ISSAI IMPLEMENTATION HANDBOOK - FINANCIAL AUDIT

Draft Version 1
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**Acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASOSAI</td>
<td>Asian Organisation of Supreme Audit Institutions</td>
</tr>
<tr>
<td>AFROSAI-E</td>
<td>African Organisation of Supreme Audit Institutions-English</td>
</tr>
<tr>
<td>ARABOSAI</td>
<td>Arabian Organisation of Supreme Audit Institutions</td>
</tr>
<tr>
<td>CAROSAI</td>
<td>Caribbean Organisation of Supreme Audit Institutions</td>
</tr>
<tr>
<td>CREFIAF</td>
<td>Le Conseil Régional de Formation des Institutions Supérieures de Contrôle des Finances Publiques d’Afrique Francophone Subsaharienne</td>
</tr>
<tr>
<td>CPD</td>
<td>Continuous Professional Development</td>
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<tr>
<td>FA</td>
<td>Financial Audit</td>
</tr>
<tr>
<td>EQCR</td>
<td>Engagement Quality Control Review</td>
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<tr>
<td>EUROSAI</td>
<td>European Organisation of Supreme Audit Institutions</td>
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<tr>
<td>IRRBA</td>
<td>Integrated Results &amp; Risk Based Audit</td>
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<tr>
<td>IDI</td>
<td>INTOSAI Development Initiative</td>
</tr>
<tr>
<td>INTOSAI</td>
<td>International Organisation of Supreme Audit Institutions</td>
</tr>
<tr>
<td>INCOSAI</td>
<td>International Congress of Supreme Audit Institutions</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standards on Auditing</td>
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<tr>
<td>ISSAI</td>
<td>International Standards of Supreme Audit Institutions</td>
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<tr>
<td>iCAT</td>
<td>ISSAI Compliance Assessment Tool</td>
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<tr>
<td>OLACEFS</td>
<td>Organisation of Latin American &amp; Caribbean Supreme Audit Institutions</td>
</tr>
<tr>
<td>PASAI</td>
<td>Pacific Association of Supreme Audit Institutions</td>
</tr>
<tr>
<td>PMF</td>
<td>Performance Measurement Framework</td>
</tr>
<tr>
<td>QAR</td>
<td>Quality Assurance Review</td>
</tr>
<tr>
<td>RBFAM</td>
<td>Risk Based Financial Audit Manual</td>
</tr>
<tr>
<td>SAI</td>
<td>Supreme Audit Institutions</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strength Weaknesses Opportunities &amp; Threats</td>
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Chapter 1: About the Handbook

1.1. Introduction

The 3i Programme Phase 1 facilitates implementation of International Standards of Supreme Audit Institutions (ISSAIs) by SAIs of developing countries, with a comprehensive capacity building programme for level 2 ISSAIs (Prerequisites for the Functioning of Supreme Audit Institutions) and level 4 financial audit, compliance audit and performance audit ISSAIs.

This handbook of financial audit is a part of the phase 1 of the programme to guide SAIs in the process of implementing Fundamental Principles of Financial Auditing (Endorsement version of ISSAI 200) and General Auditing Guidelines on Financial Audit (ISSAI 1000 – ISSAI 1810) endorsed in 2010.

1.2. Objectives of the handbook

This handbook has been written in order to facilitate implementing financial auditing guidelines in SAIs of developing countries. In this respect the handbook aims to achieve two goals:

1. Firstly the goal of the handbook is to explain the nature of financial audit in public sector and guide through strategic considerations in implementing the financial audit standards in SAIs. The handbook conveys the message that applying professional standards enables SAIs to conduct high-quality audits.

2. The second goal of the handbook is to open up the discussion and show potential solutions to some complicated issues, on the way to implementing the financial audit guidelines in daily work of SAIs. For example on institutional level human resources issues, quality control issues and leadership issues. On audit level, for example, questions concerning financial reporting frameworks.

The handbook is not intended to be a financial audit manual nor an in-depth explanation of requirements of financial auditing standards. Therefore the handbook does not substitute: audit policy documents; strategies; and manuals. Each SAI should set out to describe its own financial audit methodology taking into account: its mandate; resources; stakeholder’s expectations; and regulatory environment etc.

1.3. Audience of the handbook

The handbook targets SAIs who have decided to start the implementation of ISSAIs, as well as SAIs who are already on journey to implement ISSAIs and wish to continue with improvement with their financial audit processes.

Within a SAI the handbook targets both the senior level staff (management) of financial audit as well as the practitioners of financial audit (auditors and methodology specialists).
1.4. Approach of the handbook

As this handbook is not an audit manual it does not follow the audit process through the audit phases (pre-engagement, planning, fieldwork and reporting). In this respect the handbook is different from many other financial audit textbooks and audit manuals which usually follow the phases of the audit process. The reason for taking a different approach in this handbook was not to duplicate already publically available financial audit manuals and to rather focus on complicated institutional level areas in improving financial audit practice of SAIs. We hope that by doing this we contribute to the discussion about public sector auditing.

1.5. Content of the handbook

The handbook is divided into five chapters starting with general introduction to financial audit and continuing with some specific issues in implementation process of financial audit standards.

First chapter sets out the structure, scope and goals of the handbook.

Second chapter explains the overarching public sector auditing principles that must be followed across all audit types; it also describes what financial audit is as per ISSAIs and gives some examples where financial audit ISSAIs are not applicable. Also, in the second chapter the possibility to combine financial audit and compliance audit is explained.

Third chapter of the handbook clarifies one important issue in public sector financial audit, the identification of financial reporting framework and its impact on the audit process.

Fourth chapter introduces the decision making process which guides SAIs to move from their current status of the financial audit practices towards an action plan to implement the ISSAI requirements. This chapter includes a case study of a SAI explaining how the SAI, from completing the iCAT, has conducted a SWOT analysis, determined the priority issues and formed a strategy.

Fifth chapter continues with the implementation process of financial auditing standards by showing how an action plan could be drawn up, based on the SWOT analysis and issues identified that need careful considerations both on institutional level as well on audit process level.

The handbook contains an annex with a case study. The case study runs through the phases of implementation of financial auditing guidelines as they are described in the handbook starting from identifying the gaps in current financial audit process by using iCAT until completing an action plan for solving identified issues. It must be noted that the case study gives possible solutions to the issues identified, but applicability of each solution given depends on specific context and environment of the SAI.
1.6. Link between the handbook and the iCAT

To assist SAIs in integrating ISSAIs in their financial auditing process the Handbook provides a step-by-step process, which may require each SAI to adopt varied strategies and action plans in accordance with their mandate, stakeholder’s expectations, national legislation, regulations etc.

The ISSAI implementation process has already begun in many SAIs. The first step for the SAI is to take a comprehensive look at its mandate, stakeholder expectations and environment. The SAI then need to decide if it wants to refer to ISSAIs at Level 3 or Level 4. If a SAI decides that it would like to refer to ISSAIs at level 4 then the first step for the SAI would be to ascertain ISSAI requirements and assess the status of the SAI vis-a-vis the financial audit standard requirements. Next the SAI identifies the causes or reasons for non-compliance and the SAI’s needs in order to fulfil the requirements. The ISSAI Compliance Assessment Tool (iCAT) developed under the 3i Programme Phase 1 helps the SAIs with the exercises of mapping its current status with the Financial Audit Guidelines requirements (Level 4 ISSAIs). This handbook shows how to move from identifying the gaps of current practices to the implementation process by determining the priority implementation issues, moving on to building a strategy and action plan and overcoming some of the difficulties that SAIs in the starting position might face.

As such both the iCAT and the guidance on strategy provided in this handbook are meant for SAIs that wish to refer to financial audit ISSAIs at level 4.

1.7. Possible ways for implementing financial auditing standards

As explained in more detail in Chapter 4 the financial audit iCAT includes over 500 requirements. For the SAIs in the starting phase of the implementation of ISSAIs to implement all the requirements concurrently might be too radical and therefore not feasible. In building its ISSAI implementation strategy SAI might decide to take a step-by-step approach and break the implementation process into smaller and achievable phases. Where the stakeholder’s expectations or the auditing environment doesn’t provide for full ISSAI implementation, the SAI should assess what aspects of the ISSAIs are the most relevant to implement and begin with these. The SAI should assess the overall importance of the Level 4 ISSAIs and identify the key value the ISSAIs will provide and focus on these areas.

In this handbook two possible solutions in that context are presented:

i. SAI may identify the most important standards and start the implementation with requirements in those standards. One example of that approach is provided in Chapter 2 where combined financial and compliance audit in compliance with ISSAI 4200 is explained;

ii. SAI may identify the most important requirements in Level 4 ISSAIs and start its implementation with those requirements. A list of such requirements is provided in the Annex to Chapter 2.
It is important to note that as explained in the Chapter 2 the auditor shall not represent compliance with Level 4 financial audit ISSAIs in the auditor’s report unless the auditor has complied with the requirements of all ISSAIs relevant to the audit.
Chapter 2: About Financial Audit

2.1. Content of the second chapter

Chapter 2 introduces the general principles of public sector auditing, shows the link between general principles of public sector auditing and financial audit requirements. Moreover the chapter explains the definition of financial audit, gives examples where Financial Auditing Standards (ISSAI level 3 and level 4) are applicable, and in last subsection (2.10.) demonstrates how a combined financial and compliance audit in public sector might be carried out. In some jurisdictions combined audits are referred to as annual audit.

2.2. Introduction to the ISSAI framework

In order to understand the gaps in fulfilling the ISSAI requirements and define ways of possible solutions this section describes the ISSAI framework. International Standards of Supreme Audit Institutions (ISSAIs) are a set of professional standards developed by the INTOSAI’s Professional Standards Committee.

Prior to the adoption of the ISSAIs, the INTOSAI had separate Auditing Standards approved by the INCOSAI in 1998 and updated in 2001. However, in its strategic plan 2005-2010, the INTOSAI decided to "provide an up-to-date framework of professional standards", so the INTOSAI Professional Standards Committee decided to merge the existing and new INTOSAI standards and guidelines into a framework. The ISSAIs form a hierarchy of official pronouncements with four levels:

**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 provide guidelines on auditing precepts.

**Level 2 - Prerequisites for the Functioning of Supreme Audit Institutions (ISSAIs 10-99)**

The Prerequisites for the Functioning of Supreme Audit Institutions contain 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 organization and its staff.

**Level 3 - Fundamental Auditing Principles (ISSAIs 100-999)**

Level 3 ISSAIs are the fundamental principles for public sector auditing which provide a conceptual basis for public sector auditing and ensure consistency in the ISSAI framework. These ISSAIs have recently been revised through a harmonisation project. The Professional Standards Steering Committee has recently
approved the Endorsement Versions (EV) of ISSAIs 100, 200, 300, and 400. EV ISSAI 100 includes the Fundamental principles of public sector auditing and establishes the basic concepts and principles shared by the three areas of auditing. The specific principles of the three audit types are elaborated in the EV ISSAI 200, 300 and 400.

