

4. DAGP AUDIT STANDARDS

4.1 Basic Principles in Government Auditing

4.1.1 The general framework of the auditing standards of the Auditor General of Pakistan is based on the principles of the latest INTOSAI Auditing Standards.

4.1.2 The INTOSAI auditing standards consist of four parts.

- a) Basic principles
- b) General standards
- c) Field standards
- d) Reporting standards

These standards have been developed to provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit, including audits of computer-based systems. They should be viewed in the context of the particular constitutional and legal provisions applicable to the Department of the Auditor General of Pakistan.

4.1.3 The basic principles for auditing standards are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the auditors in forming their opinions and reports, particularly in cases where no specific standards apply.

4.1.4 Auditing standards should be consistent with the principles of auditing: They also provide guidance for the auditor that helps determine the extent of auditing steps and procedures that should be applied in the audit. Auditing Standards constitute the criteria or yardsticks against which the quality of the audit results are evaluated.

4.1.5 Interpretations, explanation and amendments of these standards are the prerogative and responsibility of the AGP.

4.1.6 The basic principles are:

- a) The Department of the AGP will ensure compliance with the auditing standards in all matters that are deemed material. These standards will be applied to ensure that the work is of consistently high quality.
- b) The Department of the AGP shall apply its own judgment to the diverse situations that arise in the course of government auditing (see paragraph 4.1.14)
- c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively (see paragraph 4.1.19)
- d) Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information (see paragraph 4.1.21)

- e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the need of the government, and audited entities should develop specific and measurable objectives and performance targets (see paragraph 4.1.23)
- f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations (see paragraph 4.1.26)
- g) The existence of an adequate system of internal control minimises the risk of errors and irregularities (see paragraph 4.1.28)
- h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (see paragraph 4.1.30)
- i) All audit activities should be within the audit mandate of the Auditor General of Pakistan (see paragraph 4.1.32)
- j) The Department of the AGP shall work towards improving techniques for auditing the validity of performance measures (see paragraph 4.1.41)

4.1.7 The following paragraphs discuss the importance of the basic principles for auditing.

4.1.8 The basic auditing principles stipulate that:

The Department of the AGP shall ensure compliance with the auditing standards in all matters that are defined as material. These standards will be applied to ensure that the work is of consistently high quality.

4.1.9 In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report.

4.1.10 Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material—for example, where the law or regulation requires it to be disclosed separately regardless of the amount involved.

4.1.11 In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to:

- a) The overall view given to the financial information;
- b) The total of which it forms a part;
- c) Associated terms and issues;
- d) The corresponding amount in previous years.

4.1.12 Sometimes the Department of the AGP carries out activities that by strict definition do not qualify as audits, but which contribute to better government, e.g., (a) gathering

data without conducting substantial analysis, (b) legal work, (c) an assistance mission for members of the elected Assemblies as regards investigations and consultations of files of the Department of the AGP. These non-audit activities provide valuable information to decision-makers and should be of consistently high quality.

4.1.13 To ensure that high quality work is done, appropriate standards must be followed. The objectives of the particular type of work or the particular assignment should dictate the specific standards that are followed. The Department of the AGP shall establish a policy for implementing these standards to ensure that the work and products are of high quality.

4.1.14 The basic auditing principles stipulate that:

The Department of the AGP shall apply its own judgment to the diverse situations that arise in the course of government auditing (see paragraph 4.1.6b)

4.1.15 Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for the audit and the nature, timing and extent of audit tests and procedures.

4.1.16 The terms of the audit mandate with which the Department of the AGP is endowed override any accounting or auditing conventions with which they conflict, and hence have a crucial bearing on the auditing standards that the Department applies.

4.1.17 The Department of the AGP must judge the extent to which external auditing standards are compatible with the fulfilment of its mandate.

4.1.18 For some elements of the mandate of the AGP, particularly in regard to the audit of financial statements, the audit objectives may be akin to the objectives of audits in the private sector. Correspondingly, private sector standards for the financial statements auditing which are promulgated by official regulatory bodies might be applicable to the government auditor.

4.1.19 The basic auditing principles stipulate that:

With increased public consciousness, the demand for the public accountability of persons or entities managing resources has become increasingly evident so that there is a greater need for the accountability process to be in place and operating effectively (see paragraph 4.1.6c)

4.1.20 Public enterprises are also required to fulfil public accountability obligations. Public enterprises may include commercial undertakings, e.g. entities established by statute or executive order or in which the Government has a controlling interest. Irrespective of the manner in which they are constituted, their functions, degree of autonomy or funding arrangements, such entities are ultimately accountable to the respective legislature.

4.1.21 The basic auditing principles stipulate that:

Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for

correctness and sufficiency of the form and content of the financial reports and other information (see paragraph 4.1.6d)

4.1.22 The correctness and sufficiency of the financial reports and statements are the entity's expression of the financial position and the results of operations. It is also the entity's obligation to design a practical system which will provide relevant and reliable information.

4.1.23 The basic auditing principles stipulate that:

Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets (see paragraph 4.1.6e)

4.1.24 The Department of the AGP shall work with the accounting standards setting organisations to help ensure that proper accounting standards are issued for the government.

4.1.25 The Department of the AGP shall also recommend to the audited entities that measurable and clearly stated objectives be established and that performance targets be set for these objectives.

