklist for understanding the internal audit function and assessing reliance on internal audit work	(Yes/No)	If yes, extent of reliance on work performed by internal auditor and in which area	If No, effect on assessing risk of material misstatement in financial statements Traced to AWP 5.4
1	2	3	4
b) Assigned to review applicable means to identify, measure, classify and report financial and operating information.			
c) Assigned to review the economy, efficiency and effectiveness of operating activities including non-financial activities.			
d) Assigned to review compliance with laws, regulations and other external requirements including policies.			
e) Assigned with risk management.			
f) Assigned to assess the governance processes.			
E. Documentation			
a) Have internal auditors maintained adequate documentations of internal audit work performed in a professional manner?			

Guidance for completing documentation of the understanding of internal audit function and reliance on its work

Overall objective of completing the template	The overall objective of this audit working paper is to document the understanding of the internal audit function in the entity and assess the work done by internal auditor(s), if the external auditor were to place reliance on their work relevant to audit of financial statements. ISSAI 1315 recognises the internal audit function as an important element of monitoring internal control.
Applicable ISSAI	ISSAI 2300, ISSAI 2315, ISSAI 2610
Guidance	Internal audit in an entity is an important element that can prevent or detect material misstatement in the financial statements that may result due to weakness in internal controls. The work of external auditors can be reduced to take into account the extent of work done by internal audit if that work can be relied upon. This template is to be used only if an internal audit function exists in the entity.
	<p>Column 1 This column provides a suggested checklist for documenting the understanding of the internal audit function and assessing the work done by internal auditors, under five broad categories. This checklist can be customised at the time of planning the audit. This list is not an exhaustive one.</p> <p>Column 2 Upon finalising the checklist if customised, or using the checklist suggested in Column 1, the auditor can record the answer appropriately in Column 2 as either 'Yes' or 'No'. If the answer is 'Yes', the supporting evidence may be obtained from the entity and documented accordingly in the audit file.</p> <p>Column 3 This column provides a field where auditors can record to what extent the work performed by internal auditor can be relied upon in an audit of financial statements, and in which areas. This will result only if the answer to specific questions in the checklist is recorded as 'Yes'. The extent of reliance can be either 'fully rely' or 'partially rely', and areas of reliance would then depend on the items of the financial statements.</p>

	<p>Column 4 If the answer to specific questions in the checklist is recorded as 'No', then the auditor needs to record how this will affect assessment of the risk of material misstatement in the financial statements. This can be traced to AWP 5.4 Risk Register. A weak internal audit function or lack of management action on the work of internal audit increases the risk of material misstatement in the financial statements.</p>
Conclusion	<p>The audit team needs to conclude that an appropriate understanding of the internal audit function has been established and the work done by internal auditors has been assessed to place reliance on it in an audit of financial statement.</p> <p>Once completed, this document needs to be signed off by the audit supervisor. However, the document should be updated as and when required.</p>
Recording the evidence of assessor and reviewer	<p>The Table indicating the names of the person who assessed the internal audit function and work done by internal auditors and the reviewer needs to be completed at the end. One of the team members or the team leader could make this assessment and needs to be signed off accordingly.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p>

AWP 5.1b: Template of request to entity's Authorized Representative seeking direct assistance of Internal Auditors

The Representative of Internal Auditor

Name of the Entity

Place

Dear Sir/Madam,

Besides reliance on the nature and extent of work performed by the Internal Audit function in.....(*Name of the entity*), the engagement team of.....(name of the Division), SAI...(name of SAI) has assessed the pre-conditions for seeking the direct assistance of internal auditors. As per the evaluation in terms of threats to objectivity and competence, the engagement team has decided to engage your internal auditor for the audit offor the year ended (year-end date).

The engagement team has identified the nature and extent of work that it intends to assign to your internal auditor for direct assistance under the direct supervision of the engagement team, as briefly described below:

- 1) The test of controls (design and implementation and testing of operating effectiveness) on contract employees for the year ended (year-end date) including substantive procedures as per the planned document.
- 2) Direct confirmation of year-end bank balance of Account No.....of the ...(name of the Agency) under direct supervision of(name of engagement team).
- 3) Summary of sales figures for the...(year) by agent and date of collections and deposits.
- 4)

We would solicit your kind cooperation in confirming whether you accept/decline the engagement of your internal auditors with our engagement team by signing the agreement enclosed herewith (refer AWP 5.1c) and return to engagement team at latest by.....(date and year)

Yours sincerely,

(Name of Supervisor)

Name of Division/Department

**AWP 5.1c: Template of written agreement from entity's Authorized Representative
allowing direct assistance of Internal Auditors**

The Audit Supervisor

Name of Division/Department

SAI XYZ

Dear Sir/Madam,

As per the written request from...(Designation).....(Name of the Division) for engagement of our internal auditors, management has concluded, after review of the scope and nature of works stated in the request letter, that:

- 1) I/we agree to depute internal auditors to provide direct assistance in audit of assigned works under direct supervision and reporting to the engagement team without any intervention in the work of our internal auditors performed for the engagement team, OR
- 2) I/we regret to inform you that we are not been able to depute our internal auditor for the current engagement due to the following reasons:

✓

I/we agree to abide by this agreement.

Yours sincerely,

(Representative of Internal Auditor)

Name of Division

Guidance for completing the working paper templates – AWP 5.1a & 5.1b

Overall objective of completing the template	The overall objective is to document the request to engage the direct assistance of internal auditors in an audit of financial statements, and the agreement by the management or the representative of the internal auditors to provide such assistance.
Applicable ISSAI	ISSAI 2300, ISSAI 2610
Guidance	<p>First, prepare the request letter given above as AWP 5.1a detailing the areas to be allocated to the internal auditors; send it to management or those charged with governance or to the representative of the entity's internal auditor. This would also depend on to whom the internal auditor is reporting.</p> <p>Along with the request letter, send the format prescribed for obtaining agreement by management or those charged with governance or the representative of the internal auditors (AWP 5.1b) to the request made by the SAI for direct assistance of internal auditors. As indicated in the format, the response could be either positive or negative. The SAI should ensure, among others, that management or those charged with governance understand the nature of this engagement. To the extent possible, the SAI or the audit supervisor should ensure that the purpose of this direct assistance is explained to management or those charged with governance.</p>

AWP 5.2: Evaluation of Control Environment

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

1	2	3
Checklist	(Yes/No/NA)	If No, effect on assessment of ROMM
		Trace to AWP 5.4 – Table A
A. Control environment		
a) Is there a clearly defined senior management structure? e.g. ministry-level committee, senior management committee, executive committee, etc.		
b) Has management, with the oversight of those charged with governance, created and maintained a culture of honesty and ethical behaviour? Have they communicated and enforced integrity and ethical values?		
c) Are the responsibilities of the senior management structure clearly defined?		
d) Has management considered the competence levels for particular jobs and how those levels translate into requisite skills and knowledge?		
e) Has management participated in the design and implementation of controls for appropriate management structure?		
B. Codes of conduct		
a) Does management promulgate a written code of conduct, applicable to both management and staff, to serve as a benchmark for management's and staff's attitudes and behaviour?		
b) Is the code communicated throughout the organisation? Is it periodically acknowledged by the employees? Have the employees subscribed to the relevant Code of Conduct?		
c) Are employees informed of what they should do if they encounter improper behaviour?		
d) Are there written policies to regulate management's dealings with employees, suppliers, customers and creditors?		
e) Is there a written policy in respect of declaring related-party transactions?		
C. Management's attitude to internal controls		

1	2	3
Checklist	(Yes/No/NA)	If No, effect on assessment of ROMM
a) Does management encourage and act on independent assessments of the control environment and internal controls? For example, are audit reports and government instructions reviewed and responded to at management committee level? Are internal audit reports on internal controls encouraged by senior management and responded to at management committee level?		
b) Is there an appropriately constituted audit committee with oversight of internal and external audit arrangements, and a remit to consider the operation of internal controls?		
c) 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 breaches?		
d) Does management ever override normal procedures, codes, internal controls, etc.—for instance, to make procurements without following procurement procedures or appoint personnel without a media announcement? Are such overrides documented and investigated?		
e) Does management provide adequate resources for internal audit work? (Consider whether the internal audit function is of appropriate size, quality and independence.)		
D. Recruitment, retention and remuneration of senior staff		
a) Are vacant senior positions widely advertised within the pool of suitably qualified individuals (internally and/or externally)?		
b) Are promotion and appointment mechanisms transparent and based on objective and appropriate criteria so as to prevent undue patronage and nepotism?		
c) Is there independent review of remuneration?		
d) Are factors other than achievement of short-term performance targets included in performance appraisals?		
e) Are integrity and ethical criteria included in performance appraisals?		
f) Is there an independent review of the function of key officers (i.e. by internal audit or any external party)?		
g) Are there job descriptions? If so, do they contain sufficient reference to control-related responsibilities?		
h) Are executive functions reserved to appropriate level of management?		
i) Do organisations have appropriate motivation and retention policies for employees?		
j) Are recruitment policies set out in writing?		

1	2	3
Checklist	(Yes/No/NA)	If No, effect on assessment of ROMM
k) Are there appropriate procedures to verify candidate's experience, qualifications and references? Are there appropriate committees constituted for recruitment?		
l) Are new employees made aware of their responsibilities and management's expectations of them, preferably through a detailed written job description?		
m) Do performance reviews cover the achievement of developmental and training needs, and future developmental and training requirements of employees?		
n) Are there appropriate disciplinary procedures for transgressions of the organisation's code or other unacceptable employee behaviour?		
E. Management oversight of operations		
a) Is there a clearly defined management/organisation structure with clear reporting lines encompassing all of the organisation's function and staff?		
b) Are there up-to-date procedure manuals covering both the operational and financial accounting procedures?		
c) Does management establish financial and physical targets for the organisation?		
d) Is there a practice of preparing management accounts/performance appraisal reports? If there is, do they have an appropriate level of commentary/budget comparison prepared on a regular and timely basis?		
e) Are the management accounts drawn up from the same accounting records that form the basis of the audited financial statements?		
f) Do the accounting records appear to be well ordered and complete, and are financial reconciliations carried out on a regular basis?		
g) 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?		
h) Are there relevant and reliable performance measures/indicators in place?		
i) Does senior management give appropriate consideration to the process and results of external audit and the financial statements?		

Guidance for completing documentation of the evaluation of control environment

Overall objective of completing the template	The overall objective of this audit working paper is to evaluate the control environment within the entity, which will have an impact on assessing the risk of material misstatement in the financial statements. Control environment is one of the elements of internal components as per ISSAI 2315.
Applicable ISSAI	ISSAI 2315
Guidance	Understanding the control environment forms a part of understanding the entity and its environment. Having understood the control environment, the next step is to evaluate specific areas that are suggested in this template.
	<p>Column 1 This column provides a suggested checklist for evaluating the control environment under five categories. The checklist can be customised based on the nature of the entity, which also includes the governance structure.</p> <p>Column 2 Based on the evaluation of the control environment using the suggested checklist, the auditor can record the answer to Column 1 as Yes, No, or Not Applicable. It is suggested that this evaluation be done based on review of the documents and interviews with management and other relevant staff in the entity. If the answer is Yes, it needs to be supported by relevant evidence gathered from the entity, which may also include records of interviews. Not Applicable is suggested as a possible answer in case the auditor plans to use this as a standard checklist, in which case some items therein would not be applicable to the particular audit.</p> <p>Column 3 If the answer to specific checklist(s) under column 1 is recorded as No under Column 2, the auditor needs to record how that will affect the assessment of the risk of material misstatement in Column 3. This should then traced to the working paper on ROMM (referred to here as AWP 5.4)</p>
Recording the evidence of evaluator and reviewer	<p>The Table indicating the names of the person who evaluated the control environment and the reviewer needs to be completed at the end. One of the team members could evaluate the control environment, in which case she/he should sign off as evaluator.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p>

AWP 5.3: Documentation of Process Flow to Identify Risks of Material Misstatement in the Financial Statements *(related to specific items in the financial statements)*

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

Name of Process <i>(depending on the nature and operations of the entity i.e., cash receipts cycle, cash disbursement cycle)</i>	
Basis of determining process flow	<i>Document review and interviews with the designated personnel in the entity</i>

Process flow defined as follows *(describe process flow here from initiation to reporting):*

<narrative or flowchart>

Summary of risks at the assertion level and controls:

Risks at the Assertion Level <i>Trace to AWP 5.4</i>	Control Activities <i>Trace to AWP 5.5</i>

Guidance for documenting the process flow to identify risks of material misstatement in the financial statements

Overall objective of completing the template	The overall objective of documenting the process flow is to facilitate the auditors' understanding of the accounting process related to classes of transactions, account balances and disclosures that will facilitate identification of risks of material misstatement in the financial statements. ISSAI 2315 requires the auditor to assess the risk of material misstatement through understanding the entity and its environment. In doing so, the auditor needs to establish an understanding of the process involved in each class of transaction, account balance and disclosure where relevant.
Applicable ISSAI	ISSAI 2300, ISSAI 2315
Guidance	<p>A template on overall understanding of the entity is suggested under AWP 5.1. AWP 5.3 herewith provides mainly guidance as to how the auditor can document the process flow of classes of transactions, account balances and disclosures.</p> <p>Audit team needs to identify the processes that will be subject to understanding based on the understanding and experience on the nature and operations of the entity. The audit team may also inquire from the appropriate personnel for the processes involved in the entity or refer to documented procedural manual of the entity if any. These processes include routine and non-routine processes undergone by class of transactions, account balances and disclosures presented in the financial statements. Routine processes include frequently recurring transactions such as cash receipts, cash disbursement, etc. Non-routine processes include less frequently recurring transactions such as write-off of receivables, impairment, etc.</p> <p>The purpose is to identify the risks of material misstatement at the assertion level, through understanding the accounting process and what could go wrong at every stage of the process. The process should cover the initiation, recording, processing, and reporting stages.</p> <p>A process flow can be documented in the form of narrative write up, flow chart, etc. In documenting the process flow, the auditor needs to visualise what could go wrong at every stage of the process related to individual classes of transactions, account balances, and disclosures. One template needs to be prepared for each process identified</p> <p>In the second row, record the basis on which the process flow has been established: it could be in the form of document review, observation of processing of accounting transaction, or an interview with the designated personnel in an entity.</p> <p>The risks identified can be summarised in the table below the process flow which will then be transferred in the risk register Table B suggested herewith as AWP 5.4. Any controls identified that could mitigate the risk can also be summarised in the table which will then be transferred to AWP 5.5 – Log of control activities.</p> <p>The audit team needs to perform walkthrough procedures by following one transaction on how it has undergone the process. This will help the audit team confirm its understanding whether the documented processes are actually followed. This will also provide basis in making initial assessment of controls whether they are adequately designed and implemented. Take note that this is different from test of controls where audit team tests operating effectiveness of controls. If the audit team identifies that controls are not adequately designed nor implemented, there is no need to design test of control procedure in the risk response, UNLESS the audit team determined that substantive testing alone cannot provide sufficient appropriate audit evidence as stated in ISSAI 2330.</p>
Recording the evidence of reviewer	<p>The Table indicating the names of the person who prepared the process flow and the reviewer needs to be completed at the end. The preparer could be a team leader or one of the team members and needs to be signed off accordingly.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p>