**Level 4 - Auditing Guidelines (ISSAIs 1000-4999)**

The Auditing Guidelines translate the fundamental auditing principles into more specific, detailed and operational guidelines that can be used on a daily basis in the conduct of auditing tasks. The purpose of the guidelines is to provide a basis for the standards and manuals on public sector auditing which may be applied by the individual members of INTOSAI. The General auditing guidelines (ISSAIs 1000-4999) contain the recommended requirements of financial, performance and compliance auditing and provide further guidance to the auditor. They define the internationally recognized best current practices within their general scope of application.

A draft version of ISSAI X on “Value and Benefits of SAIs - making a difference to the lives of citizens” has been issued recently which attempts to provide a value and benefits framework for the work done by SAIs.

**ISSAI 1200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing**

ISSAI 1200 deals with the independent auditor’s **overall responsibilities** when conducting an audit of financial statements in accordance with ISSAIs. 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. It also explains the scope, authority and structure of the ISSAIs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the ISAs.

The remaining guidelines (ISSAIs 1210-1810) deal with the independent auditor’s **specific responsibilities** when conducting an audit of financial statements.

### 2.3. General Principles of Public Sector Auditing

The Endorsement Version of ISSAI 100 “Fundamental Principles of Public Sector Auditing” provides the fundamental principles which are applicable to all public sector audit engagements irrespective of their form or context. EV ISSAI 200 “Fundamental principles of Financial Auditing” builds on and further develops the principles to be applied in the context of financial auditing. As explained in EV ISSAI 100 those principles should be considered pre-engagement, meaning that they need to be considered at the institutional level, not only in each audit engagement.
The Principles laid down in EV ISSAI 100 are the following:

- Ethics and independence;
- Professional judgment, due care and scepticism;
- Quality control;
- Audit team management and skills;
- Audit risk;
- Materiality;
- Documentation;
- Communication.

These principles need to be followed prior to commencement of an audit and also throughout the audit process. In order to assure compliance with general principles of auditing the SAI needs to have policies and manuals in place, which define the principles in context of its environment. As explained in EV ISSAI 100 the principles can be used as a basis for developing authoritative standards in three ways:

- To form a basis on which standards are developed by a SAI;
- To form a basis on which consistent national standards are adopted;
- To form the basis for adoption of the General Auditing Guidelines (ISSAIs 1000-4999) as standards.

It must be noted that EV ISSAI 100 defines these principles at an overall public sector auditing level and EV ISSAI 200 “Fundamental Principles of Financial Auditing” and Level 4 ISSAIs 1000-1810 specify requirements in the public sector financial auditing context. The table below demonstrates the financial audit guidelines that specify the overall requirements.
Table 2.1: The link between general auditing principles and financial audit specific requirements

<table>
<thead>
<tr>
<th>General Auditing Principle</th>
<th>Principle explanation in EV ISSAI 100</th>
<th>Detailed requirements concerning general principles in EV ISSAI 200 and ISSAI 1000-1810</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics and independence</td>
<td>Auditors should comply with relevant ethical requirements and be independent.</td>
<td>ISSAI 30, EV ISSAI 200; There is no separate Code of ethics requirement on Level 4. Still, for the SAI that either adopt the ISSAI on level 4 as their authoritative standards or apply the ISAs, auditors are required to comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) (the IESBA Code), or adopt national requirements that are at least as demanding.</td>
</tr>
<tr>
<td>Professional judgment, due care and scepticism</td>
<td>Auditors should maintain an appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the audit</td>
<td>EV ISSAI 200, ISSAI 1000, ISSAI 1200*</td>
</tr>
<tr>
<td>Quality control</td>
<td>Auditors should perform the audit in accordance with professional standards on quality control.</td>
<td>ISSAI 40, EV ISSAI 200, ISSAI 1000, ISSAI 1200, ISSAI 1220</td>
</tr>
<tr>
<td>Audit team management and skills</td>
<td>Auditors should possess or have access to the necessary skills.</td>
<td>EV ISSAI 200, ISSAI 1000, ISSAI 1200, ISSAI 1220</td>
</tr>
<tr>
<td>Audit risk</td>
<td>Auditors should manage the risks of providing an inappropriate report in the circumstances of the audit</td>
<td>EV ISSAI 200, ISSAI 1000, ISSAI 1315</td>
</tr>
<tr>
<td>Materiality</td>
<td>Auditors should consider materiality throughout the audit process.</td>
<td>EV ISSAI 200, ISSAI 1000, ISSAI 1320</td>
</tr>
<tr>
<td>Documentation</td>
<td>Auditors should prepare audit documentation in sufficient detail to provide a clear understanding of work performed, evidence obtained and conclusions reached.</td>
<td>EV ISSAI 200, ISSAI 1000, ISSAI 1230</td>
</tr>
<tr>
<td>Communication</td>
<td>Auditors should establish effective communication throughout the audit process.</td>
<td>EV ISSAI 200, ISSAI 1000, ISSAI 1210, ISSAI 1260, ISSAI 1265</td>
</tr>
</tbody>
</table>

*It must be emphasised that all those eight general principles are critical in the context of financial auditing. Hence requirements concerning those principles and reference to those principles can be found in many other Level 4 financial audit guidelines as referred above.

To conclude, the eight principles listed above are key elements of public sector auditing no matter the mandate of the SAI or the type of audits. SAI may need to take strategic decisions in order to respond to the principles in its mandate and other legislative requirements. In order to establish policies and manuals on how to implement those principles in a financial audit context, the SAI needs to consider the requirements on Level 3 and Level 4 which are linked to the general principles (see the table 2.1).
2.4. Importance of financial audit in the public sector

Through its strategy setting process, the SAI must once again evaluate the role of public sector financial auditing. 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 the draft version of ISSAI X “Value and Benefits of SAIs - making a difference to the lives of citizens” the SAI’s should be carrying out audits to ensure that governments and public entities are held accountable for their stewardship over, and for the use of public resources.

As public organizations carry out vital public activities, using taxpayers' money, and can take far-reaching, binding decisions, well-developed accountability arrangements including financial audit functions are essential. 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 parliament about the functioning of the executive and administrative branches of the state. Financial accountability is about sound (legal and regular) financial management, and about the entity’s reported financial condition, results, and use of resources being presented fairly or in compliance with a financial reporting framework. In other words in assuring financial accountability the SAI contributes in maintaining a country’s financial discipline.

Therefore public sector auditors have an important role to play in looking at the money spent on public programmes and in providing assurance that the information prepared properly presents the financial situation. This is the essence of financial auditing in the public sector. Financial auditing may quite often be performed together with compliance auditing and in this case the auditor also gives assurance that funds have been spent in accordance with laws and regulations.

As explained in the previous section when financial audits are performed together with compliance audit they still continue to be assurance engagements designed to enhance the degree of confidence, or assurance, of the intended users in the subject concerned, by applying objective criteria thereto. While auditing financial statements, public sector auditors enhance the reliability of public sector accounts. When compliance issues are incorporated into financial audits, auditors also state legality and regularity of the underlying transactions.

In the public sector the presentation of reports is merely one stage in a cycle of accountability that begins with the budget process and ends with the presentation of reports to the parliament. Published audit reports of SAIs may include an opinion on fair presentation of historical financial information and may as well include an opinion on regularity of the underlying transactions and include observations concerning internal control systems, fraud, mismanagement of funds, etc. Such depth of coverage is usually not required from private-sector audit reports which usually are limited to one audit report stating an opinion on true and fair view of presented accounts. The wider scope of a financial audit is also reflected in the ISSAI.
The figure below explains how implementing the general principles of public sector auditing in the audit of financial statements enables the SAIs to meet the expectations of their stakeholders and add value by strengthening the accountability of government. The general principles of public sector auditing are defined in EV ISSAI 100 and need to be tuned and specified for the purposes of financial audits. This means that the SAIs financial audit policies and auditing guidance need to explain how those principles are met in the specific context of the SAI. More importantly the SAI needs to put those principles into practice; hence principles should be translated into audit procedures in the SAIs audit manuals and followed in the actual financial audit practice of the SAI. The results of financial audits communicated through audit reports to the stakeholders increase confidence of the stakeholders (parliament, wider public etc.) towards public sector financial statements and enables better control over the use of taxpayers’ money. This means that each financial audit will directly contribute to the SAIs role to strengthen accountability, integrity and transparency of governments and public sector entities as defined in the draft version of ISSAI X “Value and Benefits of SAIs - making a difference to the lives of citizens”.

**Figure 2.1: General principles of public sector auditing in the audit of financial statements**

INTOSAI standards endorsed in 1998 and updated in 2001 didn’t have a separate financial audit definition but instead of that defined regularity audit which embraced both expression of opinions on financial statements and audit of transactions including an evaluation of compliance with applicable statutes and regulations.

2.5. What is financial audit according to the ISSAI framework?

INTOSAI standards endorsed in 1998 and updated in 2001 didn’t have a separate financial audit definition but instead of that defined regularity audit which embraced both expression of opinions on financial statements and audit of transactions including an evaluation of compliance with applicable statutes and regulations.
Until the new ISSAI framework was endorsed, financial audit and compliance audit were seen as an integrated part of public sector auditing. Many SAIs continue to examine financial and compliance issues within a combined audit process.

The new ISSAI framework distinguishes between financial audit and compliance audit. The definitions laid down in the EV ISSAI 100 are as follows:

**Financial auditing** focuses on determining whether an entity’s financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion on whether the financial information is free from material misstatement whether due to fraud or error. In many SAIs the financial audit and the compliance audit processes are combined.

**Compliance auditing** focuses on whether a particular subject matter is in compliance with applicable authorities identified as criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity.

From the definitions above it can be gathered that compliance audit has an overlap with financial audit. According to the definition in the EV ISSAI 100, the compliance audit also embraces assessing whether financial transactions and financial information are in compliance with the applicable rules and regulations.

Moreover, EV ISSAI 200.4 states that the scope of financial audits in the public sector may be defined by the mandate as a range of objectives that are to be audited in addition to financial statements. For example budgets, budget sections, appropriations and other decisions on allocation of resources and the implementation thereof or policies, programmes or activities defined by their legal basis or source of financing. This indicates that financial audits in the public sector may have a wider scope which includes compliance issues. Depending on the mandate, stakeholder’s expectations, resources, financial reporting framework, etc., the SAI may have to choose which standards to apply. The subsection 2.10 of this chapter provides further explanations and guidance on how combined financial and compliance audits in the public sector may be carried out.

### 2.6. How to refer to the financial auditing standards in SAI’s report?

EV ISSAI 100 gives two possibilities when referring to the standards in the auditor’s opinion:

- An audit engagement conducted in accordance with standards based on the Fundamental Audit Principles. EV ISSAI 100 explains that the fundamental principles (Level 3 ISSAIs) can be used as the
basis on which national standards are developed or basis for the adoption of the Level 4 standards. Therefore the SAI can make reference to the Level 3 standards as the authoritative standards in cases where the SAI has manuals in place and has been observed at the audit practice level, which correspond with principles laid down on Level 3.

ii. The SAI may choose to adopt the General Auditing Guidelines (ISSAIs 1000-4999) as authoritative standards. In such cases the auditor shall comply with all ISSAIs relevant to the audit.