4.1.26 The basic auditing principles stipulate that:

Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations (see paragraph 4.1.6f)

4.1.27 The assumption that consistency in application of accounting standards is a prerequisite of fairness means that an audited entity must comply with accounting standards appropriate in the circumstances, as well as the requirements of applying such accounting standards in a consistent manner. An auditor should not consider compliance with accounting standards in a consistent manner as a definitive proof of presenting fairly the various financial reports. Fairness is an expression of an auditor's opinion that goes beyond the limits of consistent application of accounting standards. Such an assumption emphasises that the auditing standards are no more than the minimum requirements for an auditor's obligation. Going beyond that minimum is for the auditor's judgment.

4.1.28 The basic auditing principles stipulate that:

The existence of an adequate system of internal control minimises the risk of errors or irregularities (see paragraph 4.1.6g)

4.1.29 It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is not the auditor's responsibility. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision making. However, this does not relieve the auditor from submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing.

4.1.30 The Basic auditing principles stipulate that:

Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (see paragraph 4.1.6h)

4.1.31 The Department of the AGP must have access to the sources of information and data as well as access to officials and employees of the audited entity in order to carry out properly its audit responsibilities. Enactment of legislative requirements for access by the auditor to such information and personnel will help minimise future problems in this area.

4.1.32 The basic auditing principles stipulate that:

All audit activities should be within the audit mandate of the AGP (see paragraph 4.1.6i)

4.1.33 The essential function of the department of the AGP is to uphold and promote public accountability. This jurisdictional function requires the Department to make sure that whoever is charged with dealing with public funds is accountable to it and is in this regard subject to its jurisdiction.

4.1.34 There exists an important complementarity between this jurisdictional authority and the other characteristics of audit. This characteristic should be viewed as a part of the logic of the general objective pursued by external audit and more particularly those which relate to accounting management.

4.1.35 The full scope of government auditing includes regularity and performance audit.

4.1.36 Regularity audit embraces:

- a) Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions of financial statements;
- b) Attestation of financial accountability of the government administration as a whole;
- c) Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- d) Audit of internal control and audit functions;
- e) Audit of the probity of administrative decisions taken within the audited entity; and
- f) Reporting of any other matters arising from or relating to the audit that the Department of the AGP considers should be disclosed.

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

- a) Audit of the economy of administrative activities in accordance with sound administrative principle and practices, and management policies;

- b) Audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- c) Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

4.1.38 In practice there can be an overlap between regularity and performance auditing, and in such cases classification of a particular audit will depend on the primary purpose of that audit.

4.1.39 The mandate of the Department of the AGP shall clearly delineate its powers and responsibilities in relation to performance auditing in all areas of government activity, among other things to facilitate the application of appropriate auditing standards.

4.1.40 Public accountability will be more effectively promoted where the mandate enables the Department of the AGP to conduct, or direct the conduct of, regularity and performance auditing of all public enterprises.

4.1.41 The general auditing principles stipulate that

The Department of the AGP shall work towards improving techniques for auditing the validity of performance measures (see paragraph 4.1.6j)

4.1.42 The expanding audit role of the auditors will require them to improve and develop new techniques and methodologies to assess whether reasonable and valid performance measures are used by the audited entity. The auditors should avail themselves of techniques and methodologies of other disciplines.

4.1.43 The scope of the audit mandate will determine the scope of the standards to be applied by the Department of the AGP.

4.2 General standards in Government Auditing

4.2.1 This section deals with general standards in government auditing. The general auditing standards describe the qualifications of the auditor and/or the auditing institution so that they may carry out the tasks related to field and reporting standards in a competent and effective manner.

4.2.2 The general auditing standards are that the Department of the AGP shall adopt policies and procedures to:

- a) Recruit personnel with suitable qualifications (see paragraph 4.2.3)
- b) Develop and train employees of the Department of the AGP to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff (see paragraph 4.2.5)
- c) Prepare manual and other written guidance and instructions concerning the conduct of audit (see paragraph 4.2.13).

- d) Support the skills and experience available within the Department of the AGP and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 4.2.15)
- e) Review the efficiency and effectiveness of the Department internal standards and procedures (see paragraph 4.2.25)

4.2.3 The general standards for Department of the AGP include:

The Department shall frame policies and develop procedures to recruit personnel with suitable qualifications (see paragraph 4.2.2a)

The following paragraph explains recruitment as an auditing standard.

4.2.4 Personnel of the Department of the AGP shall possess suitable academic qualifications and be equipped with appropriate training and experience. The Department shall establish, and regularly review, minimum educational requirements for the appointment of auditors.

4.2.5 The general standards include:

The Department shall frame policies and procedures to develop and train its employees to enable them to perform their tasks effectively and to define the basis for the advancement of auditors and other staff (see paragraph 4.2.2b)

The following paragraphs explain training and development as an auditing standard.

4.2.6 The Department shall take adequate steps to provide for continuing professional development of its personnel, including, as appropriate, provision of in-house training and encouragement of attendance at external courses.

4.2.7 The Department shall maintain an inventory of skills of personnel to assist in the planning of audits as well as to identify professional development needs.

4.2.8 The Department shall establish and regularly review criteria, including educational requirements, for the advancement of auditors and other staff of the SAI.

4.2.9 The Department shall also establish and maintain policies and procedures for the professional development of audit staff regarding the audit techniques and methodologies applicable to the range of audits it undertakes.

4.2.10 Personnel of the Department of the AGP shall have a good understanding of the government environment, including such aspects as the role of the legislature, the legal and institutional arrangements governing the operations of the executive and the charters of the public enterprises. Likewise, trained audit staff must possess an adequate knowledge of the Department's auditing standards, policies, procedures and practices.