AWP 5.4: Risk Register

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

Table No. A: Risks of material misstatement at the financial statement level

Sl. No.	Identified risks	Risk No.
	<i>Traced from AWP 4.1 - FRF/ AWP 5.1 & 5.2 Understanding the entity & Control Environment/ AWP 5.3 Process Flow (if applicable)</i>	<i>Traced to AWP 5.5 - Control Log & AWP 5.8 - Risk Response Template</i>
	1	2
1.		FSR/01
2.		FSR/02

Table No. B: Risks of material misstatement at the assertion level

Sl. No.	Name of the Process	Identified risks	Risk No.	Affected COTABD* (significant)	Relevant assertions
		<i>Traced from AWP 5.3 Process Flow/ AWP 4.1, 5.1, 5.2 (if applicable)</i>	<i>Traced to AWP 5.5 - Control Log & AWP 5.8 - Risk Response</i>	<i>Traced to AWP 5.7 - Risk Assessment</i>	<i>Traced to AWP 5.7 - Risk Assessment</i>
	1	2	3	4	5
1.			ALR/01		
2.			ALR/02		

*COTABD – Classes of Transactions, Account Balances or Disclosures

Guidance for recording risks in the Risk Register

Overall objective of completing the template	The overall objective of this audit working paper is to record the risks of material misstatement identified at the financial statement level while obtaining an understanding the entity and its environment, and at the assertion level for classes of transactions, account balances and disclosures while determining the process flow of material classes of transactions, account balances and disclosures.
Applicable ISSAI	ISSAI 2300, ISSAI 2315
Guidance	Recording of risks in the Risk Register should take place simultaneously while obtaining an understanding of the entity and its environment and understanding the process flow for classes of transactions, account balances and disclosures. In a subsequent audit, this Risk Register can be updated based on new risks identified, without having to go through the whole process again.
	<p>Table No. A: Risk of material misstatement at the financial statement level</p> <p>Column 1 In this column, the auditor needs to record the risks identified at the financial statement level through understanding the entity and its environment, including</p>

	<p>control environment. This can also be traced from AWP 4.1, AWP 5.1 and AWP 5.2, which contains a specific field to record the risks identified while obtaining an understanding of the entity and its environment, including the control environment.</p> <table border="1"> <tr> <td data-bbox="368 297 507 376">Column 2</td><td data-bbox="507 297 1422 376">Each risk identified at the financial statement level can be provided with a unique identification number (refer to examples above) for ease of reference.</td></tr> </table> <p>Table No. B: Risk of material misstatement at the assertion level</p> <table border="1"> <tr> <td data-bbox="368 488 507 566">Column 1</td><td data-bbox="507 488 1422 566">In this column, the audit team needs to indicate the name of the process reviewed in AWP 5.3 - Process Flow.</td></tr> <tr> <td data-bbox="368 566 507 745">Column 2</td><td data-bbox="507 566 1422 745">In this column, the auditor needs to record the risks identified against the class of transaction, account balance and disclosure, based on the process flow determined at AWP 5.3. In recording this risk, the auditor needs to bear in mind 'what could go wrong' in the financial statements as a result of the identified risk.</td></tr> <tr> <td data-bbox="368 745 507 925">Column 3</td><td data-bbox="507 745 1422 925">The risks identified and recorded in the Risk Register will have to be linked to control activities and the Risk Assessment Template later. For this purpose, each risk identified against classes of transactions and account balances can be provided with a unique identification number (refer to examples above) for ease of reference.</td></tr> <tr> <td data-bbox="368 925 507 1037">Column 4</td><td data-bbox="507 925 1422 1037">ISSAI 2315 requires that significant COTABD be identified. Significant COTABD are those affected by the risks identified by the audit team. These items will then be transferred to AWP 5.7 - Risk Assessment.</td></tr> <tr> <td data-bbox="368 1037 507 1328">Column 5</td><td data-bbox="507 1037 1422 1328">Each risk identified should then be linked to relevant audit assertions. As a result of risks identified against classes of transactions, account balances and disclosures, there could be material misstatements in the financial statements and those will be well linked to relevant assertions. The other reason for identifying relevant audit assertions against the risks is that the auditor needs to respond to those risks by designing and performing appropriate audit procedures, and the relevant assertions identified at this level will become the audit objectives.</td></tr> </table>	Column 2	Each risk identified at the financial statement level can be provided with a unique identification number (refer to examples above) for ease of reference.	Column 1	In this column, the audit team needs to indicate the name of the process reviewed in AWP 5.3 - Process Flow.	Column 2	In this column, the auditor needs to record the risks identified against the class of transaction, account balance and disclosure, based on the process flow determined at AWP 5.3. In recording this risk, the auditor needs to bear in mind 'what could go wrong' in the financial statements as a result of the identified risk.	Column 3	The risks identified and recorded in the Risk Register will have to be linked to control activities and the Risk Assessment Template later. For this purpose, each risk identified against classes of transactions and account balances can be provided with a unique identification number (refer to examples above) for ease of reference.	Column 4	ISSAI 2315 requires that significant COTABD be identified. Significant COTABD are those affected by the risks identified by the audit team. These items will then be transferred to AWP 5.7 - Risk Assessment.	Column 5	Each risk identified should then be linked to relevant audit assertions. As a result of risks identified against classes of transactions, account balances and disclosures, there could be material misstatements in the financial statements and those will be well linked to relevant assertions. The other reason for identifying relevant audit assertions against the risks is that the auditor needs to respond to those risks by designing and performing appropriate audit procedures, and the relevant assertions identified at this level will become the audit objectives.
Column 2	Each risk identified at the financial statement level can be provided with a unique identification number (refer to examples above) for ease of reference.												
Column 1	In this column, the audit team needs to indicate the name of the process reviewed in AWP 5.3 - Process Flow.												
Column 2	In this column, the auditor needs to record the risks identified against the class of transaction, account balance and disclosure, based on the process flow determined at AWP 5.3. In recording this risk, the auditor needs to bear in mind 'what could go wrong' in the financial statements as a result of the identified risk.												
Column 3	The risks identified and recorded in the Risk Register will have to be linked to control activities and the Risk Assessment Template later. For this purpose, each risk identified against classes of transactions and account balances can be provided with a unique identification number (refer to examples above) for ease of reference.												
Column 4	ISSAI 2315 requires that significant COTABD be identified. Significant COTABD are those affected by the risks identified by the audit team. These items will then be transferred to AWP 5.7 - Risk Assessment.												
Column 5	Each risk identified should then be linked to relevant audit assertions. As a result of risks identified against classes of transactions, account balances and disclosures, there could be material misstatements in the financial statements and those will be well linked to relevant assertions. The other reason for identifying relevant audit assertions against the risks is that the auditor needs to respond to those risks by designing and performing appropriate audit procedures, and the relevant assertions identified at this level will become the audit objectives.												
Recording the evidence of reviewer	<p>The Table indicating the names of the person who prepared this Risk Register and the reviewer needs to be completed at the end. The preparer could be a team leader or one of the team members and needs to be signed off accordingly.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p>												

AWP 5.5: Log of Control Activities

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

Sl. No.	Risk Reference No.	Identification of control activities at assertion level	Manual or automated	Many times (MT) /Weekly(WK)/ Monthly(MH) /Quarterly(QR)/ Yearly (YR)	Control activity reference No.	Evaluation of Design & Implementation of Control Activities Adequate/inadequate
	<i>Traced from AWP 5.4</i>	<i>Traced from AWP 5.3</i>				<i>Trace to AWP 5.8, Column 9</i>
	1	2	3	4	5	6
1		ALR/01			CA/01	
2		ALR/01			CA/02	

Guidance for completing the working paper on identifying control activities against each risk

Overall objective of completing the template	The overall objective of this audit working paper is to identify and record control activities that are in place or should be in place to prevent the occurrence of risks identified at the financial statement level and at the assertion level for material classes of transactions, account balances and disclosures. In other words, management is responsible for internal controls to prevent risks of material misstatement in the financial statements.
Applicable ISSAI	ISSAI 2315
Guidance	Control activities against each risk can be recorded based on a review of documents maintained by the entity and discussion with the designated personnel of the entity. The auditor should ensure that the control activities identified are relevant to risks. In responding to the assessed risks of material misstatement in the financial statements, the auditor can first test the operating effectiveness of controls in place, and this log of control activities becomes the reference basis for testing the controls.
	<p>Column 1 In this column, the auditor can either record the name of the risk or just the risk reference number traced from Table No. B of AWP 5.4.</p> <p>Column 2 In this column, the auditor should record the control activities relevant to the risks identified from AWP 5.3 - Process Flow. The control activities should also be relevant and well linked to classes of transactions, account balances and disclosures. The auditor should ensure that the control activities identified and recorded here exist within the entity. The auditor could still record a control activity that should be but is not in place (later, such a case may become part of an audit recommendation to strengthen internal control. Take note that ISSAI 1265 requires audit team to communicate significant internal control deficiencies found in the audit).</p> <p>Column 3 This column is to indicate whether the controls in place identified against the risks are in the form of manual or automated controls. For obvious reasons, there could be a high risk of material misstatement in the financial statements if</p>

		the controls in place were manual as compared to automated controls. This will thus influence the extent and appropriateness of designing both OE testing procedures and substantive testing procedures.
	Column 4	This column provides categories for the frequency of controls being implemented at the entity, i.e. the control identified could be implemented Many Times, Weekly, Monthly, Quarterly, Yearly. The frequency at which controls are implemented will determine the number of samples to be selected for testing their operating effectiveness. This is linked to Column 8 of AWP 5.8, Table No. B (Risk Response).
	Column 5	The control activities identified and recorded in this Log of Control Activities will later have to be linked to identified risks. For this purpose, each control activity identified and recorded against each risk and also linked to classes of transactions, account balances and disclosures can be given a unique identification number (refer to examples given in Control Log as Control Activity Reference number) for ease of reference.
	Column 6	This column documents the auditor's assessment on whether the controls identified are adequately designed to mitigate the risks identified, and implemented as designed. This evaluation is based on the walkthrough procedures during the Understanding the Process in AWP 5.3. In the walkthrough procedures, the auditor needs to follow one transaction to confirm whether the process is properly followed and to check the design and implementation of controls. The conclusion is either "adequate" or "inadequate" which will provide the basis for auditor in making initial control risk assessment in AWP 5.7 - Risk Assessment Template.
Recording the evidence of reviewer	<p>The Table indicating the names of the person who prepared this Risk Register and the reviewer needs to be completed at the end. The preparer could be a team leader or one of the team members and needs to be signed off accordingly.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p>	

AWP 5.6: Determining Materiality in Planning and Performing the Audit

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

Materiality calculated by		Signature	Reviewed & approved by	Signature
Name:				
Designation:				
Date:				

Table A: Determining planning materiality for financial statements as a whole

1	2	3	4	5	6
Benchmark	Threshold	Materiality % used	Population size (CU)	Materiality amount (CU)	Revised materiality amount (CU)
Total payments <i>(in case of cash-based accounting)</i>	0.5% to 2%	2%	XXXX	XXXX	
Revision	0.5% to 2%	1%	XXXX		XXXXX
Descriptions related to determining materiality:					
1. Justification for benchmark used (eg: <i>Why total payments in this example</i>)					
2. Justification of percentage used					
3. Consideration of misstatements by nature are material (qualitative aspects)					
4. Reason for revised materiality					

Table No. B: Determining performance materiality for financial statements as a whole

1	2	3	4	5
Benchmark	Overall materiality (trace from Table No. A, Column 5)	Percentage used	Performance materiality (CU)	Revised performance materiality
Total payments (<i>in case of cash based accounting</i>)	XXXX	75%	XXX	XXXX
Revision	XXXX		XXX	
Reason for revised performance materiality:				

Guidance for determining the planning materiality and performance materiality for financial statements as a whole