Referring to the standards in the case of a financial audit is elaborated in EV ISSAI 200. Reference in auditor’s report to the use of Level 4 Financial Auditing guidelines as standards can be done in two ways:

i. Audit is conducted in accordance with the ISSAIs (1000-1810); this means full compliance with all the relevant ISAs and the additional guidance set out in the INTOSAI Practice Notes to the ISAs (International Standards on Auditing);

ii. Audit is in accordance with the ISAs; this includes compliance with all relevant ISAs.

In both ways the ISSAI 1200.20 states that the auditor shall not represent compliance with ISAs in the auditor’s report unless the auditor has complied with the requirements of all ISAs relevant to the audit. This means that the SAI cannot decide to follow a few aspects of ISA and depart from others and still state they are complying with ISAs and therefore the ISSAI for financial audit.

Where the stakeholder’s expectations or the auditing environment doesn’t provide for full ISSAI implementation, the SAI should assess what aspects of the ISSAIs are the most relevant to implement and begin with these. The SAI should assess overall the importance of the Level 4 ISSAIs and identify the key value the ISSAIs will provide and focus on these areas. However, in these situations it may not be possible for the SAI to state that it is auditing in compliance with the ISSAIs.

If the SAI is in the implementation phase of Level 4 ISSAIs, it might decide likewise to have a step by step approach in implementing the Level 4 Financial Auditing Guidelines and start with certain areas of requirements that are considered more important for the SAI (for example ISSAI 1315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment). In those cases where full compliance with ISSAI requirements has not been achieved, it is not possible for the SAI to state that it is auditing in compliance with the ISSAIs. A statement in the SAI’s strategic documentation should reflect this position.

2.7. When it is not possible to refer to Financial Audit Guidelines (ISSAI 1000-1810) as authoritative standard?

The following subsection describes two scenarios where reference to the Financial Audit Guidelines (ISSAI 1000-1810) cannot be made.
i. Engagement is not an assurance engagement
SAs 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 the EV ISSAI 200.38, a financial audit is an assurance engagement, where the auditor expresses an opinion designed to enhance the degree of confidence of the intended users about the outcome or evaluation or measurement of a subject matter against criteria. According to the standard the elements of an assurance engagement are: a three party relationship (an auditor, a responsible party and intended users), a subject matter, criteria, evidence and auditor’s report.

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 whether the budget execution reports are in compliance with the authorities, which govern them.

ii. Auditor is giving a report on financial information that is not historical financial information
According to the standards, financial audits deal with historical financial information with an objective to enhance the degree of confidence of intended users in that information. Historical financial information is expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past. In case where a SAI has to report on financial information that is not historical financial information Financial Audit Guidelines on Level 4 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 ISSAIs Level 4 as an authoritative standard cannot be made.

2.8. What does it mean to fulfil the financial audit standard requirements?

In order to have an adequate picture about the current status in fulfilling the ISSAI requirements it needs to be clarified what does it mean to fulfil the standard requirement?

In the process of completing the iCAT, the SAI assesses the status of the financial audit practice against the financial audit standard requirements. In order to have a comprehensive and objective picture about the status of implementing the iCAT, the ISSAI facilitator must pay attention to the following aspects:

- Financial Auditing Guidelines on Level 4 are principle based
This means that the requirements set out in the standards do not give implementation instructions, accordingly SAIs policies, financial audit manuals, other guidance and tools need to explain how each requirement is met in a specific SAI context. So, in the process of completing the iCAT the ISSAI facilitator
needs to understand whether appropriate manuals, guidance, etc., are available and whether the practice described in the manual is in accordance with the requirements in the Financial Auditing Guidelines.

- **Adequate audit manuals are not sufficient for completing the iCAT**
  
The adoption of the requirement has to also be observed at the audit practice level, hence in the audit files, in the auditing software, etc. This means that the requirements have to be implemented in the daily work of practitioners. In completing the financial audit iCAT, the ISSAI facilitator going through an audit file has to understand the nature, timing and extent of the audit procedures performed in the audit to comply with the standards applied.

2.9. Using the high level Financial Audit iCAT requirements

Section 1.7 of Chapter 1 describes how SAIs can use different approaches to begin with their ISSAI implementation process. One method is to use the 125 high level iCAT requirements as listed in Appendix 2.1. Theses 125 requirements have been identified as critical requirements that are needed as a foundation to commence the ISSAI implementation for financial audit on level 4. They bring the total number of requirements from 531 down to 125 and therefore provide a more realistic starting point. The basis behind the selection are:

- Requirements determine the audit process;
- Items which are fundamental to day to day operations of audit;
- Requirements if satisfied will substantially cover other requirements (overarching requirements).

By achieving the 125 requirements the SAI will therefore have a robust financial audit practice which can serve as a basis for future development and ultimately full ISSAI compliance.

2.10. Combined financial and compliance audits in the Public Sector

Many SAIs in the INTOSAI community follow a practice of combining their financial statement audit with giving assurance on compliance issues within one audit process. In this subsection we have attempted to propose a model using compliance audit guidelines related to audit of financial statements (ISSAI 4200) for SAIs that conduct such combined audits as attestation engagements.

The scope, process and results of such audit process can be summarized as follows:

- **Scope:** To ensure that the stakeholder requirements (public interest) and the SAI mandate are covered in the combined financial and compliance audits in the Public Sector audit process;
- **Process:** Purpose to provide assurance that the information assessed (financial and compliance) is not subject to material misstatement. Or in cases where there is a misstatement or material departure from a condition that this is quantified and the necessary further action is taken;
• Reporting: To provide findings, conclusions and opinions on key issues and communicate them to the relevant users.

2.10.1. Audit standards relating to the combined financial and compliance audits process in the Public Sector

During the process of auditing it is essential to understand what auditing standard relates to the audit work performed. When public sector audit is conducted by combining financial and compliance audits the nature of the findings can be wide ranging and as stated can fall into the broad categories of two types of audits. In addition to the audit work carried out as planned, other matters may also come to the attention of the auditor during the course of the audit. These matters are often included in the audit report and can be of immense significance to the users of the audit report.

Financial audit is always an assurance engagement, but compliance auditing is much broader than financial auditing and enables the auditor to have a wider scope. Examples of the audit scopes are included in Appendix 2.2. ISSAI 4200 provides for the auditor to consider all the matters discussed that are included in the public sector combined audit. It is important that this standard is read and understood in conjunction with the financial audit ISSAIs. In fact there are a significant number of references to the financial audit ISSAIs and appendix 2.3 lists both the financial audit ISSAIs that are incorporated to ISSAI 4200 and financial audit ISSAIs that are not referred in ISSAI 4200. As explained in ISSAI 4200 financial audit ISSAIs are further guidance and not requirements of those standards that need to be fulfilled when conducting a compliance audit.

ISSAI 4200 is probably a good starting point in the context of a combined financial and compliance audits and provides the mechanism by which the audit can be planned. This leads to an important discussion regarding the process of conducting a combined audit.

2.10.2. Audit scope

The objectives of a combined financial and compliance audit are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The audit mandate, or obligations for public sector entities arises from:

• Legislation,
• Regulation,
• Ministerial directives,
• Government policy requirements, or
• Resolutions of the legislature.

These additional objectives of a combined audit may include audit and reporting responsibilities, for
example, relating to issuing an opinion on compliance with authorities including budgets and accountability frameworks, and/or reporting on the effectiveness of internal control. These additional objectives may lead the SAI to assess additional risks of material misstatement.

Even where there are no such additional objectives, there may be general public or other stakeholder expectations in regard to the SAI’s reporting of non-compliance with authorities or reporting on effectiveness of internal control. Therefore, public sector auditors keep such expectations in mind, and are aware of the areas that may give rise to risks of non-compliance with authorities or risks relating to effectiveness of internal control when planning and performing the audit.

One example of a scope of combined audit is given in Appendix 2.2.
2.10.3. Combined financial and compliance audits process in the public sector

ISSAI 4200 provides a mechanism by which the audit process can take place. This is shown in Figure 2.2.

**Figure 2.2. Audit Process**

From the guidance in ISSAI 4200 it can be mentioned that this audit process in figure 2.2 is the same as the financial audit process. Therefore running both processes, that is doing an audit of financial statements and a compliance with laws and regulation audit within the process is straightforward. Furthermore, as previously stated, ISSAI 4200 throughout the process makes references to the relevant financial audit ISSAIs.

The key to an audit is to get the planning process right. Therefore in this handbook only the planning phase is explained in more detail. As demonstrated in Appendix 2.3 ISSAI 4200 makes references to all Financial Audit Level 4 Guidelines, which are crucial in the planning phase.
Audit planning is important to ensure that the audit is performed in an efficient and effective manner and that audit risk has been reduced to an acceptably low level. This means providing the correct opinion on the financial statements and/or compliance issues. Audit planning is not a discrete phase of the audit. It is a continual and iterative process that starts shortly after completion of the previous audit, and continues until the completion of the current audit.

2.11. Developing an overall audit strategy

ISSAI 1300 outlines the process for developing an overall audit strategy for the audit engagement. The first step in audit planning involves establishing the overall audit strategy that forms a basis for developing a detailed audit plan.

The overall audit strategy is distinct from the audit plan in that it sets a framework for the scope, timing and direction of the audit. This rather guides the preparation of the detailed audit plan, which contains more in-depth information on the results of the risk assessment and on the actual audit procedures to be conducted.

2.12. Materiality in planning and performing an audit

As part of the overall audit strategy, the auditor establishes overall materiality for the financial statements as a whole as stated in ISSAI 1320.10. This is one amount covering all financial statements. The concept of materiality is considered in financial reporting frameworks in context of preparation and presentation of financial statements. The concept of materiality for compliance audit including the aspects that should be taken into account in defining the materiality for compliance audits is explained in ISSAI 4200.79-80.

The determination of materiality is always a matter of auditor’s professional judgment, and is affected by his or her perception of the financial information needs of users of the financial statements. SAIs must also consider the public sector environment in which the entities operate. Therefore the impact of legislation, other regulations or authority and more general expectations of stakeholders are also considered by SAIs when establishing materiality for audit. Practice note in ISSAI 1315 elaborates that when determining materiality for planning purposes in the public sector both quantitative and qualitative matters as well as the nature of items are of importance. The context in which the matter appears may be of importance.

2.13. Performing risk assessment procedures

The objective of the risk assessment phase of the audit is to identify sources of risk, and then to assess whether they could possibly result in a material misstatement in the financial statements and/or non-compliance with assessed criteria (including laws and regulations).
Risk assessment consists of following steps:

i. Inherent risk identification;
ii. Inherent (preliminary) risk assessment;
iii. Identification of significant risk;
iv. Understanding internal control;
v. Evaluating internal control; and
vi. Final risk assessment.