4.2.11 Audit of financial systems, accounting records and financial statements requires training in accounting and related disciplines as well as a knowledge of applicable legislation and executive orders affecting the accountability of the audited entity. Further, the conduct of performance audits may require, in addition to the above, training in such areas as administration, management, economics and the social sciences.

4.2.12 The Department shall encourage its personnel to become members of a professional body relevant to their work and to participate in that body's activities.

4.2.13 The general standards include:

The Department shall adopt policies and develop procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits (see paragraph 4.2.2c)

The following paragraph explains written guidance as an auditing standard.

4.2.14 Communication to staff of the Department of the AGP by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out its policies, standards and practices, is important in maintaining the quality of audits.

4.2.15 The general standards include:

The Department shall frame policies and develop procedures to support the skills and experience available within the Department and identify those skills which are absent; provide a good distribution of skills to auditing tasks and a sufficient number of persons for the audit and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 4.2.2d)

The following paragraphs explain the use of skills as an auditing standard.

4.2.16 Resources required to undertake each audit need to be assessed so that suitably skilled staff may be assigned to the work and a control placed on staff resources to be applied to the audit.

4.2.17 The extent to which academic attainment should be related specifically to the audit task varies with the type of auditing undertaken. It is not necessary that each auditor possess competence in all aspects of the audit mandate. However, policies and procedures governing the assignment of personnel to audit tasks should aim at deploying personnel who have the auditing skills required by the nature of the audit task so that the team involved on a particular audit collectively possesses the necessary skills and expertise.

4.2.18 It shall be open to the Department of the AGP to acquire specialised skills from external sources if the successful conduct of an audit so requires in order that the audit findings, conclusions and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is for the Department of the AGP to judge, in its particular circumstances, to what extent its requirements are best met by in-house expertise as against employment of outside experts.

- 4.2.19 Policies and procedures governing supervision of audits are important factors in the performance of the SAI's role at an appropriate level of competence. The Department of the AGP shall ensure that audits are planned and supervised by auditors who are competent, knowledgeable in the standards and methodologies, and equipped with an understanding of the specialities and peculiarities of the environment.
- 4.2.20 For the audit of financial statements which cover the executive branch of government as a whole, the audit teams deployed shall be equipped to undertake a co-ordinated evaluation of departmental accounting systems, as well as of central agency co-ordination arrangement and control mechanisms. Teams will require a knowledge of the relevant government accounting and control systems, and an adequate expertise in the auditing techniques applied by the Department to this type of audit.
- 4.2.21 Unless the Department is equipped to undertake, within a reasonable time-scale, all relevant audits, including performance audits covering the whole of every audited entity's operations, criteria shall be needed for determining the range of audit activities which, within the audit period or cycle, will give the maximum practicable assurance regarding performance of public accountability obligations by each audited entity.
- 4.2.22 In determining the allocation of its resources among different audit activities, the Department shall give priority to any audit tasks which must, by law, be completed within a specified time frame. Careful attention shall be given to strategic planning so as to identify an appropriate order of priority for discretionary audits to be undertaken.
- 4.2.23 Assignment of priorities compatible with maintaining the quality of performance across the mandate involve the exercise of judgment by the Department of the AGP in the light of available information. Maintenance of a portfolio of data pertaining to the structure, functions and operations of audited entities will assist the department in identifying areas of materiality and vulnerability and areas holding potential for improvements in administration.
- 4.2.24 Before each audit is undertaken proper authorisation for its commencement shall be given by designated personnel within the Department of the AGP. This authorisation shall include a clear statement of the objectives of the audit, its scope and focus, resources to be applied to the audit in terms of skills and quantum, arrangements for reviews of progress at appropriate points, and the dates by which fieldwork is to be completed and a report on the audit is to be provided.
- 4.2.25 The general standards include:

The Department of the AGP shall frame policies and develop procedures to review the efficiency and effectiveness of its internal standards and procedures (see paragraph 4.2.2e)

The following paragraphs explain quality assurance reviews as an auditing standard.

- 4.2.26 Because of the importance of ensuring a high standard of work by the Department of the AGP it shall pay particular attention to quality assurance programmes in order to improve audit performance and results. The benefits to be derived from such programmes make it essential for appropriate resources to be available for this purpose. It is important that the use of these resources be matched against the benefits to be obtained.

4.2.27 The Department of the AGP shall establish systems and procedures to:

- a) Confirm that integral quality assurance processes have operated satisfactorily.
- b) Ensure the quality of the audit report; and
- c) Secure improvements and avoid repetition of weaknesses.

4.2.28 As a further means of ensuring quality of performance, additional to the review of audit activity by personnel having line responsibility for the audits concerned, the Department shall establish its own quality assurance arrangements. That is, planning, conduct and reporting in relation to a sample of audits may be reviewed in depth by suitably qualified personnel of the Department not involved in those audits, in consultation with the relevant audit line management regarding the outcome of the internal quality assurance arrangements and periodic reporting to the top management of the Department.

4.2.29 It is appropriate for the Department of the AGP to institute their own internal audit function with a wide charter to assist it to achieve effective management of its own operations and sustain the quality of its performance.

4.2.30 The quality of the work of the Department shall be enhanced by strengthening internal review and by independent appraisal of its work.

4.2.31 The Department shall ensure that applicable standards are followed on all audits and that deviations from the standards which are determined to be appropriate are documented.