Overall objective of completing the template	<p>The overall objective of completing this working paper template is to determine materiality for planning and performing the audit, and this is carried out as a part of the overall audit strategy.</p> <p>Next is to determine performance materiality for the financial statements as a whole. Take note that we use this as the quantitative factor in identifying material COTABD which are not identified as significant based on the risks. All COTABD above this amount or material based on its nature (qualitative materiality) will be listed in Table C of AWP 5.7 - Risk Assessment Template. The performance materiality determined at the planning stage is also used while selecting the sample sizes.</p> <p>The materiality determined at the planning stage can be revised as the audit progresses.</p>								
Applicable ISSAI	ISSAI 2320, ISSAI 2300								
Guidance	<p>Table -A: Determining planning materiality for financial statements as a whole. <i>The first step is to determine the planning materiality for financial statements as a whole, which will also have an impact on forming an opinion on the financial statements at the reporting stage. At the start of the audit, the auditor is able to determine the materiality level using his/her professional judgement and prior experience. The aim is to ensure that any misstatements below the materiality level will not affect the presentation of the financial statements and hence will not affect the different purposes for which the audited financial statements are used.</i></p> <hr/> <p>Column 1 Select an appropriate benchmark for determining the planning materiality for financial statements as a whole. The financial statements can be prepared on either an accrual or a cash basis, and this will determine the type of benchmark chosen for materiality. In the given example, the benchmark chosen is total payments. In choosing this benchmark, the auditor needs to consider whether this item is critical to the users of the financial statements. The reason for choosing the benchmark can be recorded accordingly in the first row provided for recording the narratives on determining overall materiality.</p> <p>Column 2 Determine the threshold of materiality. The threshold will depend on the SAI's policy: it could be between 0.5% and 2% or from 1% to 5%. This may also depend on type of benchmark chosen from the financial statements, such as total assets or net profit (accrual accounts) and total receipts or total payments (cash-based accounting)</p> <p>Column 3 From the given threshold, select a percentage to be applied to the total population to arrive at the materiality amount (in the given example it is 1% of total payments). The percentage of the materiality to be applied will be determined by sensitivity of items of income and expenditure or statement of financial position (accrual-based accounting) and receipts and payments or cash receipts and cash payments (cash-based accounting). Sensitivity is the extent to which the items of receipts or expenses are considered "critical" by the users of the financial statements. The percentage to be applied may be decided as follows:</p> <table data-bbox="512 1798 1126 1964"> <tr> <th>Sensitivity</th><th>Materiality percentage</th></tr> <tr> <td>Very sensitive</td><td>0.5%</td></tr> <tr> <td>Sensitive</td><td>0.5% to 2%</td></tr> <tr> <td>Not sensitive</td><td>2%</td></tr> </table>	Sensitivity	Materiality percentage	Very sensitive	0.5%	Sensitive	0.5% to 2%	Not sensitive	2%
Sensitivity	Materiality percentage								
Very sensitive	0.5%								
Sensitive	0.5% to 2%								
Not sensitive	2%								

	<p>Column 4 Record the total population amount of the chosen benchmark derived from the financial statements. In the given example, it is the total payments derived from the Receipts and Payments Statement.</p> <p>Column 5 Derive the materiality amount by applying the chosen percentage (from Column 3) of total population size (Column 4). This is the planning materiality amount for the financial statements as a whole.</p> <p>Column 6 This is where the revised materiality amount needs to be recorded, if there is a need to revise the materiality. To arrive at this value, repeat the same process as above. Using professional judgement, the auditor may also simply state the revised materiality amount without having to apply the revised percentage to the total population.</p> <p>Recording descriptions related to determining materiality:</p> <ol style="list-style-type: none"> 1. Under Serial Number 1 record the reason for using the chosen benchmark, as there are different elements of financial statements that could be used as a benchmark. 2. Under Serial Number 2, record the justification for using the chosen percentage. Primarily it will depend on sensitivity. It may also depend on the nature of the entity and also the financial discipline. 3. Under Serial Number 3, record the consideration of misstatements by nature are material and needs to be considered throughout the audit. This particular aspect is very important in public sector auditing. 4. Under Serial Number 4, record the reason for any revising of materiality, to keep track of why the materiality amount was revised, and why there was a need to revise it.
	<p>Table B: Determining performance materiality for financial statements as a whole.</p> <p><i>The objective is to set the materiality level to reduce to acceptably low the probability that the uncorrected and undetected misstatements in the financial statements exceed materiality for the financial statements as a whole. In other words, the performance materiality is set lower than the materiality for the financial statements as a whole.</i></p> <p>Column 1 The benchmark for performance materiality for financial statement as a whole remains same as that of planning materiality for the financial statement as a whole.</p> <p>Column 2 The overall materiality determined at Table A should be transferred in this column, which becomes the basis for determining the performance materiality.</p> <p>Column 3 As a general principle, Performance Materiality could be in the range of 60-80% of Overall Materiality. Normally auditors use 75% of Overall Materiality as Performance Materiality.</p> <p>Column 4 Derive the performance materiality amount by applying 75% or an appropriate percentage in the range of 60-80% on the overall materiality amount traced from Table No. A.</p> <p>Column 5 This is where the revised performance materiality amount needs to be recorded, if there is a need to revise the materiality. To arrive at this value, repeat the same process as above. Using professional judgement, the auditor may also simply state the revised materiality amount without having to apply the revised percentage to the total population. This will always be lower than any revised amount for planning materiality.</p> <p>Under the description section, record the reasons for revising the performance materiality amount.</p>
<p>Recording the evidence of preparer and reviewer</p>	<p>The Table indicating the names of the person who calculated the materiality and the reviewer needs to be completed at the end. It is usually the team leader who would calculate the materiality, in consultation with the audit engagement supervisor. In this case, the audit team leader needs to sign off as a preparer.</p> <p>The reviewer, usually the audit supervisor, should sign off this document to ensure that it has been reviewed.</p>

Table No. C: Determining materiality for classes of transactions, account balances and disclosures

1	2	3	4	5	6	7	8	9
Classes of transactions, account balances, and disclosures	Sensitivity	Materiality % used	Population Amount (Cu.)	Materiality	Performance materiality (75% of materiality under column 5)	Justification for selecting the materiality percentage (refers to column 3)	Revised materiality if any, with reason	Revised performance materiality if any, with reason
				Materiality (population amount X materiality %)				
Tax revenue								
Non-tax revenue								
Other receipts								
Other payment								
Travel								
Payroll								
Current expenditure	very sensitive	0.5%	21,032.04	105.16				
Capital expenditure	very sensitive	0.5%	15,443.80	77.22				
Receivables								
Payables								
Cash in bank								

Guidance for determining materiality for classes of transactions, account balances and disclosures

Overall objective of completing the template	<p>The overall objective of completing this working paper template is to document the materiality determined for classes of transactions and account balances, on the premise that the misstatements of lesser amount than the materiality on the financial statements as a whole may reasonably be expected to influence the economic or non-economic decisions of the users of the financial statements.</p> <p>The materiality determined at this level is applied to particular class of transactions, account balances and disclosures.</p>
Applicable ISSAIs	ISSAI 2320
Guidance	<p>Column 1 List down all classes of transactions, account balances and disclosures from the financial statements to determine the materiality. However, this does not mean that the audit team is required to compute for materiality for all COTABD. ISSAI 2320.A11 provides circumstances that may indicate the need for this materiality as follows:</p> <ul style="list-style-type: none"> • Whether law, regulation or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, the remuneration of management and those charged with governance, and sensitivity analysis for fair value accounting estimates with high estimation uncertainty); • The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company); and • Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, disclosures about segments or a significant business combination). <p>In the example given, all the COTABD are listed but only the capital and current expenditures are identified to be in need for materiality for COTABD.</p> <p>Column 2 For items that need materiality for COTABD, identify the sensitivity level of classes of transactions, account balances and disclosures; the level could be sensitive, very sensitive, or not sensitive, and will have an effect on the percentage to be used to calculate the materiality amount. The sensitivity of an item of classes of transactions and account balances should be considered from the viewpoint of users of the financial statements.</p> <p>Column 3 Insert the percentage to be applied to the total value of a particular class of transaction, account balance and disclosure. The percentage will depend on the sensitivity of the class of transaction, account balance and disclosure, and the threshold determined by SAI policy or the auditor's judgement.</p> <p>Column 4 Transfer the total amount of classes of transactions, account balances and disclosures in this column from the financial statement on which the materiality percentage selected can be applied to derive the materiality amount.</p> <p>Column 5 This column provides the field for recording the materiality amount, which can be derived by applying the materiality percentage to the total value of the classes of transactions, account balances and disclosures.</p> <p>Column 6 This column provides fields to calculate the performance materiality for classes of transactions, account balances and disclosures. As a general principle, Performance Materiality could be in the range of 60-80% of planning materiality. Normally auditors apply 75% on materiality to arrive at a performance materiality for classes of transactions, account balances and disclosures – i.e. 75% of XXX amount under column 5.</p>

	<p>Column 7 Although the reason for selecting the materiality percentage to be applied is determined by the sensitivity of classes of transactions, account balances and disclosures, the percentage is selected from the threshold determined either by the SAI or auditors, which can vary. Therefore, it may be appropriate to record the justification for the materiality percentage selected.</p> <p>Column 8 Record the revised materiality amounts if they were revised during the course of audit, along with reasons for revision.</p> <p>Column 9 Record the revised performance materiality amounts if they were revised during the course of audit, along with reasons for revision.</p>
Recording the evidence of preparer and reviewer	<p>The Table indicating the names of the person who calculated the materiality and the reviewer needs to be completed at the end. It is usually the team leader who would calculate the materiality, in consultation with the audit supervisor. In this case, the audit team leader needs to sign off as a preparer.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that it has been reviewed.</p>

AWP 5.7: Risk Assessment

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

TABLE A: Assessment of Risk of Material Misstatement at the FS Level

1	2	3	4	5
Risk of Material Misstatements at the FS Level	Affected assertions, if identifiable	Possibility of fraud risk (Y/N)	Reason for possibility of fraud risk	Arising from deficient control environment or other components of internal control system? (Y/N)
<i>(Traced from AWP 5.4)</i>				

TABLE B: Assessment of Risk of Material Misstatement at the Assertion Level

1	2	3	4	5	6	7
Significant class of transaction, account balance, disclosure	Affected assertions	Inherent Risk			Significant Risk? (Y/N)	Control Risk (Maximum/ Less than maximum)
		Likelihood (High/Low)	Magnitude (High/Low)	Combined Likelihood and Impact (High/Moderate/Low)		
<i>(Traced from AWP 5.4, Table B, Col 4/ Traced to AWP 5.8)</i>	<i>(Traced from AWP 5.4, Table B, Col5)</i>					<i>Traced from AWP 5.5, Col. 4</i>

Table C: Not Significant but Material Class of Transaction, Account Balance, and Disclosure

Performance Materiality: 1000
(Traced from AWP 5.6)

1	2	3	4	5
NOT significant Class of transaction, account balance and disclosure	Amount	Above Performance Materiality? (quantitative materiality)	Material based on nature? (qualitative materiality)	Classification: - Not Significant but MATERIAL - Not significant and Not Material
				<i>Traced to AWP 5.8</i>
		NO		
		NO		
		NO		

Overall objective of completing the template	The overall objective of completing this working paper template is to guide the audit team in assessing risk of material misstatement, whether due to fraud or error, at the financial statements level and the assertion level thereby providing a basis for designing and implementing responses to the assessed risks of material misstatements.																													
Applicable ISSAI	ISSAI 2315																													
Guidance	<div>Table No. A : Assessment of Risk of Material Misstatement at the FS Level</div> <table><tr><td>Column 1</td><td>Trace the ROMM at the financial statements level from AWP 5.4 - Risk Register, Table A. The audit team may indicate the risk description and risk code on this column.</td></tr><tr><td>Column 2</td><td>ROMM at the FS level relates pervasively to the financial statements as a whole, affecting many assertions. If specific assertions are identifiable, the audit team needs to indicate in this column all the assertions affected. This will assist the audit team in the assessment of the inherent risk as part of the related ROMM at the assertion level on Table B.</td></tr><tr><td>Column 3</td><td>The purpose of determining whether there is a possibility of fraud risk is to ensure that the team can fulfil its responsibility with regards to identification, assessment and response to such risk in accordance with ISSAI 2240.</td></tr><tr><td>Column 4</td><td><div>State the reason why you have indicated that there is a fraud risk.</div><div>If the auditor has concluded that the presumption "there is a risk of material misstatement due to fraud related to revenue recognition" is not applicable in the circumstances of the engagement, the auditor shall also document in this column the reasons for that conclusion. (ISSAI 2240.47)</div></td></tr><tr><td>Column 5</td><td>The audit team needs to identify whether the risk arises from deficiencies in internal control. Take note that ISSAI 2265 requires audit team to communicate significant internal control deficiencies found in the audit.</td></tr></table> <div>Table No. B : Assessment of Risk of Material Misstatement at the Assertion Level</div> <table><tr><td>Columns 1 & 2</td><td>Trace the significant class of transaction, account balance, disclosure, and their relevant assertions from risk register.</td></tr><tr><td>Column 3</td><td>Assessing Likelihood of Inherent Risk could either be High or Low depending on the probability or frequency of the risk occurring over the period.</td></tr><tr><td>Column 4</td><td>When considering the potential magnitude (High/Low) of the misstatement, the quantitative and qualitative aspects of the potential misstatement may be relevant.</td></tr><tr><td>Column 5</td><td><div>Combine the assessment as follows:</div><div><div>Magnitude</div><table><tr><td>High</td><td>Moderate</td><td>High</td></tr><tr><td>Low</td><td>Low</td><td>Moderate</td></tr><tr><td></td><td>Low</td><td>High</td></tr></table><div>Likelihood</div></div></td></tr><tr><td>Column 6</td><td><div>In determining significant risks, the auditor may first identify those assessed inherent risks that have been close to the upper end spectrum of the inherent risk. This may arise from:</div><ul style="list-style-type: none">transactions with multiple acceptable accounting treatments such that subjectivity is involved;accounting estimates that have high estimation uncertainty or complex models;</td></tr></table>	Column 1	Trace the ROMM at the financial statements level from AWP 5.4 - Risk Register, Table A. The audit team may indicate the risk description and risk code on this column.	Column 2	ROMM at the FS level relates pervasively to the financial statements as a whole, affecting many assertions. If specific assertions are identifiable, the audit team needs to indicate in this column all the assertions affected. This will assist the audit team in the assessment of the inherent risk as part of the related ROMM at the assertion level on Table B.	Column 3	The purpose of determining whether there is a possibility of fraud risk is to ensure that the team can fulfil its responsibility with regards to identification, assessment and response to such risk in accordance with ISSAI 2240.	Column 4	<div>State the reason why you have indicated that there is a fraud risk.</div> <div>If the auditor has concluded that the presumption "there is a risk of material misstatement due to fraud related to revenue recognition" is not applicable in the circumstances of the engagement, the auditor shall also document in this column the reasons for that conclusion. (ISSAI 2240.47)</div>	Column 5	The audit team needs to identify whether the risk arises from deficiencies in internal control. Take note that ISSAI 2265 requires audit team to communicate significant internal control deficiencies found in the audit.	Columns 1 & 2	Trace the significant class of transaction, account balance, disclosure, and their relevant assertions from risk register.	Column 3	Assessing Likelihood of Inherent Risk could either be High or Low depending on the probability or frequency of the risk occurring over the period.	Column 4	When considering the potential magnitude (High/Low) of the misstatement, the quantitative and qualitative aspects of the potential misstatement may be relevant.	Column 5	<div>Combine the assessment as follows:</div> <div><div>Magnitude</div><table><tr><td>High</td><td>Moderate</td><td>High</td></tr><tr><td>Low</td><td>Low</td><td>Moderate</td></tr><tr><td></td><td>Low</td><td>High</td></tr></table><div>Likelihood</div></div>	High	Moderate	High	Low	Low	Moderate		Low	High	Column 6	<div>In determining significant risks, the auditor may first identify those assessed inherent risks that have been close to the upper end spectrum of the inherent risk. This may arise from:</div> <ul style="list-style-type: none">transactions with multiple acceptable accounting treatments such that subjectivity is involved;accounting estimates that have high estimation uncertainty or complex models;
Column 1	Trace the ROMM at the financial statements level from AWP 5.4 - Risk Register, Table A. The audit team may indicate the risk description and risk code on this column.																													
Column 2	ROMM at the FS level relates pervasively to the financial statements as a whole, affecting many assertions. If specific assertions are identifiable, the audit team needs to indicate in this column all the assertions affected. This will assist the audit team in the assessment of the inherent risk as part of the related ROMM at the assertion level on Table B.																													
Column 3	The purpose of determining whether there is a possibility of fraud risk is to ensure that the team can fulfil its responsibility with regards to identification, assessment and response to such risk in accordance with ISSAI 2240.																													
Column 4	<div>State the reason why you have indicated that there is a fraud risk.</div> <div>If the auditor has concluded that the presumption "there is a risk of material misstatement due to fraud related to revenue recognition" is not applicable in the circumstances of the engagement, the auditor shall also document in this column the reasons for that conclusion. (ISSAI 2240.47)</div>																													
Column 5	The audit team needs to identify whether the risk arises from deficiencies in internal control. Take note that ISSAI 2265 requires audit team to communicate significant internal control deficiencies found in the audit.																													
Columns 1 & 2	Trace the significant class of transaction, account balance, disclosure, and their relevant assertions from risk register.																													
Column 3	Assessing Likelihood of Inherent Risk could either be High or Low depending on the probability or frequency of the risk occurring over the period.																													
Column 4	When considering the potential magnitude (High/Low) of the misstatement, the quantitative and qualitative aspects of the potential misstatement may be relevant.																													
Column 5	<div>Combine the assessment as follows:</div> <div><div>Magnitude</div><table><tr><td>High</td><td>Moderate</td><td>High</td></tr><tr><td>Low</td><td>Low</td><td>Moderate</td></tr><tr><td></td><td>Low</td><td>High</td></tr></table><div>Likelihood</div></div>	High	Moderate	High	Low	Low	Moderate		Low	High																				
High	Moderate	High																												
Low	Low	Moderate																												
	Low	High																												
Column 6	<div>In determining significant risks, the auditor may first identify those assessed inherent risks that have been close to the upper end spectrum of the inherent risk. This may arise from:</div> <ul style="list-style-type: none">transactions with multiple acceptable accounting treatments such that subjectivity is involved;accounting estimates that have high estimation uncertainty or complex models;																													