There are two major classifications of inherent risk: business risk and fraud risk. Business risks result from significant conditions, events, circumstances, actions that could adversely affect the entity’s ability to achieve its objectives and execute its strategies. Fraud risk relates to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

i. To begin with the risk assessment process is to gather relevant information about the entity. The first step is called risk identification and this involves:

- Identifying sources of inherent risk through understanding the entity;
- Determining the possible effects of the risk sources identified (potential misstatements in the financial statements or irregular transactions), including the possibility of fraud;
- Relating the effects of risks to the financial statement area and assertions affected, or determining that the risks are pervasive to the financial statements as a whole and potentially affect many assertions.

For identifying risks auditor may consider following areas:

- External factors like nature of industry, regulatory environment, financial reporting framework;
- Nature of entity like operations and key personnel, governance, investment, structure and financing;
- Accounting policies like selection and application of policy, reasons for changes and appropriateness to entity;
- Entity objectives and strategies and financial implications;
- Review of financial performance;
- Internal control relevant to the audit – processes and relevant controls to mitigate risks at the entity level and at the transactional level;
- Laws and rules applicable for audited entity.

As stated in Practice note to ISSAI 1315 identifying and assessing the risks of material misstatement, the auditor may have to consider a need for additional assertion that transactions and events have been carried out in accordance with legislation.
ii. The second step is to assess the identified risks and determine their importance for the audit of the financial statements and compliance. It is preferable to assess the inherent risks before considering any internal control that might mitigate such risks.

Risk assessment involves consideration of two attributes about the risk:

- The likelihood of a misstatement or non-compliance occurring as a result of the risk. The auditor could evaluate this probability simply as high, medium, or low, or could assign a numerical score.
- The magnitude (monetary impact) if the risk would occur.

Risk assessment should be addressed by the entity’s management as well. The auditor shall make inquiries of management as to how it identifies and manages risk, and then as to what risks have actually been identified and managed.

iii. Third step after the business and fraud (inherent) risks have been identified and assessed is to consider the existence of significant risks. A significant risk is where the assessed risk of material misstatement or non-compliance is so high that, in the auditor’s judgment, it will require special audit consideration.

Examples for significant risks are large non-routine transactions; matters requiring judgment or management intervention or potential fraud.

When a risk is classified as significant, the auditor should consider:

- Evaluating internal control design and implementation over each significant risk. Consider the existence of direct controls such as control activities and indirect (pervasive) controls, which may be included in the control environment, risk assessment, information systems, and monitoring elements.
- Designing an audit response to the identified significant risks. These procedures would be designed to obtain audit evidence with high reliability, and could include tests of controls and substantive procedures.
- Substantive analytical procedures alone are not sufficient. The use of substantive analytical procedures is not considered an appropriate response to address a significant risk.

iv. Next step in planning phase is to understand internal control relevant to the audit. Internal control refers to the processes, policies, and procedures designed by management to ensure reliable financial reporting and the preparation of financial statements in accordance with the applicable accounting framework and to ensure compliance of underlying transactions with laws and regulations applicable to the audited entity. Internal control addresses such matters as management’s attitude toward control, competence of key people, risk assessment, accounting, and other financial information systems in use, as well as the traditional control activities. Internal controls can be broadly categorized
as pervasive (or entity-level) controls that address pervasive risks and specific (transactional) controls that address specific risks.

Obtaining a sufficient understanding of internal control relevant to the audit involves the performance of risk assessment procedures to identify the controls that will directly or indirectly mitigate material misstatements. Not all control activities are relevant to the audit and auditor is only concerned with evaluating those controls that mitigate a risk of a material misstatement in the financial statements or mitigate the risk of non-compliance of transactions with laws and rules applicable.

The information obtained about internal controls will assist the auditor in assessing the residual risk (inherent and control risk) of material misstatement at the financial statement and assertion levels and designing further audit procedures that are responsive to the assessed risks.

v. Next auditor will evaluate control design and implementation of internal controls. Evaluation of control design and implementation of internal controls means that auditor shall:

- Identify the inherent risks of material misstatement (business and fraud risks), and whether they are pervasive risks or specific risks.
- Identify the controls to mitigate the risks identified and assess whether the controls do in fact mitigate the risks.
- Observe or inspect the operation of relevant internal controls to ensure that they have indeed been implemented.
- Document the operation of the relevant internal controls identified.

vi. The final step in the risk assessment phase of the audit is to review the results of the risk assessment procedures performed, and assess the risks of material misstatements at the financial statement level and the assertion level for classes of transactions, account balances, and disclosures.

The resulting list of assessed risks will form the foundation for the next phase in the audit, which is to determine how to respond appropriately to the assessed risks through the design of further audit procedures.

2.14. Risk response

In the risk response phase of the audit, the objective is to obtain sufficient appropriate audit evidence regarding the assessed risks. This means designing and implementing appropriate responses to the assessed risks of material misstatement at the financial statement and assertion levels, including assertions for compliance. The objective in designing an appropriate audit response is to obtain evidence that addresses the risk assessments developed for each relevant assertion.
Developing an audit plan involves three general steps. The first step is to develop an appropriate overall response to assessed risks at the financial statement level. The next step is to identify specific procedures required for material financial statement areas. The last step is to determine the nature and extent of audit procedures required. Auditor shall use professional judgment to choose the appropriate mix of procedures and extent of testing required to respond appropriately to the assessed risks at the assertion level.

A complete audit plan should ensure that:

- All material financial statement areas and compliance issues been addressed;
- Significant risks have been addressed;
- Evidence obtained from interim testing has been updated; and
- Potential risks of fraud have been addressed.

2.15. Documentation of risk response

The overall risk responses may be documented as a stand-alone document or as part of the overall audit strategy. The detailed audit plan can be documented in the form of an audit programme that outlines the nature and extent of procedures and the assertion(s) being addressed.

Next phases of the audit, including performing the audit and gathering the audit evidence; and evaluating the evidence and forming opinion are not explained in a detailed manner in this handbook. Next subsection gives some considerations about reporting the results of combined financial and compliance audits.

2.16. Example of Compliance with Procurement Legislation

Below is an example of applying 4200 for an audit of compliance with the procurement legislation.

**Step 1 Define Scope:**
Subject matter: Procurement process
Criteria: material sections of the procurement legislation

**Step 2 Risk Assessment**
Apply planning concepts (materiality and risk) to the criteria to assess areas of procurement law to be examined.
Results of the following sections of the law were considered material:

- Request for proposal
- Tendering
- Payments for work performed
- Penalties

Assess practices against the laws (perform test of controls)

For example, the testing of controls determined all processes were followed except the payments for work performed were made prior to the evidence of completion certificates being signed. Therefore significant risks were only identified with the payments for work performed and further audit procedures were considered.

**Step 3 Risk Response**

Design additional procedures where there is evidence of non compliance that could lead to material misstatement. This could be to assess whether:

- Payments made have led to the loss of public money, including:
  - Assess the subsequent evidence to determine whether the conditions for payment were met.
  - Recoveries of amounts (if necessary) have been made.

- Non compliance to the principles of the law are outside the public interest, including:
  - Control deficiencies identified in the procurement process affect the integrity of the government entity, in particular the ethical practices of management.

- Amounts have been presented correctly in the financial statements and other information
  - Whether the amounts are included in the correct year of account and all amounts are brought to account.
  - Whether information presented to stakeholders regarding progress of the project were misstated.

Evaluate the audit evidence and ensure that any findings are supported with sufficient, relevant and reliable information.
Step 4 Audit Reporting

A conclusion or opinion is drawn on the following basis:

- Information relating to the procurement process is not misleading?
- The legal principles of the procurement process have been materially applied?
- There is no material effect on the public interest in respect of the output of the services delivered?
- There is no material financial effect from the deficiencies in the procurement process?

To answer these questions the auditor considers materiality as follows:

- Where the effect is financial and the amount is material as per the reporting materiality from the financial audit, then the matter is included in the auditors’ opinion. Or if the matter relates to an intentional act then it could be included in the audit report irrespective of value. Or
- If the auditor deems the matter material by nature (in the public interest and affecting the users of the audit report) then they can include the matter in the auditor’s report.

In the example, the opinion in this case could be qualified based on the fact that management deliberately made early payments and in effect performed override on their system.

2.17. Reporting in a Combined Financial and Compliance Audits

Both the processes provided below and the financial audit standards are based on the premise that the audit process will lead to a conclusion or opinion. Both conclusions and opinions are based upon assurance being provided. This is a critical matter and differentiates the concept of audit from that of review. As stated earlier, matters may arise where an issue has come to the auditor’s attention during the course of the audit and this matter may be important. What action the auditor then takes will determine whether the matter is part of assurance or just for review purposes. The actions auditor may take are illustrated in figure 2.3:
The examples listed below explain the different responses illustrated in the figure 2.3:

- When examining inventory in one storeroom the auditor identifies laptops that are three years old and still in their original packaging. If the auditor confirms the information and provides information in the audit file then this is Other Matter and not subject to assurance. The guidance on how to report on Other Matters is given in ISSAI 1706. In the figure 4.2.2.
- However, if the auditor decides to give assurance on the matter as the scenario above the auditor then establishes procedures to assess how this situation arose (controls that were not in place or not operational) and the extent to which this situation has occurred throughout the organization. Then the auditor can provide a conclusion or opinion on the matter. The process is illustrated in the figure in box 4.2.1.
### Appendix 2.1: 125 High level Financial Audit ISSAI requirements