4.3 Standards with Ethical Significance

4.3.1 The general auditing standards include

- a) The auditor and the Department of the AGP must be independent (see paragraph 4.3.2)
- b) The Department of the AGP shall avoid conflict of interest between the auditor and the entity under audit (see paragraph 4.3.28)
- c) The auditor and the Department of the AGP must possess the required competence (see paragraph 4.3.30)
- d) The auditor and the department of the AGP must exercise due care and concern in complying with these auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 4.3.36)

4.3.1 Independence

4.3.2 The general standards for the auditor and the Department of the AGP include:

The auditor and the Department must be independent (see paragraph 4.3.1a)

- 4.3.3 Whatever the form of government, the need for independence and objectivity in audits is vital. An adequate degree of independence from both the legislature and the executive branch of government is essential to the conduct of audit and to the credibility of its results.
- 4.3.4 The legislature is one of the main users of the services of the Department of the Auditor General of Pakistan. It is from the Constitution and the legislation that the SAI derives its mandate, and a frequent feature of the Department's function is its reporting to the legislature. The SAI can be expected to work closely with the legislature, including with any committees empowered by the legislature to consider its reports. Such liaison can contribute to effective follow-up of the Department's work.
- 4.3.5 The important results of audits of the carrying-out of the budget and of administration and disputes and disagreements with audited administrations shall be brought to the attention of the legislative body by way of report or special communication.
- 4.3.6 Special committees created within the legislative body may be charged with examining, in the presence of delegates from the audited services and other representatives, the comments in the reports and special communications of the Department of the AGP.
- 4.3.7 The Department of the AGP may give members of the legislature factual briefings on audit reports, but it is important that it maintains its independence from political influence, in order to preserve an impartial approach to its audit responsibilities. This implies that the Department of the AGP shall not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests.
- 4.3.8 While the Department of the AGP observes the laws enacted by the legislature, adequate independence requires that it not otherwise be subject to direction by the legislature in the programming, planning and conduct of its work in accordance with its mandate and adopt methodologies appropriate to audits. The Department of the AGP needs freedom to set priorities and programme the audits to be undertaken.
- 4.3.9 In cases where the legislature requests the AGP to undertake any audit, the Department of the AGP shall be free to determine the manner in which it conducts its work, including those tasks requested by the legislature.
- 4.3.10 It is appropriate for the legislation to specify minimum reporting requirements, including the matters to be subject to an audit opinion and a reasonable time within which reports should be made. Apart from that, flexible arrangements for the Department's reporting to the legislature, without restriction on content or timing of reports, would support the maintenance of independence.
- 4.3.11 It is necessary that the Department of the AGP is provided with sufficient resources, for the effective exercise of its mandate.
- 4.3.12 The executive branch of the government and the SAI do have common interests in the promotion of public accountability. But the essential relationship with the executive is that of external auditor. As such the reports of the AGP are expected to assist the executive by drawing attention to deficiencies in administration and recommending improvements. Care should be taken to avoid participation in the executive's functions of the kind that would militate against the independence and objectivity of the Department of the AGP in the discharge of its mandate.

- 4.3.13 It is important for the independence of the Department of the AGP that there be no power of direction by the executive in relation to the Department's performance of its mandate. The Department shall not be obliged to carry out, modify or refrain from carrying out, an audit or suppress or modify audit findings, conclusions and recommendations.
- 4.3.14 A degree of co-operation between the Department of the AGP and the executive is desirable in some areas. The SAI shall be ready to advise the executive in such matters as accounting standards and policies and the form of financial statements. The Department must ensure that in giving such advice it avoids any explicit or implied commitment that would impair the independent exercise of its audit mandate.
- 4.3.15 Maintenance of the independence of the Department of the AGP does not preclude requests by the executive proposing matters for audits. But to enjoy adequate independence, the Department shall have the discretion to decline any such request. It is fundamental to the concept of SAI independence that decisions as to the audit tasks comprising the programme shall rest finally with the Department of the AGP.
- 4.3.16 A sensitive area in relationships between the Department of the AGP and the executive concerns provision of resources to the Department. In varying degrees, reflecting constitutional and institutional differences, arrangements for the SAI's resource provision may be related to the executive branch of government's financial situation and general expenditure policies. As against that, effective promotion of public accountability requires that the Department of the AGP be provided with sufficient resources to enable it to discharge its responsibilities in a reasonable manner.
- 4.3.17 Any imposition of resource or other restriction by the executive which would constrain the exercise of its mandate by the Department of the AGP would be an appropriate matter for report by the Department to the legislature.
- 4.3.18 The legal mandate should provide for full and free access by the Department of the AGP to all premises and records relevant to audited entities and their operations and should provide adequate powers for the Department to obtain relevant information from persons or entities possessing it.
- 4.3.19 Unless specifically prevented by law, the executive shall permit access by the Department of the AGP to sensitive information which is necessary and relevant to the discharge of the responsibilities of the Department.
- 4.3.20 The Department of the AGP shall ensure that its mandate and its independent status is well understood in the community. The Department shall, as appropriate opportunities arise, undertake an educational role in that regard.
- 4.3.21 Functional independence of the Department of the AGP need not preclude arrangements with executive entities in regard to its administration in matters such as personnel management, property management or common purchasing of equipment and stores, though executive entities shall not be in a position to take decisions that would jeopardise the independence of the Department in discharging its mandate.
- 4.3.22 The Department of the AGP must remain independent from audited entities. It shall, however, seek to create among audited entities an understanding of its role and function, with a view to maintaining amicable relationships with them. Good relationships can help the department to obtain information freely and frankly and to

conduct discussions in an atmosphere of mutual respect and understanding. In this spirit, the Department while retaining its independence, can agree to be associated with reforms which are planned by the Administration in areas such as public accounts or financial legislation or agree to be consulted about the preparation of draft laws or rules affecting its competence or its authority. In these cases it is not, however, a matter of the Department interfering in administrative management but a matter of co-operating with certain administrative services by giving them technical assistance or by putting financial management experience of the Department at their disposition.