	<ul style="list-style-type: none"> • complexity in data collection and processing to support account balances; • account balances or quantitative disclosures that involve complex calculations; • accounting principles that may be subject to differing interpretation; and • changes in the entity's operations that involve changes in accounting, for example, mergers and acquisition 								
	<p>Column 7 Control risk at less than maximum Choose this if based on the understanding of the process flow (AWP 5.3), the audit team:</p> <ul style="list-style-type: none"> • identified a control activity that could mitigate the risk (documented in AWP 5.5). • observed that the design of the control is adequate and is implemented. • then the audit team may choose to rely on controls. (documented in AWP 5.5) <p>Control risk at maximum Choose this if the audit team does not plan to test operating effectiveness of controls because the audit team:</p> <ul style="list-style-type: none"> • has not identified controls or has identified controls but the controls could not mitigate the risk because the design is not adequate and not implemented. 								
	<p>Table No. C : Not significant but MATERIAL COTABD</p> <table> <tr> <td>Columns 1 & 2</td><td>List all the COTABD, including the amounts, which are not selected as significant based on risk assessments made in Table B.</td></tr> <tr> <td>Column 3</td><td>Compare the amount with the performance materiality. The audit team only needs to update the performance materiality amount based on AWP 5.6</td></tr> <tr> <td>Column 4</td><td>Based on the nature of the COTABD, determine whether material by nature or not.</td></tr> <tr> <td>Column 5</td><td>For any yes answer in columns 3 and 4, the COTABD will be classified as NOT SIGNIFICANT BUT MATERIAL. For those with "NO" answers in both columns 3 and 4, they will be scoped out in the audit. Only those which are not significant but material will be provided with audit response in AWP 5.8</td></tr> </table>	Columns 1 & 2	List all the COTABD, including the amounts, which are not selected as significant based on risk assessments made in Table B.	Column 3	Compare the amount with the performance materiality. The audit team only needs to update the performance materiality amount based on AWP 5.6	Column 4	Based on the nature of the COTABD, determine whether material by nature or not.	Column 5	For any yes answer in columns 3 and 4, the COTABD will be classified as NOT SIGNIFICANT BUT MATERIAL. For those with "NO" answers in both columns 3 and 4, they will be scoped out in the audit. Only those which are not significant but material will be provided with audit response in AWP 5.8
Columns 1 & 2	List all the COTABD, including the amounts, which are not selected as significant based on risk assessments made in Table B.								
Column 3	Compare the amount with the performance materiality. The audit team only needs to update the performance materiality amount based on AWP 5.6								
Column 4	Based on the nature of the COTABD, determine whether material by nature or not.								
Column 5	For any yes answer in columns 3 and 4, the COTABD will be classified as NOT SIGNIFICANT BUT MATERIAL. For those with "NO" answers in both columns 3 and 4, they will be scoped out in the audit. Only those which are not significant but material will be provided with audit response in AWP 5.8								
Recording the evidence of preparer and reviewer	<p>The Table at the beginning of AWP 5.7 above provides relevant fields to record the evidence of a person or official who completed this working paper template and who reviewed and endorsed it. The team can prepare and complete this working paper, but it can be signed off by the audit team leader and reviewed and approved by the audit engagement supervisor. The decision as to whether a particular class of transaction and account balance should be scoped in or out is a strategic decision, and as such it is advisable that the audit team leader and audit engagement supervisor be involved fully. Further, it is the audit engagement supervisor and the team leader to decide who on the team should be assigned to which class of transactions, account balances and disclosures.</p>								

AWP 5.8: Risk Response

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

Table No. A: Response to Assessed Risk of Material Misstatement at the Financial Statement level

Risks	Overall response to address the ROMM at the financial statement level
1	2
Traced from Table No. A (AWP 5.8)	

Table No. B: Response to Assessed Risk of Material Misstatement at the Assertion Level

Significant classes of transactions & Account balances & disclosures (Indicate if with SIGNIFICANT RISK based on AWP 5.7)	Relevant Assertions	A. Control Reliant Approach (For CR at less than maximum design TOC and minimum ST) OR B. Full-Substantive Approach (For CR at maximum, design detailed ST)	Control Activity	Reliance on previous year OE testing of controls			Operating Effectiveness Testing (OE testing) No. of samples	Control Testing Procedures	Substantive testing Procedures (For Control Reliant Approach and Full Substantive Approach)
				(Yes/No) (If No, proceed directly to OE Testing Procedures)	If Yes, where there any significant changes (Yes/No), state the changes made in particular area (If Yes, Proceed to OE testing procedures)	If No significant change in control, proceed directly to substantive testing (Test relevant controls at least once in three years)			
1	2	3	4	5	6	7	8	9	10
Traced from AWP 5.7		Traced from AWP 5.7	Traced from AWP 5.5					Traced to AWP 6.1	Traced to AWP 6.2
							MT: 24		
							W: 15		
							MH: 6		
							QR: 2		
							YR: 1		

Table No. C: Response to Not Significant but MATERIAL COTABD*

Not significant but MATERIAL COTABD	Minimum Substantive Procedures
1	2
Traced from Table No. C (AWP 5.7)	

*COTABD – Classes of Transactions, Account Balances or Disclosures

Guidance for completing the working paper on Risk Response

Overall objective of completing the template	The overall objective of this audit working paper is to design and document auditor's response to assessed risk of material misstatement at both financial statement level and assertion level.
Applicable ISSAI	ISSAI 2230, ISSAI 2240, ISSAI 2300, ISSAI 2315, ISSAI 2330, ISSAI 2520, ISSAI 2530, ISSAI 2500
Guidance	<p>This template is primarily linked to AWP 5.7-Risk Assessment, although the auditor is expected to refer to other working papers while designing audit procedures. After completing the process in this working paper, the work done at this stage will be traced to conducting phased of the audit, wherein the procedures designed at this stage will be performed on the samples selected for either testing the operating effectiveness of controls or substantive testing. In other words, this is the last stage of the planning phase of the audit. However, the auditor needs to bear in mind that an audit is an iterative process.</p>
	<p>Table No. A: Financial Statement level</p> <p>Column 1 This column is to record the risks traced from the Risk Register. The auditor can record either the name of the risk or its Risk Reference No. traced from Table No. A of AWP 5.4</p> <p>Column 2 In this column, the auditor needs to provide an overall response to assessed risk of material misstatement at the financial statement level. The following responses are some of the examples derived from ISSAI 2330 (Para A1):</p> <ul style="list-style-type: none"> • Emphasizing to the engagement team the need to maintain professional scepticism. • Assigning more experienced staff or those with special skills or using experts. • Providing more supervision. • Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed. <p>Making general changes to the nature, timing or extent of audit procedures, for example: performing substantive procedures at the period end instead of at an interim date; or modifying the nature of audit procedures to obtain more persuasive audit evidence.</p> <p>Table No. B: Assertion level for classes of transactions, account balances and disclosures</p> <p>Column 1 The auditor needs to trace the material classes of transactions, account balances, and disclosures from AWP 5.7 . This is to ensure consistency between these two working papers. Don't forget to indicate whether there are significant risks residing on each item based on AWP 5.7 as this has special consideration in the risk response.</p> <p>Column 2 In this column, the auditor needs to trace the relevant assertions identified against each risk and material class of transaction, account balance and disclosure in completing the working paper template for Risk Register.</p> <p>Column 3 Indicate whether the approach to be used is either control-reliant approach or full-substantive approach.</p> <p>Control-reliant approach is selected when the audit team concluded that the design of the control is adequate and is implemented as designed. This conclusion is developed from AWP 5.5 - Log of Control Activities and AWP 5.7 - Risk Assessment Template. Once this is selected, the audit team needs to check whether reliance can be placed in prior year's test of controls (columns 5-7). If not, the audit team needs to design TOC procedures for the</p>

current year. However, the audit team still needs to perform substantive procedures depending on the results of the TOC. If the controls proven to be effective, minimal substantive procedures are needed. If controls are proven not operating effectively contrary to the initial assessment, the audit team needs to change the approach to full-substantive as if the audit team has not planned to rely on controls since the beginning.

Take caution when designing TOC procedures. please refer to the guidance for column 9.

Full-substantive approach is selected when the audit team concluded that the design and implementation of control is not adequate. If this is selected, the audit team will proceed to column 10 and design detailed substantive procedures which could be substantive analytical procedures, test of details, or combination thereof.

Column 4 In this column, the auditor needs to trace from the Log of Control Activities the control activities identified against each risk.

Columns 5-7 Columns 5-7 are relevant only if a particular audit is a recurrent audit and if operating effectiveness of controls was tested in the previous audit. If these two conditions do not exist, these columns can be deleted.

In Column 6, 'Yes' provides an option for the auditor to rely on the Operating Effectiveness (OE) testing results of the previous year's audit. If the answer is 'No', then the auditor can proceed directly to designing OE testing procedures for the current year audit (i.e. in Column 9).

If the auditor intends to rely on the previous year's OE testing result, then she/he needs to check whether there were any significant changes in the controls during the current year. If so, those changes need to be documented in this column, and then the auditor can proceed to designing OE testing procedures for the current year (i.e. Column 9).

If there were no significant changes in the controls, then the auditor can proceed to designing substantive testing procedures (ie. Column 10) – meaning that the auditor intends to rely on the previous OE testing result. However, it is recommended that where there have been no significant changes, the relevant controls need to be tested at least once in three years.

Column 8 Based on the frequency of implementation of identified controls in AWP 5.5 (Log of controls, Column No. 4), the number of samples to be tested can be recorded in Column 8. Pre-determined numbers are suggested in the template, but they can be changed. The logic is that if the controls identified were implemented many times, the number of samples selected should be higher than for controls implemented yearly.

Column 9 In this column the auditor designs procedures to test the operating effectiveness of controls in place to prevent and detect the risk of material misstatement in the financial statements. These procedures are designed at the planning stage of the audit. The procedures designed should address three things; risk, audit assertion, and controls. The design of procedures at this stage should then be traced to the conducting phase of the audit for performing the procedure on selected samples (*the working paper reference to the conducting phase needs to be recorded in this column*).

However, mere existence of controls does not necessarily require the conduct of Test of Controls. Testing the operating effectiveness of controls is conducted if the design of the controls identified is adequate and implemented as designed. (Traced from AWP 5.10, Column 5). If the initial assessment of design and implementation of controls is "inadequate", this column is not applicable.