<table>
<thead>
<tr>
<th>No.</th>
<th>Compliance Requirement</th>
<th>Reference to ISA</th>
<th>Audit flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The auditor shall not represent compliance with ISAs in the auditor’s report unless the auditor has complied with the requirements of this ISA and all other ISAs relevant to the audit.</td>
<td>ISSAI 1200.20</td>
<td>pre engagement</td>
</tr>
<tr>
<td>2</td>
<td>To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant ISAs in planning and performing the audit, having regard to the interrelationships among the ISAs, to: (a) Determine whether any audit procedures in addition to those required by the ISAs are necessary in pursuance of the objectives stated in the ISAs; and (b) Evaluate whether sufficient appropriate audit evidence has been obtained.</td>
<td>ISSAI 1200.21</td>
<td>Starting at planning</td>
</tr>
<tr>
<td>3</td>
<td>In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.</td>
<td>ISSAI 1200.23</td>
<td>Starting at planning</td>
</tr>
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<td>4</td>
<td>If an objective in a relevant ISA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs, to modify the auditor’s opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA 230.</td>
<td>ISSAI 1200.24</td>
<td>reporting</td>
</tr>
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<td>5</td>
<td>The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.</td>
<td>ISSAI 1200.14</td>
<td>Starting at pre engagement</td>
</tr>
<tr>
<td>6</td>
<td>To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion.</td>
<td>ISSAI 1200.17</td>
<td>Planning</td>
</tr>
<tr>
<td>7</td>
<td>The auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.</td>
<td>ISSAI 1200.19</td>
<td>pre engagement</td>
</tr>
<tr>
<td>8</td>
<td>If financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation, the auditor shall determine whether there are any conflicts between the financial reporting standards and the additional requirements. If such conflicts exist, the auditor shall discuss with management the nature of the additional requirements and shall agree whether: (a) The additional requirements can be met through additional disclosures in the financial statements; or (b) The description of the applicable financial reporting framework in the financial statements can be amended accordingly. If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the auditor’s opinion in accordance with ISA 705.</td>
<td>ISSAI 1210.18</td>
<td>pre engagement</td>
</tr>
<tr>
<td>9</td>
<td>The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.</td>
<td>ISSAI 1210.9</td>
<td>pre engagement</td>
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<td></td>
<td>If matters come to the engagement partner’s attention through the firm’s system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.</td>
<td>ISSAI 1220.10</td>
<td>pre engagement</td>
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<tr>
<td>11</td>
<td>The engagement partner shall take responsibility for: (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (b) The auditor’s report being appropriate in the circumstances.</td>
<td>ISSAI 1220.15</td>
<td>Starting at pre engagement</td>
</tr>
<tr>
<td>12</td>
<td>The engagement partner shall take responsibility for reviews being performed in accordance with the firm’s review policies and procedures.</td>
<td>ISSAI 1220.16</td>
<td>pre engagement</td>
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<tr>
<td>13</td>
<td>On or before the date of the auditor’s report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.</td>
<td>ISSAI 1220.17</td>
<td>Starting at fieldwork</td>
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<td>14</td>
<td>For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall: (a) Determine that an engagement quality control reviewer has been appointed; (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and (c) Not date the auditor’s report until the completion of the engagement quality control review.</td>
<td>ISSAI 1220.19</td>
<td>pre engagement</td>
</tr>
<tr>
<td>15</td>
<td>If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm’s policies and procedures for dealing with and resolving differences of opinion.</td>
<td>ISSAI 1220.22</td>
<td>Reporting</td>
</tr>
<tr>
<td>16</td>
<td>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.</td>
<td>ISSAI 1230.10</td>
<td>Starting at planning</td>
</tr>
<tr>
<td>17</td>
<td>If the auditor identified information that is inconsistent with the auditor’s final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.</td>
<td>ISSAI 1230.11</td>
<td>Starting at fieldwork</td>
</tr>
<tr>
<td>18</td>
<td>The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor’s report.</td>
<td>ISSAI 1230.14</td>
<td>Reporting</td>
</tr>
<tr>
<td>19</td>
<td>The auditor shall prepare audit documentation on a timely basis.</td>
<td>ISSAI 1230.7</td>
<td>Starting at pre engagement</td>
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<td>20</td>
<td>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements; (b) The results of the audit procedures performed, and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.</td>
<td>ISSAI 1230.8</td>
<td>Starting at pre engagement</td>
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<tr>
<td>21</td>
<td>In accordance with ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, not withstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance.</td>
<td>ISSAI 1240 .12</td>
<td>Starting at pre engagement</td>
</tr>
<tr>
<td>22</td>
<td>ISA 315 requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion.5 This discussion shall place particular emphasis on how and where the entity’s financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity.</td>
<td>ISSAI 1240.15</td>
<td>Starting at pre engagement</td>
</tr>
<tr>
<td>23</td>
<td>Unless all of those charged with governance are involved in managing the entity, the auditor shall obtain an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.</td>
<td>ISSAI 1240.20</td>
<td>Starting at planning</td>
</tr>
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<td>24</td>
<td>In accordance with ISA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.</td>
<td>ISSAI 1240.25</td>
<td>Starting at planning</td>
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<td>25</td>
<td>The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity’s related controls, including control activities, relevant to such risks.</td>
<td>ISSAI 1240.27</td>
<td>Starting at planning</td>
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<td>26</td>
<td>In accordance with ISA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level.</td>
<td>ISSAI 1240.28</td>
<td>Starting at planning</td>
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<td>27</td>
<td>In accordance with ISA 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level.</td>
<td>ISSAI 1240.30</td>
<td>Starting at planning</td>
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<td>28</td>
<td>If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.</td>
<td>ISSAI 1240.35</td>
<td>fieldwork</td>
</tr>
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<td>29</td>
<td>If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.</td>
<td>ISSAI 1240.40</td>
<td>Starting at fieldwork</td>
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<td>If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor’s professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor’s legal responsibilities may override the duty of confidentiality in some circumstances.</td>
<td>ISSAI 1240.43</td>
<td>Starting at fieldwork</td>
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<td>As part of obtaining an understanding of the entity and its environment in accordance with ISA 315, the auditor shall obtain a general understanding of: (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and (b) How the entity is complying with that framework.</td>
<td>ISSAI 1250. 12</td>
<td>Planning</td>
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<td>The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.</td>
<td>ISSAI 1250. 13</td>
<td>Planning</td>
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<td>If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor’s judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.</td>
<td>ISSAI 1250. 19</td>
<td>Starting at fieldwork</td>
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<td></td>
<td>If, in the auditor’s judgment, the non-compliance referred to in paragraph 22 is believed to be intentional and material, the auditor shall communicate the matter to those charged with governance as soon as practicable.</td>
<td>ISSAI 1250.23</td>
<td>Starting at fieldwork</td>
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<td>The auditor shall determine the appropriate person(s) within the entity’s governance structure with whom to communicate.</td>
<td>ISSAI 1260:11</td>
<td>pre engagement</td>
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<td>The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis: (a) In writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances; and (b) Other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor’s professional judgment, are of sufficient importance to merit management’s attention.</td>
<td>ISSAI 1265:10.</td>
<td>Starting at fieldwork</td>
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<td>The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</td>
<td>ISSAI 1300:11.</td>
<td>Planning</td>
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<td></td>
<td>The auditor shall include in the audit documentation: (a) The overall audit strategy; (b) The audit plan; and (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.</td>
<td>ISSAI 1300:12</td>
<td>Planning</td>
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<td>The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members.</td>
<td>ISSAI 1300:5.</td>
<td>Planning</td>
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<td>The auditor shall undertake the following activities at the beginning of the current audit engagement: (a) Performing procedures required by ISA 220 regarding the continuance of the client relationship and the specific audit engagement;1(b) Evaluating compliance with relevant ethical requirements, including independence, in accordance with ISA 220;2 and (c) Establishing an understanding of the terms of the engagement, as required by ISA 210.</td>
<td>ISSAI 1300:6.</td>
<td>pre engagement</td>
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<td>41</td>
<td>The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.</td>
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<td>42</td>
<td>In establishing the overall audit strategy, the auditor shall: (a) Identify the characteristics of the engagement that define its scope; (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required; (c) Consider the factors that, in the auditor’s professional judgment, are significant in directing the engagement team’s efforts; (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.</td>
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<td>43</td>
<td>The auditor shall develop an audit plan that shall include a description of: (a) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315. (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330. (c) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs.</td>
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<td>44</td>
<td>Identifying and Assessing the Risks of Material Misstatement Auditor may have to consider a need for additional assertion that transactions and events have been carried out in accordance with legislation.</td>
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<td>45</td>
<td>The auditor shall obtain an understanding of the following: (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (b) The nature of the entity, including: (i) its operations; (ii) its ownership and governance structures; (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and (iv) the way that the entity is structured and how it is financed to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (c) The entity’s selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity’s accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (d) The entity’s objectives and strategies, and those related business risks that may result in risks of material misstatement. (e) The measurement and review of the entity’s financial performance.</td>
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<td>46</td>
<td>The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor’s professional judgment whether a control, individually or in combination with others, is relevant to the audit.</td>
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<td>47</td>
<td>When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity’s personnel.</td>
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<td>48</td>
<td>The auditor shall obtain an understanding of whether the entity has a process for: (a) Identifying business risks relevant to financial reporting objectives; (b) Estimating the significance of the risks; (c) Assessing the likelihood of their occurrence; and (d) Deciding about actions to address those risks.</td>
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<td>ISSAI</td>
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<td>49</td>
<td>If the entity has established such a process (referred to hereafter as the &quot;entity’s risk assessment process&quot;), the auditor shall obtain an understanding of it, and the results thereof. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether there was an underlying risk of a kind that the auditor expects would have been identified by the entity’s risk assessment process. If there is such a risk, the auditor shall obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity’s risk assessment process.</td>
<td>ISSAI 1315.16</td>
<td>Planning</td>
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<td>50</td>
<td>The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them.</td>
<td>ISSAI 1315.20</td>
<td>Planning</td>
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<td>51</td>
<td>The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls.</td>
<td>ISSAI 1315.22</td>
<td>Planning</td>
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<td>52</td>
<td>The auditor shall obtain an understanding of the sources of the information used in the entity’s monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for the purpose.</td>
<td>ISSAI 1315.24</td>
<td>Planning</td>
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<td>53</td>
<td>The auditor shall identify and assess the risks of material misstatement at: (a) the financial statement level; and (b) the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures.</td>
<td>ISSAI 1315.25</td>
<td>Planning</td>
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<td>54</td>
<td>For this purpose, the auditor shall: (a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements; (b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions; (c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and (d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.</td>
<td>ISSAI 1315.26</td>
<td>Planning</td>
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<td>55</td>
<td>As part of the risk assessment as described in paragraph 25, the auditor shall determine whether any of the risks identified are, in the auditor’s judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk.</td>
<td>ISSAI 1315.27</td>
<td>Planning</td>
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<td>56</td>
<td>In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following: (a) Whether the risk is a risk of fraud; (b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention; (c) The complexity of transactions; (d) Whether the risk involves significant transactions with related parties; (e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and (f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.</td>
<td>ISSAI 1315.28</td>
<td>Planning</td>
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<tr>
<td>57</td>
<td>If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity’s controls, including control activities, relevant to that risk.</td>
<td>ISSAI 1315.29</td>
<td>Starting at planning</td>
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<td>58</td>
<td>The auditor’s assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.</td>
<td>ISSAI 1315.31</td>
<td>Starting at planning</td>
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<td>59</td>
<td>The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.</td>
<td>ISSAI 1315.5</td>
<td>Starting at planning</td>
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<td>60</td>
<td>The risk assessment procedures shall include the following: (a) Inquiries of management, and of others within the entity who in the auditor’s judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (b) Analytical procedures. (c) Observation and inspection.</td>
<td>ISSAI 1315.6</td>
<td>Starting at planning</td>
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<td>61</td>
<td>When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.</td>
<td>ISSAI 1320:10</td>
<td>Planning</td>
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<td>62</td>
<td>The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.</td>
<td>ISSAI 1320:11</td>
<td>Planning</td>
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<td>63</td>
<td>The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.</td>
<td>ISSAI 1320:12</td>
<td>Starting at planning</td>
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<td>64</td>
<td>The auditor shall design and implement overall responses to address the assessed risks of material misstatements at the financial statement level.</td>
<td>ISSAI 1330.5</td>
<td>Planning</td>
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<td>65</td>
<td>In designing and performing tests of controls, the auditor shall: (a) Perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including: (i) How the controls were applied at relevant times during the period under audit; (ii) The consistency with which they were applied; and (iii) By whom or by what means they were applied. (b) Determine whether the controls to be tested depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls.</td>
<td>ISSAI 1330:10</td>
<td>Planning</td>
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<td>66</td>
<td>If the auditor plans to rely on controls over a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period.</td>
<td>ISSAI 1330:15</td>
<td>Starting at planning</td>
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<td>67</td>
<td>When evaluating the operating effectiveness of relevant controls, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective.</td>
<td>ISSAI 1330:16 Planning</td>
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<td>68</td>
<td>Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.</td>
<td>ISSAI 1330:18 Planning</td>
<td></td>
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<td>69</td>
<td>The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures.</td>
<td>ISSAI 1330:19 Planning</td>
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<td>70</td>
<td>If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.</td>
<td>ISSAI 1330:21 Planning</td>
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<td>71</td>
<td>The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.</td>
<td>ISSAI 1330:24 Planning</td>
<td></td>
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<td>72</td>
<td>The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.</td>
<td>ISSAI 1330:26 Reporting</td>
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<td>73</td>
<td>The auditor shall 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.</td>
<td>ISSAI 1330:6 Planning</td>
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<td>74</td>
<td>In designing the further audit procedures to be performed, the auditor shall: (a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure, including: (i) The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (that is, the inherent risk); and (ii) Whether the risk assessment takes account of relevant controls (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and (b) Obtain more persuasive audit evidence the higher the auditor’s assessment of risk.</td>
<td>ISSAI 1330:7 Planning</td>
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<td>75</td>
<td>The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls if: (a) The auditor’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.</td>
<td>ISSAI 1330:8 Planning</td>
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<td>76</td>
<td>In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.</td>
<td>ISSAI 1330:9 Planning</td>
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<td>77</td>
<td>When obtaining an understanding of internal control relevant to the audit in accordance with ISA 315 the user auditor shall evaluate the design and implementation of relevant controls at the user entity that relate to the services provided by the service organization, including those that are applied to the transactions processed by the service organization.</td>
<td>ISSAI 1402.10 Planning</td>
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<td>78</td>
<td>The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall 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.</td>
<td>ISSAI 1450.11</td>
<td>Reporting</td>
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<td>79</td>
<td>The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor’s report, unless prohibited by law or regulation. The auditor’s communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.</td>
<td>ISSAI 1450.12</td>
<td>Reporting</td>
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<td>80</td>
<td>The auditor shall include in the audit documentation: (a) The amount below which misstatements would be regarded as clearly trivial (paragraph 5); (b) All misstatements accumulated during the audit and whether they have been corrected (paragraphs 5, 8 and 12); and (c) The auditor’s conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph 11).</td>
<td>ISSAI 1450.15</td>
<td>Starting at fieldwork</td>
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<td>81</td>
<td>The auditor shall determine whether the overall audit strategy and audit plan need to be revised if: (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or (b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with ISA 320.</td>
<td>ISSAI 1450.6</td>
<td>Starting at fieldwork</td>
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<td>82</td>
<td>When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.</td>
<td>ISSAI 1500.10</td>
<td>Starting at planning</td>
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<td>83</td>
<td>The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.</td>
<td>ISSAI 1500.6</td>
<td>Starting at planning</td>
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<td>84</td>
<td>When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.</td>
<td>ISSAI 1500.7</td>
<td>Starting at planning</td>
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<td>85</td>
<td>If information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes: (a) Evaluate the competence, capabilities and objectivity of that expert; (b) Obtain an understanding of the work of that expert; and (c) Evaluate the appropriateness of that expert’s work as audit evidence for the relevant assertion.</td>
<td>ISSAI 1500.8</td>
<td>Starting at planning</td>
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<td>86</td>
<td>The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.</td>
<td>ISSAI 1501.12</td>
<td>Fieldwork</td>
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<td>87</td>
<td>If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts.</td>
<td>ISSAI 1505.10</td>
<td>Fieldwork</td>
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88. If management refuses to allow the auditor to send a confirmation request, the auditor shall: (a) Inquire as to management’s reasons for the refusal, and seek audit evidence as to their validity and reasonableness; (b) Evaluate the implications of management’s refusal on the auditor’s assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