- 4.3.23 In contrast to private sector audit, where the auditor's agreed task is specified in an engagement letter, the audited entity is not in a client relationship with the Department of the AGP. The Department has to discharge its mandate freely and impartially, taking management views into consideration in forming audit opinions, conclusions and recommendations, but owing no responsibility to the management of the audited entity for the scope or nature of the audits undertaken.
- 4.3.24 The Department of the AGP shall not participate in the management or operations of an audited entity. Audit personnel should not become members of management committees and, if audit advice is to be given, it shall be conveyed as audit advice or recommendation and acknowledged clearly as such.
- 4.3.25 Any personnel of the Department of the AGP having close affiliations with the management of an audited entity, such as social, kinship or other relationship conducive to a lessening of objectivity, shall not be assigned to audit that entity.
- 4.3.26 Personnel of the Department of the AGP should not become involved in instructing personnel of an audited entity as to their duties. In those instances where the Department decides to establish a resident office at the audited entity with the purpose of facilitating the ongoing review of its operations, programmes and activities, personnel of the Department of the AGP shall not engage in any decision making or approval process which is considered the auditee's management responsibilities.
- 4.3.27 The Department of the AGP may co-operate with academic institutions and enter formal relationships with professional bodies, provided the relationships do not inhibit its independence and objectivity, in order to avail itself of the advice of experienced members of the profession at large.

4.3.2 Conflict of interest

- 4.3.28 The Department of the AGP shall avoid conflict of interest between the auditor and the entity under audit (see paragraph 4.3.1b)
- 4.3.29 The Department of the AGP performs its role by carrying out audits of the accountable entities and reporting the results. To fulfil this role, the Department needs to maintain its independence and objectivity. The application of appropriate general auditing standards assists the Department to satisfy these requirements.

4.3.3 Competence

4.3.30 The general standards for the auditor and the Department of the AGP include:

The auditor and the Department must possess the required competence (see paragraph 4.3.1c)

The following paragraphs explain competence as an auditing standard.

4.3.31 The mandate of the Department of the AGP generally imposes a duty of forming and reporting audit opinions, conclusions and recommendations. This duty shall remain that of the heads of the Audit offices.

4.3.32 Discussions within the SAI promote the objectivity and authority of opinions and decisions. Decision and opinions as such relating to conclusions, findings and recommendations in the Audit reports are taken in the name of the AGP.

4.3.33 Since the duties and responsibilities thus borne by the Department of the AGP are crucial to the concept of public accountability, the Department must apply to its audits, methodologies and practices of the highest quality. It is incumbent upon it to formulate procedures to secure effective exercise of its responsibilities for audit reports, unimpaired by less than full adherence by personnel or external experts to its standards, planning procedures methodologies and supervision.

4.3.34 The Department of the AGP needs to command the range of skills and experience necessary for effective discharge of the audit mandate. Whatever the nature of the audits to be undertaken under that mandate, the audit work shall be carried out by persons whose education and experience is commensurate with the nature, scope and complexities of the audit task. The department shall equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling and audit of automated information systems.

4.3.35 In view of the wide and discretionary nature of mandate of the Department of the AGP, the task of the ensuring quality of performance across the whole mandate becomes more complex. The Department shall, therefore, ensure, within itself, a high standard of management.

4.3.4 Due care

4.3.36 The general standards for the auditor and the Department of the AGP include

The auditor and the Department must exercise due care and concern in complying with the auditing standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 4.3.1d)

The following paragraphs explain due care as an auditing standard.

4.3.37 The Department of the AGP must be, and be seen to be, objective in its audit of entities and public enterprises. It should be fair in its evaluations and in its reporting of the outcome of audits.

- 4.3.38 Performance and exercise of technical skill should be of a quality appropriate to the complexities of a particular audit. Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorised operations, waste, inefficiency or lack of probity.
- 4.3.39 Where an authorised or recognised entity sets standards or guidelines for accounting and reporting by public enterprises, the Department of the AGP may use such guidelines in the course of its examination.
- 4.3.40 If the department of the AGP employs external experts as consultants it must exercise due care to assure itself of the consultants' competence and aptitude for the particular tasks involved. This standard applies also where outside auditors are engaged on contract with the Department. In addition care must be taken to ensure that audit contracts include adequate provision for the SAI to determine the planning, the audit scope, the performing, and the reporting on the audit.
- 4.3.41 Should the Department of the AGP, in the performance of its functions, need to seek advice from specialists external to the Department, the standards for exercise of due care in such arrangements have a bearing also on the maintenance of quality of performance. Obtaining advice from an external expert does not relieve the Department of responsibility for the opinions formed or conclusions reached on the audit task.
- 4.3.42 When the Department of the AGP uses the work of another auditor(s), it must apply adequate procedures to provide assurance that the other auditor(s) has exercised due care and complied with relevant auditing standards, and may review the work of the other auditor(s) to satisfy itself as to the quality of that work.
- 4.3.43 Information about an audited entity acquired in course of the auditor's work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor's responsibilities. It is essential that the Department of the AGP maintain confidentiality regarding audit matters and information arising from its audit task. However, the Department must be entitled to report offences against the law to proper prosecuting authorities.