However, ISSAI 1330.8(b) also states that the audit team still needs to design

and perform TOC if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

For Significant Risk:

In addition, ISSAI 2330.15 requires auditor to test controls if the auditor plans to rely on controls over the risk which is significant risk.

Column 10 In this column the auditor designs substantive testing procedures—the detailed testing that addresses the identified and assessed risks of material misstatement. These procedures are designed at the planning stage of the audit. The procedures designed at this stage should then be traced to the conducting phase of the audit for performing the procedure on selected samples (*the working paper reference to the conducting phase needs to be recorded in this column*).

For Significant Risk:

The audit team shall ensure that the substantive procedures can sufficiently address the significant risk. If the approach selected is full-substantive, ISSAI 2330.21 states that the procedure needs to include test of details.

Table No. C: Not significant but MATERIAL COTABD

Column 1 List the not significant but material COTABD from AWP 5.7. Take note that these items are identified using performance materiality (that the misstatements could material by size and nature) quantitative and qualitative materiality.

List the not significant but material COTABD from AWP 5.7. COTABD are quantitatively (using performance materiality) or qualitatively material if omitting, misstating or obscuring information about them could reasonably be expected to influence the economic decisions of users taken on the basis of the FS as a whole.

Column 2 Design minimum substantive procedures which may focus on substantive analytical procedures and/or limited test of details. Because the determination of significant COTABD is based on the result of risk, ISSAI 2330 recognized the need to still perform substantive test for all material COTABD due to the following limitations:

- risk assessment is purely based on the judgment of the auditor; and
- there could be management override of controls

NOTE:

If the not significant but MATERIAL COTABD includes inventory accounts, the audit response in accordance with ISSAI 2501.4 shall not only be minimum substantive procedures but should include:

- (a) Attendance at physical inventory counting, unless impracticable, to:
 - (i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting; (ii) Observe the performance of management's count procedures; (iii) Inspect the inventory; and (iv) Perform test counts; and

- (b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

Recording the evidence of preparer and reviewer

The table indicating the name of the person who prepared this ROMM Table and the reviewer needs to be completed at the end. The preparer could be the team leader or one of the team members and needs to be signed off accordingly. This working paper may require multiple preparers and reviewers. Therefore, the name of the preparer and reviewers that need to be recorded can be more than one. The overall reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.

CONDUCTING AUDIT

AWP 6.1: Performing Audit Procedures for Testing Operating Effectiveness (OE) of Controls

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

STEP 1: Trace risks, control activities, OE testing procedures from planning document

Significant COTABD*:

1	2	3	4	5	6
Control reference No.	Risk	Risk reference	Control activity that addresses the risk	Control testing (OE) procedures to be performed	Relevant audit assertion addressed
<i>Traced from AWP 5.5 or 5.8</i>	<i>Traced from AWP 5.4</i>	<i>Traced from AWP 5.4</i>	<i>Traced from 5.5</i>	<i>Traced from AWP 5.8</i>	<i>Traced from AWP 5.8</i>
CA/01		R/01			
CA/02		R/03			
CA/03		R/03			

*COTABD – Classes of Transactions, Account Balances or Disclosures

STEP 2: Control testing (OE) procedures performed

Risk	R/01
Control activity tested	CA/01

1	2	3					4
Sample	Sample reference No.	Particulars/items tested in samples					Conclusion
		Item # 1	Item # 2	Item # 3	Item # 4	Item # 5	
1							
2							
3							
4							

Overall conclusion of OE testing procedures:

Guidance for completing the working paper on performing control testing (OE) procedures

Overall objective of completing the template	The overall objective of this audit working paper is to document the control testing (OE) procedures performed by the auditor at the execution phase of the audit to ensure that the work performed by the auditor is documented accordingly. With test objectives as the relevant audit assertions identified against each risk, the audit procedure is performed on samples selected by the auditor.										
Applicable ISSAI	ISSAI 2330, ISSAI 2500										
Guidance	<p>The auditor needs to follow two steps in completing this working paper template as explained below:</p> <p>Step 1: In this step, trace from the planning document the classes of transaction, account balances or disclosures that were considered for testing, and record them in the field provided above. Against this, the auditor then needs to trace the risks, control activities, control testing procedures and relevant assertions identified from the planning document.</p> <p>Step 2: In this step, the auditor needs to select a sample of one control activity at a time to be tested. Therefore, the auditor needs to first record control the reference number and the risk reference number, so that it is quite clear which control was tested. Record this in the field provided in the template, and then proceed to recording the details of samples in the given table. The particulars or items of the sample that are to be tested will depend on the test objective, which is the audit assertion; and what needs to be tested should be drawn from audit procedures.</p> <p>Refer to detailed guidance below for completing Steps 1 & 2:</p> <p>Step 1: Trace risks, control activities, OE testing procedures from planning document</p> <p>After recording the class of transaction, account balance or disclosure to be tested, proceed to complete the table having six elements.</p> <table border="1"> <tr> <td>Column 1</td><td>In this column, trace the control activity reference number from the Log of Control Activity or from AWP 5.8 completed at the planning stage of the audit. Although the name of the control activity needs to be mentioned at Column 4, the reason for keeping Column 1 to record the control reference number is to provide for the prominence of controls being tested for a particular class of transaction, account balance or disclosure.</td></tr> <tr> <td>Column 2</td><td>Trace risks identified against each class of transaction, account balance or disclosure from the 5.4 and record them in this column. The auditor needs to first trace the risks assessed as significant risks.</td></tr> <tr> <td>Column 3</td><td>It is optional whether to record the name of the risk or the risk reference in this documentation. The risk reference number can be traced from the ROMM Table and recorded in this column.</td></tr> <tr> <td>Column 4</td><td>Trace the name of the control activity from AWP 5.5 or 5.8 and record it in this column; it should correspond to the control activity reference number recorded in Column 1 and also the risks traced from AWP 5.4. It is optional whether the auditor records only the control activity reference number or both the reference and the name of the control activity.</td></tr> <tr> <td>Column 5</td><td>In this column, trace from AWP 5.8 the control testing procedures designed at the planning stage. This is the work that needs to be performed by the auditor.</td></tr> </table>	Column 1	In this column, trace the control activity reference number from the Log of Control Activity or from AWP 5.8 completed at the planning stage of the audit. Although the name of the control activity needs to be mentioned at Column 4, the reason for keeping Column 1 to record the control reference number is to provide for the prominence of controls being tested for a particular class of transaction, account balance or disclosure.	Column 2	Trace risks identified against each class of transaction, account balance or disclosure from the 5.4 and record them in this column. The auditor needs to first trace the risks assessed as significant risks.	Column 3	It is optional whether to record the name of the risk or the risk reference in this documentation. The risk reference number can be traced from the ROMM Table and recorded in this column.	Column 4	Trace the name of the control activity from AWP 5.5 or 5.8 and record it in this column; it should correspond to the control activity reference number recorded in Column 1 and also the risks traced from AWP 5.4. It is optional whether the auditor records only the control activity reference number or both the reference and the name of the control activity.	Column 5	In this column, trace from AWP 5.8 the control testing procedures designed at the planning stage. This is the work that needs to be performed by the auditor.
Column 1	In this column, trace the control activity reference number from the Log of Control Activity or from AWP 5.8 completed at the planning stage of the audit. Although the name of the control activity needs to be mentioned at Column 4, the reason for keeping Column 1 to record the control reference number is to provide for the prominence of controls being tested for a particular class of transaction, account balance or disclosure.										
Column 2	Trace risks identified against each class of transaction, account balance or disclosure from the 5.4 and record them in this column. The auditor needs to first trace the risks assessed as significant risks.										
Column 3	It is optional whether to record the name of the risk or the risk reference in this documentation. The risk reference number can be traced from the ROMM Table and recorded in this column.										
Column 4	Trace the name of the control activity from AWP 5.5 or 5.8 and record it in this column; it should correspond to the control activity reference number recorded in Column 1 and also the risks traced from AWP 5.4. It is optional whether the auditor records only the control activity reference number or both the reference and the name of the control activity.										
Column 5	In this column, trace from AWP 5.8 the control testing procedures designed at the planning stage. This is the work that needs to be performed by the auditor.										

	<p>Column 6 Trace relevant audit assertions identified against each risk and record them in this column. The purpose is to ensure that the auditor maintains the test objectives consistently to arrive at an appropriate conclusion of tests performed.</p> <p>Step 2: Control testing (OE) procedures performed</p> <p>At Step 2, the auditor documents the OE testing procedure performed for each control activity identified against each risk for a particular class of transaction, account balance, or disclosure. First, trace the risk reference and control activity reference numbers from Step 1 and record them in the given field.</p> <p>Column 1 In this column, record the sample numbers. This indicates how many samples were tested.</p> <p>Column 2 Document the sample reference No. in this column. Typically it could be a payment voucher or receipt voucher No. and date.</p> <p>Column 3 In this column, the auditor needs to record the particulars or items tested in that specific sample. For instance, items tested could be 'payment voucher signed by Finance Officer' or 'payment voucher prepared by accounts assistant'. Items to be tested in a particular sample will be determined by the control testing procedures designed at the planning stage and by the test objective, which is the assertion.</p> <p>Column 4 The auditor needs to arrive at a conclusion on every sample tested, which needs to be recorded in this column. These will form an overall conclusion.</p>
Overall conclusion of OE testing	<p>Based on controls identified against each risk tested for material classes of transactions, account balances, or disclosures, the auditor needs to conclude whether the controls in place are operating effectively. In doing so, the auditor needs to first record the basis for conclusion, and then conclude with either of the following statements:</p> <ol style="list-style-type: none"> 1. The controls were operating effectively. 2. The controls were NOT operating effectively.
Recording the evidence of preparer and reviewer	<p>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.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p>

AWP 6.2: Performing Substantive Audit Procedures

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

STEP 1: Trace risks and substantive audit procedures from planning document

Significant COTABD*:

1	2	3	4
Risk	Risk reference	Substantive audit procedures to be preformed	Relevant audit assertion addressed
<i>Traced from AWP 5.4</i>	<i>Traced from AWP 5.4</i>	<i>Traced from AWP 5.8</i>	<i>Traced from AWP 5.8</i>
	R/01		
	R/03		
	R/03		

*COTABD – Classes of Transactions, Account Balances or Disclosures

STEP 2: Substantive audit procedures performed

Risk	R/01
-------------	------

1	2	3					4
Sample	Sample reference No.	Particulars/items tested in samples					Conclusion
		Item # 1	Item # 2	Item # 3	Item # 4	Item # 5	
1							
2							
3							
4							

Overall conclusion of performing substantive audit procedures:

Guidance for completing the working paper on performing substantive audit procedures

Overall objective of completing the template	The overall objective of this audit working paper is to document the substantive audit procedures performed by the auditor at the execution phase of the audit to ensure that the work performed by the auditor is documented accordingly. With the test objective as the relevant audit assertion identified against each risk, the audit procedure is performed on samples selected by the auditor.								
Applicable ISSAI	ISSAI 2230, ISSAI 2330, ISSAI 2500								
Guidance	<p>The auditor needs to follow two steps in completing this working paper template as explained below:</p> <p>Step 1: In this step, trace from the planning document the classes of transaction, account balances or disclosures that were considered for testing, and record them in the field provided above. Against this, the auditor then needs to trace the risks and the substantive audit procedures and relevant assertions identified from the planning document.</p> <p>Step 2: In this step, the auditor needs to select samples to be tested. Usually the samples selected for substantive testing are larger than those selected for control testing. Therefore, the auditor needs to first record the risk reference number so that it is quite clear which risk will be addressed by performing the substantive audit procedure. Record this in the field provided in the template, and then record the details of the samples in the given table. The particulars or items to be tested from the given sample will depend on the test objective, which is the audit assertion, and what needs to be tested should be drawn from the substantive audit procedures.</p> <p>Refer to the detailed guidance below for completing Steps 1 & 2:</p>								
	<p>Step 1: Trace risks and substantive audit procedures from planning documents</p> <p>After recording the class of transaction, account balance or disclosure to be tested, complete the table with four elements. The auditor should focus first on significant risks and design and perform substantive audit procedures that are responsive to those risks.</p> <table border="1"> <tr> <td>Column 1</td><td>Trace risks identified against each class of transaction, account balance or disclosure from the AWP 5.4 and record them in this column. The auditor needs to first trace the risks assessed as significant.</td></tr> <tr> <td>Column 3</td><td>The risk reference number can be traced from AWP 5.4 and recorded in this column for ease of reference while documenting substantive audit procedures performed.</td></tr> <tr> <td>Column 5</td><td>In this column, trace from AWP 5.8 the substantive audit procedures designed at the planning stage. This is the work that needs to be performed by the auditor.</td></tr> <tr> <td>Column 6</td><td>Trace relevant audit assertions identified against each risk and record them in this column. The purpose is to ensure that the auditor maintains the test objectives consistently to arrive at an appropriate conclusion of substantive audit procedures performed.</td></tr> </table> <p>Step 2: Substantive audit procedures performed</p>	Column 1	Trace risks identified against each class of transaction, account balance or disclosure from the AWP 5.4 and record them in this column. The auditor needs to first trace the risks assessed as significant.	Column 3	The risk reference number can be traced from AWP 5.4 and recorded in this column for ease of reference while documenting substantive audit procedures performed.	Column 5	In this column, trace from AWP 5.8 the substantive audit procedures designed at the planning stage. This is the work that needs to be performed by the auditor.	Column 6	Trace relevant audit assertions identified against each risk and record them in this column. The purpose is to ensure that the auditor maintains the test objectives consistently to arrive at an appropriate conclusion of substantive audit procedures performed.
Column 1	Trace risks identified against each class of transaction, account balance or disclosure from the AWP 5.4 and record them in this column. The auditor needs to first trace the risks assessed as significant.								
Column 3	The risk reference number can be traced from AWP 5.4 and recorded in this column for ease of reference while documenting substantive audit procedures performed.								
Column 5	In this column, trace from AWP 5.8 the substantive audit procedures designed at the planning stage. This is the work that needs to be performed by the auditor.								
Column 6	Trace relevant audit assertions identified against each risk and record them in this column. The purpose is to ensure that the auditor maintains the test objectives consistently to arrive at an appropriate conclusion of substantive audit procedures performed.								