89. If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period’s financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period’s financial statements. If the auditor concludes that such misstatements exist in the current period’s financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with ISA 450.

90. 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.

91. If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.

92. For tests of details, the auditor shall project misstatements found in the sample to the population.

93. When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

94. The auditor shall include in the audit documentation: (a) The basis for the auditor’s conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and (b) Indicators of possible management bias, if any.

95. As part of the risk assessment procedures and related activities that ISA 315 and ISA 240 require the auditor to perform during the audit, the auditor shall perform the audit procedures and related activities set out in paragraphs 12-17 to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions.

96. The engagement team discussion that ISA 315 and ISA 240 require shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity’s related party relationships and transactions.

97. If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.

98. Where the applicable financial reporting framework establishes related party requirements, the auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (a) They have disclosed to the auditor the identity of the entity’s related parties and all the related party relationships and transactions of which they are aware; and (b) They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.
<table>
<thead>
<tr>
<th>Page</th>
<th>Text</th>
<th>ISSAI</th>
<th>Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>99</td>
<td>When performing risk assessment procedures as required by ISA 315, the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity’s ability to continue as a going concern, and: (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern and, if so, management’s plans to address them; or (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern assumption, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern.</td>
<td>ISSAI 1570.10</td>
<td>Starting at planning</td>
</tr>
<tr>
<td>100</td>
<td>The auditor shall evaluate management’s assessment of the entity’s ability to continue as a going concern.</td>
<td>ISSAI 1570.12</td>
<td>Starting at planning</td>
</tr>
<tr>
<td>101</td>
<td>The auditor shall disclaim an opinion on the financial statements in accordance with ISA 705 if: (a) The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by paragraphs 10 and 11 are not reliable; or (b) Management does not provide the written representations required by paragraphs 10 and 11.</td>
<td>ISSAI 1580.20</td>
<td>Reporting</td>
</tr>
<tr>
<td>102</td>
<td>The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor’s report that is issued is appropriate in the circumstances. As a result, the auditor’s report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor’s report shall indicate that the reference does not diminish the group engagement partner’s or the group engagement partner’s firm’s responsibility for the group audit opinion.</td>
<td>ISSAI 1600.11</td>
<td>planning</td>
</tr>
<tr>
<td>103</td>
<td>In applying ISA 220, the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team shall obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence.</td>
<td>ISSAI 1600.12</td>
<td>planning</td>
</tr>
<tr>
<td>104</td>
<td>The group engagement team shall establish an overall group audit strategy and shall develop a group audit plan in accordance with ISA 300.</td>
<td>ISSAI 1600.15</td>
<td>planning</td>
</tr>
<tr>
<td>105</td>
<td>If the group engagement team plans to request a component auditor to perform work on the financial information of a component, the group engagement team shall obtain an understanding of the following: (a) Whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit and, in particular, is independent. (b) The component auditor’s professional competence. (c) Whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence. (d) Whether the component auditor operates in a regulatory environment that actively oversees auditors.</td>
<td>ISSAI 1600.19</td>
<td>planning</td>
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<tr>
<td>Section</td>
<td>Text</td>
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<tr>
<td>106</td>
<td>The group engagement team shall determine the following (a) Materiality for the group financial statements as a whole when establishing the overall group audit strategy. (b) If, in the specific circumstances of the group, there are particular classes of transactions, account balances or disclosures in the group financial statements for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (c) Component materiality for those components where component auditors will perform an audit or a review for purposes of the group audit. To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality shall be lower than materiality for the group financial statements as a whole (d) The threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.</td>
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<tr>
<td>107</td>
<td>The auditor is required to design and implement appropriate responses to address the assessed risks of material misstatement of the financial statements. The group engagement team shall determine the type of work to be performed by the group engagement team, or the component auditors on its behalf, on the financial information of the components (see paragraphs 26-29). The group engagement team shall also determine the nature, timing and extent of its involvement in the work of the component auditors (see paragraphs 30-31).</td>
<td></td>
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<tr>
<td>108</td>
<td>The external auditor shall determine: (a) Whether the work of the internal auditors is likely to be adequate for purposes of the audit; and (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor’s procedures.</td>
<td></td>
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<tr>
<td>109</td>
<td>The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</td>
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<tr>
<td>110</td>
<td>In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account: (a) The auditor’s conclusion, in accordance with ISA 330, whether sufficient appropriate audit evidence has been obtained; (b) The auditor’s conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate; and (c) The evaluations required by paragraphs 12-15[1].</td>
<td></td>
<td></td>
</tr>
<tr>
<td>111</td>
<td>If the auditor: (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor’s report in accordance with ISA 705.</td>
<td></td>
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<tr>
<td>112</td>
<td>Laws and regulations or the audit mandate may lead public sector auditors to report findings in the auditor’s report according to the ISAs. Additional findings, disclosures, conclusions, recommendations and management responses may be reported in a separate report. Such reporting is supplementary to the auditor’s report according to the ISAs and should therefore be made in a separate report when applying the ISA framework.</td>
<td></td>
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<tr>
<td>113</td>
<td>The auditor’s report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements, including evidence that: (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.</td>
<td>ISSAI 1700.41</td>
<td>Reporting</td>
</tr>
<tr>
<td>114</td>
<td>If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements. If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor’s report that such supplementary information has not been audited.</td>
<td>ISSAI 1700.46</td>
<td>Reporting</td>
</tr>
<tr>
<td>115</td>
<td>If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the basis for modification paragraph the reasons for that inability.</td>
<td>ISSAI 1705.20</td>
<td>Reporting</td>
</tr>
<tr>
<td>116</td>
<td>Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the basis for modification paragraph the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.</td>
<td>ISSAI 1705.21</td>
<td>Reporting</td>
</tr>
<tr>
<td>117</td>
<td>When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state in the opinion paragraph that, in the auditor’s opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph: (a) The financial statements present fairly, in all material respects (or give a true and fair view) in accordance with the applicable financial reporting framework when reporting in accordance with a fair presentation framework; or (b) The financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework when reporting in accordance with a compliance framework. When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase “except for the possible effects of the matter(s) ...” for the modified opinion.</td>
<td>ISSAI 1705.23</td>
<td>Reporting</td>
</tr>
<tr>
<td>118</td>
<td>If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows: (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall: (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (ii) If withdrawal from the audit before issuing the auditor’s report is not practicable or possible, disclaim an opinion on the financial statements.</td>
<td>ISSAI 1705.13</td>
<td>Reporting</td>
</tr>
<tr>
<td>119</td>
<td>When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by ISA 700, include a paragraph in the auditor’s report that provides a description of the matter giving rise to the modification. The auditor shall place this paragraph immediately before the opinion paragraph in the auditor’s report and use the heading “Basis for Qualified Opinion,” “Basis for Adverse Opinion,” or “Basis for Disclaimer of Opinion,” as appropriate.</td>
<td>ISSAI 1705.16</td>
<td>Reporting</td>
</tr>
</tbody>
</table>
If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.