4.4 Field Standards in Government Auditing

- 4.4.1 The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. These steps and actions represent the rules of research that the auditor, as a seeker of audit evidence, implements to achieve a specific result.
- 4.4.2 The field standards establish the framework for conducting and managing audit work. They are related to the general auditing standards, which set out the basic requirements for undertaking the tasks covered by the field standards. They are also related to the reporting standards, which cover the communication aspect of auditing, as the result of carrying out the field standards constitute the main source for the contents of the opinion or report.

4.4.3 The field standards applicable to all types of audit are:

- a) The auditor shall plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner
- b) The work of the audit staff at each level and audit phase shall be properly supervised during the audit; and documented work shall be reviewed by a senior member of the audit staff
- c) The auditor, in determining the extent and scope of the audit, shall study and evaluate the reliability of internal control
- d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

Any indications that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions.

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the Department of the AGP is to make sure, by all the means put at its disposal, that the Government budget and accounts are complete and valid. This will provide legislature and other users of the audit report with assurance about the size and development of the financial obligations of the Government. To achieve this objective the Department will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of an unqualified certificate

- e) Competent, reliable, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusion regarding the organisation, programme, activity or function under audit
- f) In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements

4.4.1 Planning

4.4.4 The field standards include:

The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner

The following paragraphs explain planning as an auditing standard.

4.4.5 The Department of the AGP shall give priority to any audit tasks which must be undertaken by law and assess priorities for discretionary areas within mandate of the AGP.

4.4.6 In planning an audit, the auditor should:

- a) Identify important aspects of the environment in which the audited entity operates;
- b) Develop an understanding of the accountability relationships;
- c) Consider the form, content and users of audit opinions, conclusions or reports;
- d) Specify the audit objectives and the tests necessary to meet them;
- e) Identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weakness;
- f) Determine the materiality of matters to be considered;
- g) Review the internal audit of the audited entity and its work programme;
- h) Assess the extent of the reliance that might be placed on other auditors, for example, internal audit;
- i) Determine the most efficient and effective audit approach;
- j) Provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and
- k) Provide for appropriate documentation of the audit plan and for the proposed fieldwork.

4.4.7 The following planning steps are normally included in an audit;

- a) Collect information about the audited entity and its organisation in order to assess risk and to determine materiality;
- b) Define the objective and scope of the audit;
- c) Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
- d) Highlight special problems foreseen when planning the audit;

- e) Prepare a budget and a schedule for the audit;
- f) Identify staff requirements and a team for the audit; and
- g) Familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

The SAI may revise the plan during the audit when necessary.

4.4.2 Supervision and Review

4.4.8 The field standards include:

The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff

The following paragraphs explain supervision and review as an auditing standard.

4.4.9 Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of the individual auditors.

4.4.10 Supervision should be directed both to the substance and to the method of auditing. It involves ensuring that:

- a) The members of the audit team have a clear and consistent understanding of the audit plan;
- b) The audit is carried out in accordance with the auditing standards and practices of the Department of the AGP.
- c) The audit plan and action steps specified in that plan are followed unless a variation is authorised;
- d) Working papers contain evidence adequately supporting all conclusions, recommendations and opinions;
- e) The auditor achieves the stated audit objectives; and
- f) The audit report includes the audit conclusions, recommendations and opinions, as appropriate.

4.4.11 All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgment to the audit task and should ensure that:

- a) All evaluations and conclusions are soundly based and are supported by competent, reliable, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;

- b) all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of the more senior officer(s) of the department; and
- c) changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities

4.4.3 Study and Evaluation of Internal Control

4.4.12 The field standards include

The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of the internal control

The following paragraphs explain internal control as an auditing standard.

- 4.4.13 The study and evaluation of internal control should be carried out according to the type of audit undertaken. In the case of a regularity (financial) audit, study and evaluation are made mainly on controls that assist in safeguarding assets and resources, and assure the accuracy and completeness of accounting records. In the case of regularity (compliance) audit, study and evaluation are made mainly on controls that assist management in complying with laws and regulations. In the case of performance audit, they are made on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner, ensuring adherence to management policies, and producing timely and reliable financial and management information.
- 4.4.14 The extent of the study and evaluation of internal control depends on the objectives of the audit and on the degree of reliance intended.
- 4.4.15 Where accounting or other information systems are computerised, the auditor should determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data, and the information system.

4.4.4 Compliance With Applicable Laws and Regulations

4.4.16 The field standards include:

In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor should also be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on audit results.

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the Department of the AGP is to make sure, by all the means put at its disposal, that the Government budget and accounts are complete and valid. This will provide legislatures and other users of the audit report with assurance about the size and development of the financial obligations of the Government. To achieve this objective the Department will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of an unqualified certificate

The following paragraphs explain compliance as an auditing standard.