	<p>At Step 2, the auditor documents the substantive audit procedures performed that are responsive to assessed risks of material misstatement in the financial statement. First, trace the risk reference and record it in the given field.</p> <p>Column 1 In this column, record the sample numbers. This indicates how many samples were tested.</p> <p>Column 2 Document sample reference No. in this column. Typically, it could be a payment voucher or receipt voucher No. and date.</p> <p>Column 3 In this column, the auditor needs to record the particulars or items tested in that specific sample. Items to be tested in a particular sample will be determined by the substantive audit procedures designed at the planning stage and by the test objective, which is the assertion.</p> <p>Column 4 The auditor needs to arrive at a conclusion on every sample tested, which needs to be recorded in this column. These will form the basis for an overall conclusion.</p>
Overall Conclusion of OE testing	<p>In arriving at an overall conclusion, the auditor needs to first establish the basis for conclusion. This can be derived by summarizing the conclusions for each sample under Column 4.</p> <p>Any exceptions observed while performing the substantive audit procedures on each sample selected for testing should be traced to the observation list under the completion and review stage of the audit (AWP 7.1) to deal appropriately with management and to evaluate the impact on the presentation and preparation of the financial statements. Depending on their nature and significance, and also on the SAI's policy, such exceptions or (in other words) observations can be communicated at the execution stage of the audit or at the completion and review stage to management or those charged with governance.</p>
Recording the evidence of preparer and reviewer	<p>The Table indicating the names 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.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p>

AWP 6.3: Sample of Positive Balance Confirmation Letter pertaining to outstanding balance adjustable or receivable from staff, contractors, and suppliers

Typed on entity's letter head

Name of the employee/contractor/supplier

Address

Date of circulation

Subject: Balance confirmation

The Memorandum register of -----shows a balance of Nu.----- paid to you as an advance, which remained unsettled as at -----.

We would be grateful if you would kindly confirm to our auditors your agreement/disagreement with the balance shown by signing the confirmation letter enclosed herewith and returning it to the auditors in the enclosed prepaid envelope, at latest by -----.

Should you disagree with our balance, please provide our auditors with details and reasons for the disagreement.

Please note that this request is made for audit purposes only and has no further significance.

Your kind co-operation in this matter will be highly appreciated.

Yours sincerely,

Accounts

Date:

The Team Leader

Auditors

Audit of-----

Dear Sir/Madam,

I/We confirm that the balance shown against me/us in the statement ofis in agreement with my/our record(s).

OR

I/We do not agree to the balance shown in the statement ofas per my/our record(s), the details of which are given below and Statement enclosed for further reference:

Name of Staff/Contractor/Supplier

Signed

Position held

AWP 6.4: Sample of Negative Balance Confirmation Letter pertaining to outstanding balance adjustable or receivable from staff, contractors, and suppliers

Typed on entity's letter head

Name of the employee/contractor/supplier

Address

Date of circularisation

Subject: Balance confirmation

Dear Sir/Madam,

As part of their normal audit procedures we have been requested by our auditors to ask you to confirm the balance on your account with us as at ----- (year-end date).

The balance of your account as per our records is -----. The Statement of your account is attached herewith. After comparing this with your records, will you please be kind enough to sign the confirmation letter and respond only if you do not agree with the balance shown by our records, providing the detailed statement directly to the auditors in the enclosed prepaid envelope.

Please note that this request is made for audit purposes only and has no further significance.

Your kind co-operation in this matter will be highly appreciated.

Yours sincerely,

Accounts

Date:

The Team Leader

Auditors

Audit of-----

Dear Sir/Madam,

We do not agree to the balance shown in your statement as per our record, the details of which are given below and Statement enclosed for further reference:

Name of agency or individual customer

Signed

Position held

AWP 6.5: Sample of Bank Balance Confirmation Letter

The Manager
ABC Bank

Subject: Bank Balance Confirmation

Dear Sir/Madam,

The auditors in the process of carrying out the audit of ----- have required us to confirm bank balances in the following accounts as at-----:

Current A/c No.-----

Current A/c No.-----

We would be grateful if you would kindly confirm the balances in the above accounts as per the bank's records directly to the auditors in the enclosed prepaid envelope.

Please note that this request is made for audit purposes only and has no further significance.

Your kind co-operation in this matter will be highly appreciated.

Yours sincerely,

Accounts

AWP 6.6: Use of Monetary Unit Sampling Workbook

Steps in use of MUS

1. Determine correct population value for selected items (the sample size determined should be sufficient and each sampling unit in the population should have equal chances of being selected).
2. Consider performance materiality for the selected population or items for testing.
3. Select the multiple of population to performance materiality.
4. Consider assessed risks (risk/significant risk).
5. Consider results of control testing (effective or not effective).
6. Determine number of samples to be tested using the following table.

Population size- multiples of performance materiality	Risk (not significant) & reliance on controls—low extent of testing	Risk (not significant) & reliance on controls—normal extent of testing	Significant risk & reliance on controls, or risk (not significant) & no reliance on controls	Significant risks & no reliance on controls
1x	1	1	2	3
2x	1	2	3	6
3x	1	3	5	9
4x	1	3	6	12
5x	1	4	8	15
6x	2	5	9	18
7x	2	5	11	21
8x	2	6	12	24
9x	2	7	14	27
10x	2	7	15	30
15x	3	11	23	45
20x	4	14	30	60
25x	5	18	38	75
30x	6	21	45	75(*)
40x	8	28	60	75(*)
50x	10	35	75	75(*)
100x	20	70	75(*)	75(*)
200x(or greater)	40(*)	75(*)	75(*)	75(*)

*The numbers indicate the situations that are impacted by the existence of a maximum sample size (i.e., if we didn't have a maximum sample size, the required number selected would be greater in these situations).

- The sample sizes represent minimum sample sizes. The audit team may determine that, in some circumstances, it is appropriate to increase the sample sizes over those in the table.
- For a population that contains a significant risk, we are required to perform substantive procedures that are specifically responsive to that risk. These specifically responsive substantive procedures frequently involve non-representative selection.

Note: Suppose the multiple of population to performance materiality is 8, assessed risk is not a significant risk, and extent of reliance on control is normal, the sample size should be 6.

- Use MUS worksheet (fill up population size and sample size determined using above table).
- Add rows depending on the number of items in the population as shown below.

Monetary Unit Sampling Worksheet							
Financial Statement Account		Purchase of		Add Rows			
Population		Power					
Sample Size		435,747,415					
Sampling Interval		14					
Random Start		31,124,815					
		19,000,000					
Item #	ID#	Description	Amount	Sub-Total	Number of Selections	Sampling Interval	Selection Remainder
Insert population data in white cells below							
1	5000000015	1/10/12	13,158,479.75	3,158,480	1	31,124,815	(10,000,000)
2	5000000036	1/31/12	9,293,473.28	(22,872,862)	0	31,124,815	(27,966,336)
3	5000000031	1/31/12	17,420,774.46	(5,252,088)	0	31,124,815	(22,872,862)
4	5000000036	1/31/12	13,740,795.12	8,486,737	1	31,124,815	(5,252,088)
5	5000001020	3/7/12	4,650,608.14	(17,965,500)	0	31,124,815	(22,872,862)
6	5000001062	3/7/12	12,951,211.50	(9,054,266)	0	31,124,815	(17,965,500)
7	5000001138	2/29/12	15,436,314.61	10,382,027	1	31,124,815	(5,252,088)
8	5000002021	4/5/12	13,705,086.09	(7,037,723)	0	31,124,815	(20,742,789)
9	5000002024	3/31/12	4,795,012.43	(2,242,710)	0	31,124,815	(7,037,723)
10	5000002186	3/31/12	18,882,067.07	10,639,357	1	31,124,815	(2,242,710)
11	5000002987	4/30/12	11,867,247.06	(2,618,211)	0	31,124,815	(14,485,458)
12	5000003001	4/30/12	4,131,736.23	1,513,525	1	31,124,815	(2,618,211)
13	5000003064	4/30/12	16,713,514.71	(12,897,776)	0	31,124,815	(29,611,291)
14	5000004106	5/31/12	17,222,699.45	4,324,924	1	31,124,815	(12,897,776)
15	5000004113	6/3/12	12,856,124.63	(14,143,757)	0	31,124,815	(26,799,692)
16	5000004192	6/11/12	5,611,245.52	(10,532,522)	0	31,124,815	(14,143,757)
17	5000004850	6/30/12	11,820,309.02	1,267,767	1	31,124,815	(10,532,522)
18	5000004895	8/30/12	3,755,030.53	(26,077,097)	0	31,124,815	(29,637,028)
19	5000004919	8/30/12	16,067,537.64	(10,009,560)	0	31,124,815	(26,077,097)
20	5000005002	8/6/12	4,036,880.38	(5,972,679)	0	31,124,815	(10,009,560)
21	5000006053	8/7/12	15,958,364.61	9,985,885	1	31,124,815	(5,972,679)
22	5000006055	8/7/12	12,077,352.30	(9,061,778)	0	31,124,815	(21,136,130)
23	5000007139	9/4/12	16,800,205.50	7,736,428	1	31,124,815	(9,061,778)
24	5000007142	9/13/12	4,099,419.29	(19,296,989)	0	31,124,815	(23,366,388)
25	5000007159	9/13/12	12,241,074.69	(7,053,895)	0	31,124,815	(19,296,989)
26	5000007998	10/9/12	4,140,548.39	(2,915,346)	0	31,124,815	(7,053,895)
27	5000008000	10/9/12	12,825,042.62	9,909,690	1	31,124,815	(2,915,346)
28	5000008013	10/9/12	16,880,647.27	(4,334,472)	0	31,124,815	(21,215,116)
29	5000009140	11/9/12	4,782,095.60	447,824	1	31,124,815	(4,334,472)
30	5000009141	11/9/12	14,219,044.19	(16,458,147)	0	31,124,815	(30,677,192)
31	5000009147	11/9/12	16,344,373.21	(113,774)	0	31,124,815	(16,458,147)
32	5000010342	12/5/12	13,515,854.95	13,402,081	1	31,124,815	(113,774)
33	5000010516	12/8/12	5,273,103.15	(12,449,631)	0	31,124,815	(17,722,735)
34	5000010597	12/7/12	18,469,622.17	6,039,991	1	31,124,815	(12,449,631)
35	5000012297	12/28/12	3,364,038.00	(21,720,786)	0	31,124,815	(25,084,825)
36	5000012514	12/31/12	22,870,504.49	1,149,719	1	31,124,815	(21,720,786)
37	5000012515	12/31/12	14,269,956.56	(15,705,138)	0	31,124,815	(29,975,096)
38	5000012516	12/31/12	5,795,137.84	(10,000,000)	0	31,124,815	(15,705,138)
39				(10,000,000)	0	31,124,815	(10,000,000)

- Generate sample; the final result should be as follows:

Monetary Unit Sampling Worksheet				
# of Selections:		#DIV/0!		
Item #	ID#	Description	Amount	Number of Selections
1	5000000015	1/10/12	13,158,479.75	1
4	5000000036	1/31/12	13,740,795.12	1
7	5000001138	2/29/12	15,436,314.61	1
10	5000002186	3/31/12	18,882,067.07	1
12	5000003001	4/30/12	4,131,736.23	1
14	5000004106	5/31/12	17,222,699.45	1
17	5000004850	6/30/12	11,820,309.02	1
21	5000006053	8/7/12	15,958,364.61	1
23	5000007139	9/4/12	16,800,205.50	1
27	5000008000	10/9/12	12,825,042.62	1
29	5000009140	11/9/12	4,782,095.60	1
32	5000010342	12/5/12	13,515,854.95	1
34	5000010597	12/7/12	18,469,622.17	1
36	5000012514	12/31/12	22,870,504.49	1

Notes:

- The data provided above is fictitious. The entity used is an energy company owned by the government, where the audit is carried out by the SAI of country X.
- This sampling tool is provided in Microsoft Excel Sheet as a separate file for use by SAIs.

Evaluation of the Sampling

GUIDANCE ON EVALUATION OF AUDIT TEST RESULTS

	P
Total account balance audited (A)	(A)
Total value of transactions tested (B)	(B)
Total value of actual misstatements (C)	(C)
Projected misstatements for the entire population $D=(C/B \times A)$	(D)
Tolerable misstatement (E)	(E)
Tolerable projected misstatements (F) = (E-D)	(F)
Minimum recommended additional sample items to be selected (G):	(G)

$$G = F / (1 - (E/n)) = \text{Number of items to be sampled}$$

n=Sample size

When the figure for F is negative (*F would be negative when projected misstatements exceeded tolerable misstatements*), the auditor should perform the following:

Step 1: Confirm that the final control reliance is set at 'No reliance'. Restate control reliance where any medium or high reliance has been stated previously. Recalculate sample sizes where applicable and test additional items. If (F) above is now positive, you can stop here. If (F) is still negative, proceed to Step 2.

Step 2: Extend sample sizes further to identify actual misstatements and errors in the population. The minimum recommended additional sample items to be selected are indicated above as (G). Note that this number is merely a guideline suggesting the minimum number of items to be tested based on the projected rate of misstatements in the items initially tested.

Where extending sample sizes is not practical or preferred for any reason, the impact of the projected misstatement exceeding the tolerable misstatement should be considered in light of the audit report.

Step 3: Once the additional sample items have been tested, confirm whether the projected misstatement is now below the tolerable error/misstatement ($G > 0$). If not, this means that the expected rate of misstatements in the population may have to be increased. For example, where the additional tests yielded higher errors than the initial projection, this means that there may be a need to perform even further tests. This may be due to the fact that the original sample items included significant items, which were found to be misstated. There may be a need to select transactions in addition to those stated above in (G). Some minor variation, however (for example, less than 5% of the tolerable misstatement), may be accepted by the auditors.