ISSAI 1706. 6  Reporting

If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor’s report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph.

ISSAI 1706. 9  Reporting

If, following such discussions, the auditor still considers that there is an apparent material misstatement of fact, the auditor shall request management to consult with a qualified third party, such as the entity’s legal counsel, and the auditor shall consider the advice received.

ISSAI 1720. 15  Reporting

The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements.

ISSAI 1720.6  Reporting

ISA 200 requires the auditor to comply with all ISAs relevant to the audit. In planning and performing an audit of special purpose financial statements, the auditor shall determine whether application of the ISAs requires special consideration in the circumstances of the engagement.

ISSAI 1800. 9  Starting at pre engagement

ISA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

ISSAI 1805. 8  Starting at pre engagement
Appendix 2.2. Audit Scope

The auditor’s scope is based on the subject matter and the criteria (section 6.2 of ISSAI 4200). Examples of audit scope in the combined financial and compliance audits in the Public Sector can include the following:

<table>
<thead>
<tr>
<th>Subject matter</th>
<th>Criteria</th>
<th>Assurance/Review</th>
<th>Findings/Conclusions/opinions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial information such as the financial statements</td>
<td>Relevant budget law, financial procedures, accounting policies and procedures</td>
<td>Assurance</td>
<td>Based on acceptability of financial reporting framework would be either presents fairly or compliance</td>
</tr>
<tr>
<td>Internal control assessments</td>
<td>Assessment of the operating effectiveness of internal control over key business processes (financial and non financial). Criterion could include: • Procurement and expenditure practices • Human resource practices • Revenue practices • Asset and liabilities management practices • Environmental regulations</td>
<td>Assurance or review</td>
<td>Assurance: under compliance audit opinion Reviews: under other matters.</td>
</tr>
<tr>
<td>Assessments of programmes</td>
<td>Evaluation of the result of specific programmes (or aspects of them) including post implementation reviews. Criterion could include: • Proper use of public funds, • Utilization of purpose of project • business practices; and • Assessment of value for money</td>
<td>Assurance /review</td>
<td>Assurance: under compliance audit opinion Reviews: under other matters.</td>
</tr>
<tr>
<td>Audit of Key Performance Indicators</td>
<td>Annual report against the objectives</td>
<td>Assurance / review</td>
<td>Assurance: under compliance audit opinion Reviews: under other matters.</td>
</tr>
</tbody>
</table>
### Appendix 2.3. Link between Financial Audit Guidelines and ISSAI 4200

Level 4 Financial Audit Guidelines that are referenced in ISSAI 4200

<table>
<thead>
<tr>
<th>ISSAI</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1210</td>
<td>Agreeing the Terms of Audit Engagements</td>
</tr>
<tr>
<td>1220</td>
<td>Quality Control for an Audit of Financial Statements</td>
</tr>
<tr>
<td>1230</td>
<td>Audit Documentation</td>
</tr>
<tr>
<td>1240</td>
<td>The Auditor’s Responsibility Relating to Fraud in an Audit of Financial Statements</td>
</tr>
<tr>
<td>1260</td>
<td>Communication with Those Charged with Governance</td>
</tr>
<tr>
<td>1300</td>
<td>Planning an Audit of Financial Statements</td>
</tr>
<tr>
<td>1315</td>
<td>Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and Its Environment</td>
</tr>
<tr>
<td>1320</td>
<td>Materiality in Planning and Performing an Audit</td>
</tr>
<tr>
<td>1330</td>
<td>The Auditor’s Responses to Assessed Risks</td>
</tr>
<tr>
<td>1450</td>
<td>Evaluation of Misstatements Identified during the Audit</td>
</tr>
<tr>
<td>1500</td>
<td>Audit Evidence</td>
</tr>
<tr>
<td>1505</td>
<td>External Confirmations</td>
</tr>
<tr>
<td>1520</td>
<td>Analytical Procedures</td>
</tr>
<tr>
<td>1530</td>
<td>Audit Sampling</td>
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<tr>
<td>1550</td>
<td>Related Parties</td>
</tr>
<tr>
<td>1560</td>
<td>Subsequent Events</td>
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<tr>
<td>1610</td>
<td>Using the Work of Internal Auditors</td>
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<tr>
<td>1620</td>
<td>Using the Work of an Auditor’s Expert</td>
</tr>
<tr>
<td>1700</td>
<td>Forming an Opinion and Reporting on Financial Statements</td>
</tr>
<tr>
<td>1705</td>
<td>Modifications to the Opinion in the Independent Auditor’s Report</td>
</tr>
<tr>
<td>1706</td>
<td>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s report</td>
</tr>
</tbody>
</table>
Level 4 Financial Audit Guidelines that are not referenced in ISSAI 4200

<table>
<thead>
<tr>
<th>ISSAI</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1200</td>
<td>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</td>
</tr>
<tr>
<td>1250</td>
<td>Consideration of laws and regulations in the audit of financial statements</td>
</tr>
<tr>
<td>1265</td>
<td>Communicating deficiencies in internal controls to those charged with governance</td>
</tr>
<tr>
<td>1402</td>
<td>Audit considerations relating to entities using service organizations</td>
</tr>
<tr>
<td>1501</td>
<td>Audit evidence – specific considerations for selected items</td>
</tr>
<tr>
<td>1510</td>
<td>Initial audit engagements – opening balances</td>
</tr>
<tr>
<td>1540</td>
<td>Auditing accounting estimates including fair value accounting estimates and related disclosures</td>
</tr>
<tr>
<td>1570</td>
<td>Going concern</td>
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<tr>
<td>1580</td>
<td>Written representations</td>
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<tr>
<td>1600</td>
<td>Special considerations for group financial statements (including the work of a component auditor)</td>
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<tr>
<td>1710</td>
<td>Comparative information corresponding figures and comparative financial statements</td>
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<tr>
<td>1720</td>
<td>The Auditor’s Responsibilities Relating to Other Information in Documents containing Audited Financial Statements</td>
</tr>
<tr>
<td>1800</td>
<td>Special considerations – audit of special purpose financial statements</td>
</tr>
<tr>
<td>1805</td>
<td>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</td>
</tr>
<tr>
<td>1810</td>
<td>Engagements to report on summary financial statements</td>
</tr>
</tbody>
</table>
Chapter 3: Examine Financial Reporting Frameworks

3.1. Introduction

The third chapter of the handbook explains the process of assessing the financial reporting framework applied by the audited entity. According to ISSAI 1210 paragraph 6 existence of financial reporting framework is one of the preconditions for a financial audit. In the public sector the auditor might encounter a variety of financial reporting frameworks. Therefore it is important to know:

- How to determine whether, the financial reporting framework applied is acceptable or not;
- The difference between fair presentation reporting frameworks and compliance frameworks; and
- How the type of financial reporting framework links to auditor’s opinion on financial statements.

The chapter provides definitions as per ISSAIs, discussion on financial reporting frameworks in the public sector and includes a decision tree guiding through the process.

3.2. Definitions relevant to understand the financial reporting framework

Financial audit is an independent assessment, resulting in a reasonable assurance opinion, of whether an entity’s reported financial condition, results, and use of resources are presented in accordance with the applicable financial reporting framework.

The applicable financial reporting framework is defined in ISSAI 1200.13 as following:

**Applicable financial reporting framework** is the financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements or that is required by law or regulation.

The definition above refers that there are two types of financial reporting frameworks, which are explained in ISSAI 1200:

**i. Fair presentation framework** is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

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

**ii. Compliance framework** is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.

So, financial reporting framework either fair presentation framework or compliance framework is used by the management of the audited entity in order to prepare financial statements.

Frameworks may also be categorized as general purpose frameworks or special purpose frameworks. A Special purpose framework is a financial reporting framework designed to meet the financial information needs of specific users. General purpose frameworks are designed to meet the needs of a wide range of users. In some environments special purpose financial statements are the only financial statements prepared by the public sector entity. Even when such financial statements are the only financial statements prepared by the public sector entity, they are considered to be special purpose financial statements. It is therefore important to carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users (“general purpose framework”) or the financial information needs of specific users.

In addition to preparing general purpose financial statements, a public sector entity may prepare financial statements for other parties (such as governing bodies, the legislature or other parties that perform an oversight function) that can demand financial statements tailored to meet their specific information needs.

**Financial statements** are a structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.

As indicated above financial statements present historical financial information.

**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 past time periods or about economic conditions or circumstances at points in time in the past.
3.3. Decisions about financial reporting framework (FRF)

Before starting with planning of the audit the auditor needs to understand the concept of financial reporting framework as one of the preconditions of auditing the financial statements. Therefore auditor needs to clarify following issues concerning FRF:

- Is there an applicable FRF for public sector entities (subsection 3.3.1.)?
- Is the FRF acceptable (subsection 3.3.2.)?
- Is the financial reporting framework a special purpose framework or general purpose framework?
- Is the financial reporting framework a fair presentation framework or a compliance framework and how to report correspondingly (subsection 3.3.3.)?
- What are the options for SAIs if FRF is deemed to be non-acceptable (subsection 3.4.)?

3.3.1. Do public sector audited entities apply financial reporting framework?

The first question in the process of assessing the FRF is to clarify what type of information is provided to the oversight body on an annual basis about the functioning of the executive and administrative branches of the state?

In most of jurisdictions a set of accounts are presented to the legislature. Invariably the SAI provides a report on such statements. These statements are based on historical financial information (as explained in subsection of definitions).

In many cases the financial reporting framework for the public sector entities is prescribed by laws and regulations. The financial statements of public sector entities may include a statement of financial position; a statement of financial performance; a comparison of budget and actual amounts either as a separate additional financial statement or as reconciliation; notes, comprising a summary of significant accounting policies and other explanatory information. In certain environments a complete set of financial statements according to the financial reporting framework may also include other reports such as reports on performance and appropriation reports. But the laws and regulations may describe also a different set of financial statement of historical financial information.