- 4.4.17 Reviewing compliance with laws and regulations is especially important when auditing government programmes because decision makers need to know if the laws and regulations are being followed, whether they are having the desired results, and, if not, what revisions are necessary. Additionally government organisation, programmes, services, activities, and functions are created by laws and are subject to more specific rules and regulations.
- 4.4.18 Those planning the audit need to be knowledgeable of the compliance requirements that apply to the entity being audited. Because the laws and regulations that may apply to a specific audit are often numerous, the auditors need to exercise professional judgment in determining those laws and regulations that might have a significant impact on the audit objectives.
- 4.4.19 The auditor should also be alert to situations or transactions that could be indicative of illegal acts that may indirectly impact the results of the audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor shall determine the extent to which these acts affect the audit results.
- 4.4.20 In conducting audits in accordance with this standard, the auditors should choose and perform audit steps and procedures that, in their professional judgment, are appropriate in the circumstances. These audit steps and procedures should be designed to obtain sufficient, competent, reliable, and relevant evidence that will provide a reasonable basis for their judgments and conclusions.
- 4.4.21 Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, auditors should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance.
- 4.4.22 Without affecting the independence of the Department of the AGP, the auditors should exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include consulting appropriate legal counsel and the applicable law enforcement organisation/agencies to determine the audit steps and procedures to be followed.

4.4.5 Audit Evidence

4.4.23 The field standards include:

Competent, reliable, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organisation, programme, activity or function under audit

The following paragraphs explain the audit evidence as an auditing standard.

- 4.4.24 The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer-based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant.
- 4.4.25 Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence. The Department of the AGP shall ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.
- 4.4.26 In choosing approaches and procedures, consideration should be given to the quality of evidence, i.e., the evidence should be competent, reliable, relevant and reasonable.
- 4.4.27 Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.
- 4.4.28 Adequate documentation is important for several reasons. It will:
- a) Confirm and support the auditor's opinions and reports;
 - b) Increase the efficiency and effectiveness of the audit;
 - c) Serve as a source of information for preparing reports or answering any enquiries from the audited entity, legislature and its committees or from any other party;
 - d) Serve as evidence of the auditor's compliance with Auditing Standards;
 - e) Facilitate planning and supervision;
 - f) Help the auditor's professional development;
 - g) Help to ensure that delegated work has been satisfactorily performed; and
 - h) Provide evidence of work done for future reference.
- 4.4.29 The auditor should bear in mind that the content and arrangement of the working papers reflect the degree of the auditor's proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

4.4.6 Analysis of Financial Statements

4.4.30 The field standards include:

In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements shall be performed to such a degree that a rational basis is obtained to express an opinion on financial statements

The following paragraphs explain analysis of financial statements as an auditing standard.

4.4.31 Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual trends. The auditor should therefore thoroughly analyse the financial statements and ascertain whether:

- a) Financial statements are prepared in accordance with acceptable accounting standards;
- b) Financial statements are presented with due consideration to the circumstances of the audited entity;
- c) Sufficient disclosures are presented about various elements of financial statements; and
- d) The various elements of financial statements are properly evaluated, measured and presented.

4.4.32 The methods and techniques of financial analysis depend to a large degree on the nature, scope and objective of the audit, and on the knowledge and judgment of the auditor.

4.4.33 If required to report on the execution of budgetary laws, audit by the Department of the AGP shall include:

- a) For revenue accounts, ascertaining whether forecasts are those of the initial budget, and whether the audits of taxes and duties recorded, and imputed receipts, can be carried out by comparison with the annual financial statements of the audited activity;
- b) For expenditure accounts, verifying credits to assist budgets, adjustment laws and, for carryovers, the previous year's financial statements.

4.5 Reporting Standards in Government Auditing

4.5.1 It is not practical to lay down a rule for reporting on every special situation. This standard is to assist and not to supersede the prudent judgment of the auditor in making an opinion or report.

- 4.5.2 The expression “reporting” embraces both the auditor’s opinion and other remarks on a set of financial statements as a result of a regularity (financial) audit and the auditor’s report on completion of a performance audit.
- 4.5.3 The auditor’s opinion on a set of financial statements shall generally be in concise, standardised format to reflect the results of a wide range of tests and other audit work. There is a requirement to report as to the compliance of transactions with laws and regulations and to report on matters such as inadequate systems of control, illegal acts and fraud. The constitutional or statutory obligations require the AGP to report specifically on the execution of budgetary laws, reconciling budgetary estimates and authorisation to the results set out in the financial statements.
- 4.5.4 In a performance audit, the auditor reports on the economy and efficiency with which resources are required and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example, covering whether resources have been applied in a sound manner, commenting on the impact of policies and programmes and recommending changes designed to result in improvements.
- 4.5.5 In order to recognise reasonable user needs, the auditor’s report in both regularity and performance auditing may need to have regard to expanded reporting periods or cycles and relevant and appropriate disclosure requirements.
- 4.5.6 For ease of reference in this chapter, the word “opinion” is used to mean the auditor’s conclusions as a result of a regularity (financial) audit, and may embrace the matters described in paragraph 4.4.3; the word “report” is used to mean the auditor’s conclusions following a performance audit, as described in paragraph 4.4.4
- 4.5.7 The reporting standards are:
- a) At the end of each audit the auditor shall prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent, reliable, and relevant audit evidence, and be independent, objective, fair and constructive.
 - b) It is for the Department of the AGP to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

With regards to regularity audits, the auditor shall prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the test of compliance with applicable laws and regulations. The report shall contain a statement of positive assurance on those tested for compliance and negative assurance on those items not tested.

With regard to performance audits, the report shall include all significant instances of non-compliance that are pertinent to the audit objectives.

- 4.5.8 The form and content of all audit opinions and reports are founded on the following general principles.