COMPLETION & REVIEW

AWP 7.1: Evaluation of the effect of uncorrected misstatements on the Financial Statements

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

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

Documentation of list of observations traced from execution phase of the audit										
Sl. No.	Audit Area	Type: 1. Error 2. Control Deficiency 3. Disclosure deficiency 4. Others	Gist of Observation	Amount involved if any	WP Reference from where observation traced	Audit In-charge	Management response	Status of observation (Resolved/Not resolved)	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 AWP 5.6 (C)
Materiality for classes of transactions, account balances and disclosures: _____ (one or more)										Traced from AWP 5.6 (C)
Materiality for classes of transactions, account balances and disclosures: _____ (one or more)										Traced from AWP 5.6 (C)
Overall evaluation of uncorrected misstatement & ascertaining impact on financial statements										
Is the individual uncorrected misstatement for the class of transaction/account balances material using the materiality level set for such class of transaction/account balance?										
If the answer is YES, ascertain the impact on the class of transactions/account balance (e.g. overstatement or understatement of income, expenditure, etc.)										
Are the aggregated uncorrected misstatements material using the overall materiality? (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	<p>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.</p> <p>The auditor should determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor should consider (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.</p>
	<p>Column 2 In this column the auditor can record the related audit area (material classes of transactions or accounts balance)</p> <p>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</p> <p>Column 4 In this column, the team can record the gist of the observation.</p> <p>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.</p> <p>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).</p> <p>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.</p> <p>Column 8 The summary or gist of management's response to the audit observation can be recorded in this column.</p> <p>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.</p> <p>Column 10 In this column, the auditor can record the reference number of each audit observation, irrespective of whether it has been resolved.</p>
Recording the evidence of	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.

preparer and reviewer	The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.
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AWP 7.2: Analytical Procedures carried out at Completion and Review stage

Name of the Entity	XYZ
Period of audit	01.01.20XX to 31.12.20XX

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

The engagement team may use the line items reported in the financial statements of the entity.

1	2	3	4	5	6
Classes of transactions/ account balances	Figures in the draft financial statements submitted to the auditor by management	Any errors observed in the draft financial statements	Figures in the final financial statements produced to the auditors upon completion of audit	Difference between the figures in the draft financial statements and final financial statements	Correction of errors by management

Overall conclusion on analytical procedures performed at completion and review stage of the audit:

Completing the working paper on analytical procedures performed at the completion and review stage

Overall objective of completing the template	The overall objective of this audit working paper is to record the analytical procedures performed at the completion and review stage of the audit.
Applicable ISSAI	ISSAI 2500, ISSAI 2520
Guidance	In auditing the financial statements, the auditor at the time of planning the audit obtains draft financial statements from the entity, and the audit procedures are performed accordingly on this draft. Management is expected to make corrections in the underlying books of accounts and accordingly in the financial statements, based on any errors and omissions pointed out by the auditors. Management should then submit the final version of financial statement to the auditors, normally at the completion and review stage of the audit, after making corrections to errors and omissions. The auditor performs analytical procedures on this final version of the financial statements.
	Column 1 In this column, record the classes of transactions and account balances from the financial statements.

	Column 2	Record in this column the figures reflected in the draft financial statements, according to class of transaction and account balance.
	Column 3	In this column, the auditor can record the errors observed in the draft financial statements upon performing the planned audit procedures.
	Column 4	Transfer figures in the final financial statements produced to the audit team by management.
	Column 5	Compare the figures in the final financial statements with those in the draft financial statements, and record any differences in this column.
	Column 6	In this column, the auditor can record any correction made to the financial statements by management.
Overall conclusion	The auditor needs to provide an overall conclusion on the analytical procedures performed at the completion of audit. The objective of the analytical procedures near the end of the audit is to assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. This may also help the auditor identify a previously unrecognized risk of material misstatement. This should be in a narrative form, highlighting the work performed by the auditor and the conclusion arrived at upon completion of the work.	
Recording the evidence of preparer and reviewer	<p>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.</p> <p>The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p>	

AWP 7.3: Standard Template of Management Representation Letter

Entity Letterhead

Dated:

The Division Chief

Name of the Division

SAI

This representation letter is provided in connection with your audit of the financial statements of for the year ended, for the purpose of expressing an opinion as to whether the financial statements are prepared in all material respects in accordance with (the applicable financial reporting framework) or give a true and fair view.

We confirm that *(to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves)*:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with (applicable financial reporting framework); in particular, the financial statements are fairly presented (or *give a true and fair view*) or prepared in all material respects in accordance therewith.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ISSAI 2540)
- Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the (applicable financial reporting framework). (ISSAI 2550)
- All events subsequent to the date of the financial statements and for which (the applicable financial reporting framework) requires adjustment or disclosure have been adjusted or disclosed. (ISSAI 2560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (ISSAI 2450)
- [Any other matters that the auditor may consider appropriate]

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. (ISSAI 2240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements. (ISSAI 2240)

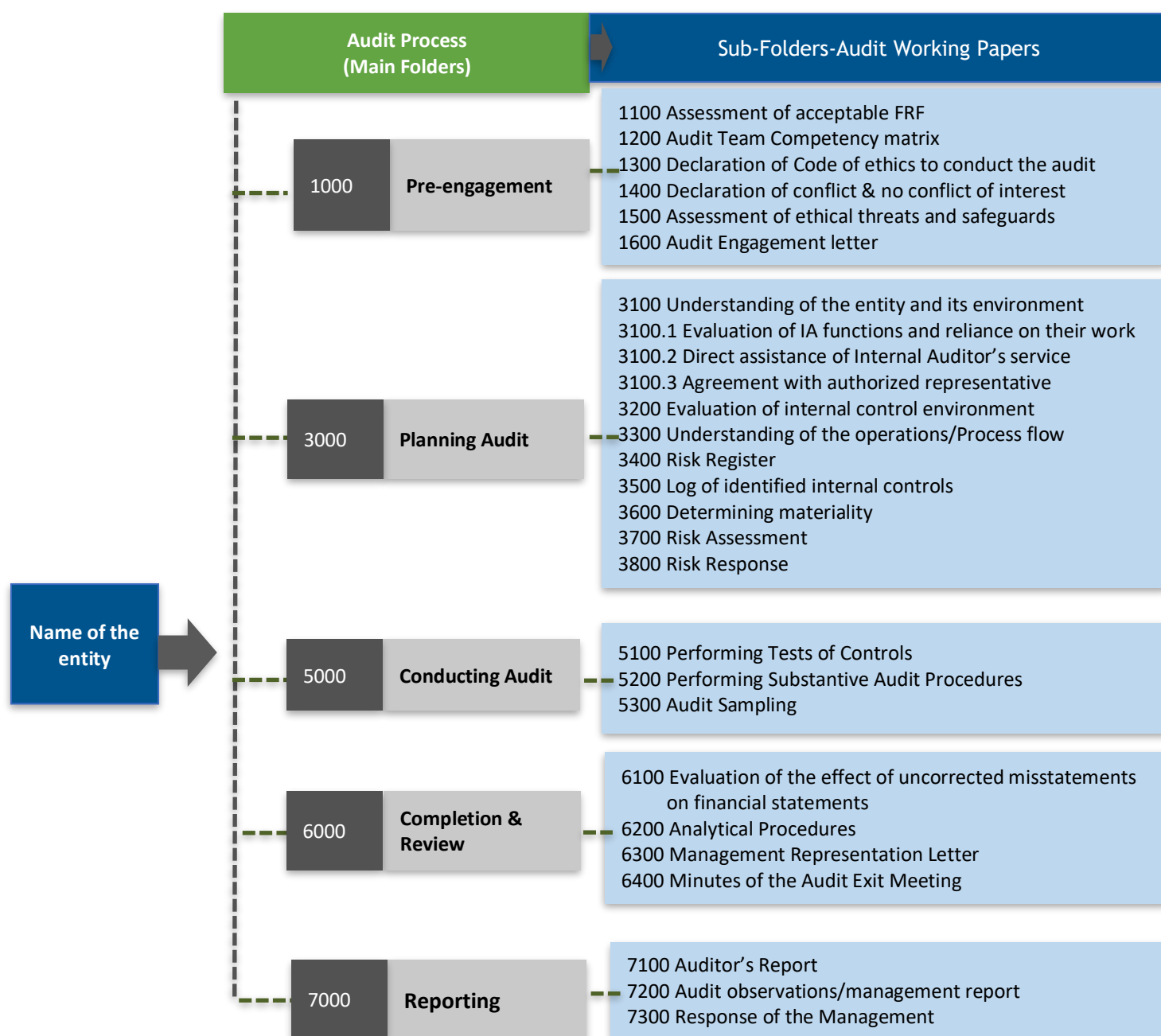
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements and communicated by employees, former employees, analysts, regulators or others. (ISSAI 2240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements. (ISSAI 2250)
- We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware. (ISSAI 2550)
- [Any other matters that the auditor may consider necessary]

Signature of authorised official

Management

Note: The letter should be amended appropriately for audit of financial statements prepared on cash and accrual accounting systems.

AWP 7.4: Audit Working Paper Documentation



Note: This is a suggested format for structuring and arrangement of electronic audit working papers that would facilitate the process of systematic archiving, review and retrieval.

REPORTING (ILLUSTRATIONS OF AUDITOR'S REPORT)

Appendix 8.1: Auditor's Report on Financial Statements of a Government Entity prepared in accordance with a Fair Presentation Framework (ISSAI 2700)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a fair presentation framework. The audit is not an audit of consolidated financial statements of the government (i.e., ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IPSASs (a general-purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Based on the audit evidence obtained, the public sector auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISSAI 2570 (Revised).
- Key audit matters have been communicated in accordance with ISSAI 2701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements (*to be adapted accordingly*).
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements¹⁶

Opinion

We have audited the financial statements of ABC Ministry (the Ministry), which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Ministry as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Ministry in accordance with our Code of Ethics together with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical 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.

[Description of each key audit matter in accordance with ISSAI 2701.]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISSAI 2720 (Revised) – see Illustration 1 in Appendix 2 of ISSAI 2720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements¹⁷

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs¹⁸, 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.

¹⁶ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹⁷ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁸ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

In preparing the financial statements, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. *(only if relevant to an audit of government ministry).*

Those charged with governance are responsible for overseeing the Ministry'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 ISSAIs 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.

Paragraph 41(b) of ISSAI explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISSAIs, we exercise professional judgment 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 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 Company's internal control¹⁹.
- 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 Company to cease to continue as a going concern* *(To adapt accordingly – the going concern concept may not be relevant to an audit of Ministry. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatization).*

¹⁹ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

- 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.

We communicate 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") can be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISSAIs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISSAIs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISSAIs where such a difference exists.]

The audit supervisor (equivalent of engagement partner in private practice. The designation may differ in different jurisdictions) on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[SAI Address] [Date]

Appendix 8.2: Auditor's Report on Financial Statements of a Government Entity prepared in accordance with a Compliance Framework (ISSAI 2700)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a compliance framework. The audit is not an audit of consolidated financial statements of the government (i.e., ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (i.e. a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- The auditor has concluded an unmodified (i.e. "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Based on the audit evidence obtained, the public sector auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISSAI 2570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISSAI 2701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements (*to be adapted accordingly*).
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Ministry (the Ministry), which comprise the Receipts and Payments statement and Statement of Expenditure for the year ended December 31, 20X1, and schedules forming part of the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of ABC Ministry for year ended December 31, 20X1 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 of Supreme Audit Institutions (ISSAIs). 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 Ministry 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.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISSAI 2720 (Revised) – see Illustration 1 in Appendix 2 of ISSAI 2720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements²⁰

Management is responsible for the preparation and fair presentation of the financial statements in accordance with XYZ Law of Jurisdiction X²¹, 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.

In preparing the financial statements, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting (*only if relevant to an audit of government ministry*).

Those charged with governance are responsible for overseeing the Ministry'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 ISSAIs 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.

²⁰ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

²¹ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read:
"Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

Paragraph 41(b) of ISSAI explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISSAIs, we exercise professional judgment 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 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 Ministry's internal control²².
- Evaluate the appropriateness of accounting policies.
- *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 Company to cease to continue as a going concern* (To adapt accordingly – the going concern concept may not be relevant to an audit of Ministry. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatization).
- 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.

We communicate 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

²² This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[SAI Address] [Date]

Appendix 8.3: Qualified Opinion due to a material misstatement of the Financial Statements of a Government Entity prepared in accordance with a General-Purpose Fair Presentation Framework (SSAI 2705)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a fair presentation framework. The audit is not an audit of consolidated financial statements of the government (i.e., ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IPSASs (a general-purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- The carrying amount of ministry's buildings and depreciation expenses are misstated. The misstatements are deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Based on the audit evidence obtained, the public sector auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISSAI 2570 (Revised).
- Key audit matters have been communicated in accordance with ISSAI 2701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements²³

Qualified Opinion

We have audited the financial statements of ABC Ministry (the Ministry), which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Ministry as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Qualified Opinion

The Ministry's buildings are depreciated over a period of their useful life using a straight-line method. However, all parts of the buildings (i.e. say roof, windows and doors, floors, brick walls, etc.) that have significant cost as compared to the total costs of the buildings were depreciated together instead of depreciating separately, which constitutes a departure from IPSAS 17. The extent of financial impact on the carrying amount of buildings in the Statement of Financial Position and the resultant effect on depreciation expenses in the statement of financial performance are currently not ascertainable.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Ministry in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical 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 qualified 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.

[Description of each key audit matter in accordance with ISSAI 2701.]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISSAI 2720 (Revised) – see Illustration 1 in Appendix 2 of ISA 2720 (Revised).]

²³ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Responsibilities of Management and Those Charged with Governance for the Financial Statements²⁴

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs²⁵, 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.

In preparing the financial statements, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. *(only if relevant to an audit of government ministry).*

Those charged with governance are responsible for overseeing the Ministry'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 ISSAIs 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.

Paragraph 41(b) of ISSAI explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISSAIs, we exercise professional judgment 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 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 Company's internal control²⁶.
- 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.*

²⁴ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

²⁵ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

²⁶ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

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 Ministry to cease to continue as a going concern (To adapt accordingly – the going concern concept may not be relevant to an audit of Ministry. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatization).