- a) **Title.** The opinion or report shall be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.
- b) **Signature and date.** The opinion or reports shall be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).
- c) **Objectives and scope.** The opinion or report shall include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
- d) **Completeness.** Opinions shall be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports shall be presented as prepared by the auditor. In exercising its independence the Department shall be able to include whatever it sees fit, but it may acquire information from time to time which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor retains a responsibility for considering the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
- e) **Addressee.** The opinion or report shall be addressed as per requirements of applicable laws and procedures.
- f) **Identification of subject matter.** The opinion or report shall identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
- g) **Legal basis.** Audited opinions and reports shall identify the legislation or other authority providing for the audit.
- h) **Compliance with standards:** Audit opinions and reports shall indicate the auditing standards or practices followed in conducting the audits, thus providing the reader with an assurance the audit has been carried out in accordance with generally accepted procedures.
- i) **Timelines:** The audit opinion or report shall be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

4.5.9 An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion shall indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.

4.5.10 An unqualified opinion is given when the auditor is satisfied in all material respects that:

- a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- b) The statements comply with statutory requirements and relevant regulations;
- c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- d) There is adequate disclosure of all material matters relevant to the financial statements

4.5.11 **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor shall not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

4.5.12 An auditor may not be able to express an unqualified opinion when any of the following circumstances exist and, in the auditor's judgment, their effect is or may be material to the financial statements:

- a) There has been limitation on the scope of the audit;
- b) The auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- c) There is uncertainty affecting the financial statements.

4.5.13 **Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

4.5.14 **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if

the financial effect on the financial statements is quantified where relevant and practicable.

- 4.5.15 **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.
- 4.5.16 The auditor shall provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.
- 4.5.17 In addition, regularity audits often require that reports are made where weaknesses exist in systems of financial control or accounting (as distinct from performance audit aspects). This may occur not only where weaknesses affect the audited entity's own procedures but also where they relate to its control over the activities of others. The auditor shall also report on significant irregularities, whether perceived or potential, on inconsistency of application of regulations or on fraud and corrupt practices.
- 4.5.18 In reporting on irregularities or instances of non-compliance with laws or regulations, the auditors should be careful to place their findings in the proper perspective. The extent of non-compliance can be related to the number of cases examined or quantified monetarily.
- 4.5.19 Reports on irregularities shall be prepared irrespective of a qualification of the auditor's opinion. By their nature they tend to contain significant criticisms, but in order to be constructive they shall also address future remedial action by incorporating statements by the audited entity or by the auditor, including conclusions or recommendations.
- 4.5.20 In contrast to regularity audit, which is subject to fairly specific requirements and expectations, performance audit is wide-ranging in nature and is more open to judgment and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period; and it does not normally relate to particular financial or other statements. As a consequence performance audit reports are varied and contain more decisions and reasoned argument.
- 4.5.21 The performance audit report should state clearly the objectives and scope of the audit. Reports may include criticism (for example where, in the public interest or on grounds of public accountability, matters of serious waste, extravagance or inefficiency are drawn to attention) or may make no significant criticism but give independent information, advice or assurance as to whether and to what extent economy, efficiency and effectiveness are being or have been achieved.
- 4.5.22 The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to be done in relation to specific areas of entity's activities, the auditor shall provide a report which describes the circumstances and arrives at a specific conclusion rather than a standardised statement. Where the audit is confined to consideration of whether

sufficient controls exist to secure economy, efficiency or effectiveness, the auditor shall provide a more general opinion.

- 4.5.23 Auditors should recognise that their judgments are being applied to actions resulting from past management decisions. Care should therefore be exercised in making such judgments, and the report should indicate the nature and extent of information reasonably available (or which ought to have been available) to the audited entity at the time the decisions were taken. By stating clearly the scope, objectives and findings of the audit, the report demonstrates to the reader that the auditor is being fair. Fairness also implies the presentation of weaknesses or critical findings in such a way as to encourage correction, and to improve systems and guidance within the audited entity. Accordingly the facts are generally agreed with the audited entity in order to ensure that they are complete, accurate and fairly presented in the audit report. There may also be a need to include the audited entity's responses to the matters raised, either verbatim or in summary, especially where the Department of the AGP presents its own views or recommendations.
- 4.5.24 Performance reports should not concentrate solely on criticism of the past but should be constructive. The auditor's conclusion and recommendations are an important aspect of the audit and, where appropriate, are written as a guide for action. Generally these recommendations suggest what improvements are needed rather than how to achieve them, though circumstances sometimes arise which warrant a specific recommendation, for example to correct a defect in the law in order to bring about an administrative improvement.
- 4.5.25 In formulating and following up recommendations, the auditor shall maintain objectivity and independence and thus focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted.
- 4.5.26 In formulating the audit opinion or report, the auditor shall have regard to the materiality of the matter in the context of the financial statements (regularity (financial) audit) or the nature of the audited entity or activity (performance audit).
- 4.5.27 For regularity (financial) audits, if the auditor concludes that, judged against the criteria most appropriate in the circumstances, the matter does not materially affect the view given by the financial statements, the opinion should not be qualified. Where the auditor decides that a matter is material the opinion should be qualified, having determined the type of qualification (paragraphs 4.4.12 – 4.4.15)
- 4.5.28 In the case of performance audits that judgment will be more subjective as the report does not relate so directly to financial or other statements. Consequently the auditor may find materiality by nature or by context is a more important consideration than materiality by amount.