- 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.

We communicate 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") can be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISSAIs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISSAIs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISSAIs where such a difference exists.]

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[SAI Address] [Date]

Appendix 8.4: Qualified Opinion due to a material misstatement of the Financial Statements of a Government Entity prepared in accordance with a General-Purpose Compliance Framework (SSAI 2705)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a compliance framework. The audit is not an audit of consolidated financial statements of the government (i.e. ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- The expenditures are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Based on the audit evidence obtained, the public sector auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISSAI 2570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISSAI 2701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Qualified Opinion

We have audited the financial statements of ABC Ministry (the Ministry), which comprise the Receipts and Payments Statement and Statement of Expenditure for the year ended December 31, 20X1, and schedules forming part of the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements of ABC Ministry for year ended December 31, 20X1 are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Qualified Opinion

The supplier was overpaid by xxx as compared to the quoted price for supply of office equipment, which was procured through competitive bidding process. This has resulted in overstatement of expenditure by xxx with consequential effect on cash/bank balance to that extent.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Ministry 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 qualified opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISSAI 2720 (Revised) – see Illustration 1 in Appendix 2 of ISA 2720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements²⁷

Management is responsible for the preparation and fair presentation of the financial statements in accordance with XYZ Law of Jurisdiction X²⁸, 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.

In preparing the financial statements, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting (*only if relevant to an audit of government ministry*).

Those charged with governance are responsible for overseeing the Ministry'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

²⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

²⁸ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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.

Paragraph 41(b) of ISSAI explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISSAIs, we exercise professional judgment 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 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 Ministry's internal control²⁹.
- Evaluate the appropriateness of accounting policies.
- *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 Ministry to cease to continue as a going concern* (To adapt accordingly – the going concern concept may not be relevant to an audit of Ministry. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatization).
- 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.

We communicate 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

²⁹ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

From the matters communicated with those charged with governance, we determine 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[SAI Address] [Date]

Appendix 8.5: Qualified Opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding the recognition of the value of new office building in the Books of Accounts (SSAI 2705)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a fair presentation framework. The audit is not an audit of consolidated financial statements of the government (i.e., ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IPSASs (a general-purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding the recognition of the value of new office building in the Books of Accounts. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Based on the audit evidence obtained, the public sector auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISSAI 1570 (Revised).
- Key audit matters have been communicated in accordance with ISSAI 2701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements³⁰

Qualified Opinion

We have audited the financial statements of ABC Ministry (the Ministry), which comprise the statement of Financial Position as at December 31, 20X1, and the Statement of Financial Performance, Statement of Changes in Net Assets/Equity and Cash Flow Statement for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Ministry as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Qualified Opinion

The Ministry had contracted out the construction of its new office building, which was completed during the year 20X1 and accounted for in the Books of Accounts on 1 October 20X1 following the cost model as per IPSAS 17. The building is carried at xxx on the statement of financial position as at December 31, 20X1. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of this building as at December 31, 20X1 and the consequential effect on the depreciation for the year because we were denied of access to the financial information, management, and construction record. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Ministry in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical 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 qualified 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.

[Description of each key audit matter in accordance with ISSAI 2701.]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

³⁰ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[Reporting in accordance with the reporting requirements in ISSAI 2720 (Revised) – see Illustration 1 in Appendix 2 of ISA 2720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements³¹

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs³², 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.

In preparing the financial statements, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. *(only if relevant to an audit of government ministry).*

Those charged with governance are responsible for overseeing the Ministry'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 ISSAIs 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.

Paragraph 41(b) of ISSAI explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISSAIs, we exercise professional judgment 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 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 Company's internal control³³.

³¹ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

³² Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

³³ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

- 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 Ministry to cease to continue as a going concern (To adapt accordingly – the going concern concept may not be relevant to an audit of Ministry. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatization).*
- 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.

We communicate 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") can be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISSAIs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISSAIs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISSAIs where such a difference exists.]

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[SAI Address] [Date]

Appendix 8.6: Adverse Opinion due to a misstatement of the Financial Statements of a Government Entity prepared in accordance with a General-Purpose Fair Presentation Framework (SSAI 2705)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a fair presentation framework. The audit is not an audit of consolidated financial statements of the government (i.e., ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IPSASs (a general-purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- The financial statements are materially misstated due to non-recognition of land and buildings registered in the name of the Ministry. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Based on the audit evidence obtained, the public sector auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISSAI 2570 (Revised).
- Key audit matters have been communicated in accordance with ISSAI 2701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements³⁴

Adverse Opinion

We have audited the financial statements of ABC Ministry (the Ministry), which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of the Ministry as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

The Ministry's non-current assets comprising of land and buildings have not been recognised in the Statement of Financial Position. Based on the information available at the Ministry and third party confirmation obtained from the Municipal Office, xxx acres of land and xxx buildings were registered in the name of the Ministry. Under IPSAS 17, the land and buildings should have been accounted for at their costs and corresponding depreciation provided on buildings. The effects on the financial statements of the failure to recognise these assets have not been determined.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Ministry in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical 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 adverse opinion.

Key Audit Matters

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISSAI 2720 (Revised) – see Illustration 1 in Appendix 2 of ISA 2720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements³⁵

³⁴ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

³⁵ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs³⁶, 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.

In preparing the financial statements, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. *(only if relevant to an audit of government ministry).*

Those charged with governance are responsible for overseeing the Ministry'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 ISSAIs 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.

Paragraph 41(b) of ISSAI explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISSAIs, we exercise professional judgment 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 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 Company's internal control³⁷.
- 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*

³⁶ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

³⁷ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

of our auditor's report. However, future events or conditions may cause the Ministry to cease to continue as a going concern (To adapt accordingly – the going concern concept may not be relevant to an audit of Ministry. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatization).

- 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.

We communicate 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") can be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISSAIs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISSAIs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISSAIs where such a difference exists.]

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[SAI Address] [Date]

Appendix 8.7: Disclaimer of Opinion due to the Auditor's inability to obtain sufficient appropriate audit evidence due to accounting records being destroyed by fire (ISSAI 2705)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a fair presentation framework. The audit is not an audit of consolidated financial statements of the government (i.e., ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IPSASs (a general-purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- The auditor was unable to obtain sufficient appropriate audit evidence due to accounting records destroyed by a recent fire accident. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- A more limited description of the auditor's responsibilities section is required.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements³⁸

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Ministry (the Ministry), which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Ministry. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The Ministry has been maintaining its accounting records both manually and in the accounting system. About 70-80% of the accounting records for the year 20X1 were reported to have been destroyed by the recent fire accident in the office. As a result of this, we were unable to perform our audit procedures on financial statements assertions made by the Ministry in its financial statements for the year ended December 31, 20X1.

Responsibilities of Management and Those Charged with Governance for the Financial Statements³⁹

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS⁴⁰, 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.

In preparing the financial statements, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. (*only if relevant to an audit of government ministry*).

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Ministry's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Ministry in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements.

³⁸ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

³⁹ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁴⁰ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") can be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISSAIs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISSAIs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISSAIs where such a difference exists.]

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[SAI Address] [Date]

Appendix 8.8: An Auditor's Report that includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph (ISSAI 2706)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a fair presentation framework. The audit is not an audit of consolidated financial statements of the government (i.e., ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with International Public Sector Accounting Standards (IPSASs) (a general-purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- The public sector auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Based on the audit evidence obtained, the public sector auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISSAI 2570 (Revised).
- Between the date of the financial statements and the date of the auditor's report, the construction firm who was awarded the work to construct a parking space and the garage in front of its newly built building had submitted its inability to continue the work. The firm was paid an amount of XXX in advance payment. This was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- Key audit matters have been communicated in accordance with ISSAI 2701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁴¹

Opinion

We have audited the financial statements of ABC Ministry (the Ministry), which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Ministry as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Ministry in accordance with our Code of Ethics together with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical 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.

Emphasis of Matter⁴²

We draw attention to Note X of the financial statements, which describes the effects of construction firm's inability to complete the construction work of an office parking space and the garage. Our opinion is not modified in respect of this matter.

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.

[Description of each key audit matter in accordance with ISSAI 2701.]

Other Matter

During the year 20X1, the ministry initiated the government to citizen (G2C) initiative to enhance ministry's service delivery to citizens and avail a number of services from One-Stop shop.

⁴¹ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

⁴² As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph.

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISSAI 2720 (Revised) – see Illustration 1 in Appendix 2 of ISA 2720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements⁴³

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs⁴⁴, 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.

In preparing the financial statements, management is responsible for assessing the Ministry’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. *(only if relevant to an audit of government ministry).*

Those charged with governance are responsible for overseeing the Ministry’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 ISSAIs 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.

Paragraph 41(b) of ISSAI explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor’s responsibilities, rather than including this material in the auditor’s report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.

As part of an audit in accordance with ISSAIs, we exercise professional judgment 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.

⁴³ Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁴⁴ Where management’s responsibility is to prepare financial statements that give a true and fair view, this may read: “Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ...”

- 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 Ministry's internal control⁴⁵.
- 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 Ministry to cease to continue as a going concern* (To adapt accordingly – the going concern concept may not be relevant to an audit of Ministry. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatization).
- 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.

We communicate 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") can be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISSAIs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISSAIs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISSAIs where such a difference exists.]

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction] [SAI Address] [Date]

⁴⁵ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

Appendix 8.9: An Independent Auditor's Report containing a Qualified Opinion due to a departure from the Applicable Financial Reporting Framework and that includes an Emphasis of Matter Paragraph, and an Other Matter Paragraph (ISSAI 2706)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a government entity using a fair presentation framework. The audit is not an audit of consolidated financial statements of the government (i.e., ISSAI 2600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IPSASs (a general-purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISSAI 2210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction of a public-sector auditor.
- Based on the audit evidence obtained, the public sector auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISSAI 2570 (Revised).
- Between the date of the financial statements and the date of the auditor's report, the construction firm who was awarded the work to construct a parking space and the garage in front of its newly built building had submitted its inability to continue the work. The firm was paid an amount of XXX in advance payment. This was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 2701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Minister/Secretary/Director of ABC Ministry/Department [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁴⁶

Qualified Opinion

We have audited the financial statements of ABC Ministry (the Ministry), which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Ministry as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Qualified Opinion

The Ministry's buildings are depreciated over a period of their useful life using a straight-line method. However, all parts of the buildings (i.e. say roof, windows and doors, floors, brick walls, etc.) that have significant cost as compared to the total costs of the buildings were depreciated together instead of depreciating separately, which constitutes a departure from IPSAS 17. The extent of financial impact on the carrying amount of buildings in the Statement of Financial Position and the resultant effect on depreciation expenses in the statement of financial performance are currently not ascertainable.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Ministry in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical 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 qualified opinion.

Emphasis of Matter-Effects of a firm's inability to complete the work

We draw attention to Note X of the financial statements, which describes the effects of construction firm's inability to complete the construction work of an office parking space and the garage. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements⁴⁷

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs⁴⁸, 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.

In preparing the financial statements, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. (*only if relevant to an audit of government ministry*).

⁴⁶ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

⁴⁷ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁴⁸ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

Those charged with governance are responsible for overseeing the Ministry'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 ISSAIs 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.

Paragraph 41(b) of ISSAI explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISSAIs, we exercise professional judgment 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 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 Ministry's internal control⁴⁹.
- 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 Ministry to cease to continue as a going concern (To adapt accordingly – the going concern concept may not be relevant to an audit of Ministry. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatization).*
- 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.

We communicate 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 we identify during our audit.

⁴⁹ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") can be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISSAIs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISSAIs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISSAIs where such a difference exists.]

[Signature in the name of the Supreme Audit Institution (SAI), the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[SAI Address] [Date]

FOLLOW UP PROCEDURES

Appendix 9.1: Summary of follow-up report and detailed follow up report on action taken by the entity on earlier year(s) audit report(s)

Audit Qualifications

Accounting year	Total number of basis for qualified opinion	No. of basis for qualified opinion implemented	No. of basis for qualified opinion partially implemented	Balance of basis for qualified opinion to be implemented
<i>Guide</i>	<i>Refer from the Paragraph on 'Basis of Qualified Opinion' in the auditor's report on FS.</i>	<i>Inquire the management or review evidence (documents) of qualifications if resolved.</i>	<i>Review evidence and apply professional judgement to record the status of instances under 'Basis of qualified opinion' as partially implemented</i>	<i>After considering the status of fully implemented and partially implemented, record balance to be implemented here.</i>
20....				
20.....				
20....				

Management Report

Accounting Year	Total number of audit observations in the management report	No. of audit observations implemented	No. of audit observations partially implemented	Balance of audit observations to be implemented
<i>Guide</i>	<i>SAIs may have different practices or reporting audit unresolved observations (generally referred as management report)</i>	<i>Inquire the management or review evidence (documents) of audit observations if resolved.</i>	<i>Review evidence and apply professional judgement to record the status of audit observations as partially implemented</i>	<i>After considering the status of fully implemented and partially implemented, record balance to be implemented here.</i>
20X1				
20X2				

Detailed Follow-up Report for the year ended 31 December 20X1

Observation Reference No.	Audit observations in brief (from the management report)	Management's response – current status	SAIS's further comments
<i>Guide</i>	<i>Extract an observation in brief from the management report</i>	<i>Request for written response from the management along with supporting documents of actions being taken on audit observations</i>	<i>Indicate as implemented, not implemented, partially implemented. State further comments for status having 'partially implemented' and 'not implemented'</i>
00.01			
00.02			
Reference No.	Basis for qualified opinion in brief	Management's response – current status	SAIS's further comments
<i>Guide</i>	<i>Extract from this from the auditor's report on financial statement</i>	<i>Request for written response from the management along with supporting documents of actions being taken on audit observations</i>	<i>Indicate as implemented, not implemented, partially implemented. State further comments for status having 'partially implemented' and 'not implemented'</i>
20X1			
20X2			