Financial Reporting Frameworks may be for general use or specific use. Based on Level 3 EV ISSAI 200 and ISSAI 1200 auditors need to carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users in this case general purpose framework is applicable. In special purpose framework the financial information is provided for needs of specific users or the requirements of a standard setting body. For example FRF of government whole accounts, financial statements of public sector agencies or ministries can in many cases be considered general purpose framework as it has been designed to meet the common financial information needs of a wide range of users.
The fact whether we deal with a general purpose framework or special reporting framework will affect
the type of reporting provided by the SAI, however, in both cases the audit process is based on ISSAIs
1000-1810. The special considerations for audits of special purpose financial statements are dealt with in
ISSAI 1800. Special purpose financial statements are prepared to meet the financial information needs of
specific users. As given in EV ISSAI 200 examples of special purpose frameworks relevant to the public
sector may include:

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

**To conclude on the first step of assessing FRF:**

- The SAI needs to identify whether there is an applicable FRF for the public sector entities in the SAIs
  environment;
- Whether FRF in question is a general purpose framework or special purpose framework.

As explained above the auditor may face general purpose financial statements or special purpose
financial statements. In this Handbook next steps are explained for cases where SAI has identified that
applicable general purpose framework exists. In case of special purpose framework the auditor should
look at the requirements in ISSAI 1800.

In scenarios where the government has not adopted a financial reporting framework but different
government entities are still compiling and issuing financial information which has to be audited by the
SAI, then SAI might consider to use ISSAI 4200 as explained in Figure 3.1.

### 3.3.2. Is the financial reporting framework acceptable?

The purpose of this section is to introduce, explain and assist in evaluating what an acceptable financial
reporting framework is and whether SAI’s environment has such a framework. In the absence of such an
acceptable framework the decisions to be taken by the SAI are discussed in section 3.4.

The acceptability of a FRF is decided based on the nature of the entity and the objective of its financial
statements. The characteristics of an acceptable financial reporting framework are discussed in Level 3
ISSAI 200 and in Level 4 ISSAI 1210 in Appendix 2.

Acceptable financial reporting frameworks normally exhibit the following attributes that result in
information provided in the financial statements being useful for the intended users:

- **Relevance**, in that the information provided in the financial statements is relevant to the nature of the audited entity and the purpose of the financial statements. Relevance is subject to the entity’s nature as reflected in the table 3.1 below. Clearly the relevance is a critical decision for the auditor and it needs to be assessed in consultation with the stakeholders.

- **Completeness**, in that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted. The purpose of the financial statements may vary from funding/investment purposes as explained in the table 3.1 below to certification and approval of the annual budget. Once again this needs to be evaluated in the context of the stakeholder’s needs and accountability cycle.

- **Reliability**, in that the information provided in the financial statements:
  - Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
  - Results in reasonably consistent evaluation, measurement, presentation and disclosure when used in similar circumstances.

Reliability reflects whether the information provided is in a format that links to the accounting policies and/or financial procedures.

- **Neutrality and objectivity**, in that it contributes to information in the financial statements that is free from bias. In other words information provided in the financial statements does not provide an interpretation that can lead to bias towards certain results or entities.

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

**Discussion on the acceptability of the FRF in a SAIs jurisdiction**

Acceptability of the FRF as explained depends on the nature of the entity and the objective of the financial statements. The concept of financial statements being useful for the intended users clearly requires the users to be identified and their requirements understood.

In the public sector users typically are assessing the financial statements for certain types of entities for different reasons. The table 3.1 below provides an illustration of the situation within a public sector environment. It must be noted that the last column of the table gives examples of commonly used financial reporting frameworks. The decision whether the FRF used is acceptable should be done by the...
auditors, and the table below does not claim that the FRF listed in last column are acceptable in the specific country context.

**Table 3.1: Illustration of the situation within a public sector environment**

<table>
<thead>
<tr>
<th>Type of Entity</th>
<th>Typical User</th>
<th>Type of requirement</th>
<th>Commonly used FRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry</td>
<td>Public accounts committee, ministries</td>
<td>Accountability for government expenditure and the assessment of financial management</td>
<td>cash accounts on budget versus than actual or accrual based financial</td>
</tr>
<tr>
<td>Non revenue generating agencies</td>
<td>Relevant accountability reporting lines e.g. public accounts committee and responsible ministries.</td>
<td>Accountability for funding and assessment of the performance of the entity against their mandates</td>
<td>Modified cash / modified accruals or accrual based financial statements</td>
</tr>
<tr>
<td>Revenue generating entities and corporations</td>
<td>Public account committee, ministries, investment authorities, banks etc.</td>
<td>Assessment of return on investment, sustainability. Assessment of effects of policy and regulation over the entities</td>
<td>Full accrual based financial statements often aligned to a recognized reporting framework</td>
</tr>
</tbody>
</table>

As can be observed from the table above it can be seen that the purpose of the financial statements moves from accountability towards investments purposes.

**To conclude on the second step of assessing FRF:**
- SAI needs to identify whether FRF in question is acceptable.

The answer to the question regarding the acceptability of the financial reporting framework is not straightforward and requires professional judgment. The ISSAI's advice the auditor to withdraw from audit engagement where there is no acceptable financial reporting framework applies only when the SAI is in position to withdraw from audit. The potential conduct of the SAI in those circumstances when the SAI is not in position to withdraw is explained in subsection 3.4.

**3.3.3. Is the financial reporting framework a fair presentation framework or compliance framework and how to report?**

As already explained in the subsection of definitions the FRF can be either a fair presentation framework or a compliance framework. As the acceptable financial reporting framework can be a compliance framework or fair presentation framework in both cases the SAI may use ISSAI Level 4 as authoritative standards, only the auditor’s opinion is affected by the type of the framework. Therefore decision on the type of framework is important.

According to ISA 700 paragraph 12 the auditor shall evaluate whether the financial statements are
prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments.

**In case of fair presentation framework** the SAI needs to evaluate whether the financial statements achieve fair presentation.

ISA 700 paragraph 14 defines that the auditor’s evaluation as to whether the financial statements achieve fair presentation shall include consideration of:

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

When expressing auditor’s opinion the auditor shall use one of the following phrases “the financial statements present fairly...” or “the financial statements give a true and fair view of...”.

When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. Instead of that auditor needs evaluate whether the financial statements are prepared in all material respects in accordance with applicable laws and regulations.

When expressing auditor’s opinion the auditor shall use following phrase “financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. It should be noted that even if the framework is a compliance framework there is an overall requirement on the auditor to make sure that he/she is not associated with misleading information.

**To conclude on the third step of assessing FRF:**
- SAI needs to decide whether the FRF in question is a fair presentation framework or a compliance framework;
- Depending on the FRF SAI decides on the auditor’s opinion on financial statements.

### 3.4. Further considerations when the FRF is deemed unacceptable

In this subsection the possible actions when the financial reporting framework is deemed to be unacceptable by the SAI are explained.

As explained in ISA 210 paragraph 8 if the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement. Non-acceptance of the engagement is often not possible in the
SAI environment so the SAI needs to find alternative ways to deal with unacceptable FRF.

Based ISA 210 paragraph 19 we can conclude that if the auditor has determined that the financial reporting framework prescribed by law or regulation is unacceptable the auditor should discuss with the management of the audited entity and ask the management to provide additional disclosures in the financial statements required to avoid the financial statements being misleading. Even if the 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.

The auditor has to determine if the statements are misleading (using the criteria for acceptability) and if management refuses to act on the auditors request to prepare additional disclosures, the standard suggest the auditor must withdraw from the engagement. However, in the situation where the SAI cannot withdraw as discussed above, then the auditor should report this non-compliance by management in its audit report. This would lead to the situation where the SAI is about to issue a modified opinion on the financial statements.

This is explained in ISA 210 paragraph 20:

If the conditions outlined in ISA 210 paragraph 19 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall:

(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.

As explained in the Practice Note in the ISSAI 1210 if public sector auditors determine that the framework prescribed by law and regulation is not acceptable they apply the requirements of paragraphs 8, 19 and 20 of the ISA, and also consider:

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

To conclude on actions in case of an unacceptable FRF:

- SAI needs to ask management of the audited entity to prepare additional disclosure;
- If additional disclosure are presented then SAI considers adding Emphasis on Matter paragraph;
- If management refuses to present additional disclosure then SAI may consider withdrawal and if withdrawal is not possible SAI may consider a modified auditor’s opinion explaining the misleading nature of financial statements;
- SAI has to consider informing legislature and standard setting bodies about unacceptability of the FRF.
The process of assessing the FRF as explained in the chapter has been summarised in the decision tree of figure 3.1. The decision tree includes both the number of subsections where the decision is explained in more detail and the reference to the applicable ISSAIs as well.

*Figure 3.1. Financial Reporting Framework Decision tree*

[Diagram of the decision tree is shown here, with the following key points:

- 3.3.1. Is there an applicable General Purpose Financial reporting framework? ISSAI 1200
  - YES: 3.3.2. Is the framework acceptable? ISSAI 1210
  - NO: Alternatively mean you can consider ISSAI 4200.

- 3.3.3. Determine the type of the FRF and accordingly the auditor’s opinion ISSAI 1700
  - YES: Opinion on fair presentation framework
  - NO: Opinion on compliance framework

- 3.4. The FRF is deemed to be unacceptable as ISSAI 1210
  - YES: Withdraw from engagement ISSAI 1210 or alternatively consider modified audit opinion
  - NO: 3.4. Is management willing to make additional disclosure to limit the misleading nature of the FS ISSAI 1210
    - YES: Potentially unmodified opinion with Emphasis of Matter ISSAI 1210 and ISSAI 1706
    - NO: Modified audit opinion ISSAI 1210 and ISSAI 1705]
Chapter 4: Financial Audit ISSAI Implementation Strategy

4.1. Introduction

4.1.1 Financial Audit ISSAI Implementation Strategy

Implementation of ISSAIs is a strategic shift that requires strategic and institutional considerations. Before undertaking such implementation it is advisable to examine key considerations like the mandate of the SAI, stakeholder expectations, resources available and the SAI environment and current practices. After such examination, a SAI would be in a position to decide whether it would like to refer to financial audit ISSAIs and if yes, whether the SAI would like to make such reference at level 3 or level 4 Financial Audit ISSAIs. Figure 4.1 provides a snapshot of this decision making process.

The guidance detailed in this section is meant for SAIs that have decided to implement level 4 financial audit ISSAIs. This guidance in no way suggests that SAIs may refer to financial audit ISSAIs at level 4 alone. This guidance also does not recommend a bottom up approach to ISSAI Implementation. While this guidance is limited to financial audit ISSAI Implementation Strategy, guidance on the overall ISSAI Implementation strategy will be provided in a separate document. It is important for a SAI to integrate its ISSAI Implementation strategy for financial audit with its overall strategy.
Does the SAI want to implement ISSAIs?

YES.

What is the mandate of the SAI?
What are the stakeholder’s expectations?
What are the resources available to the SAI?
In what environment the SAI is operating?
What types of audit does the SAI conduct?

At what level does SAI want to refer to ISSAIs, Level 3 or Level 4?

Level 3

Does the SAI have national standards for financial audit?

Yes

Map national standards with Level 3 requirements

Map practice with requirements

Assess needs for implementation

ISSAI implementation strategy for financial audit

No

National standards to be developed

Level 4

The SAI adopted ISSAIs 1000-1810 as authoritative standards

Map the methodology and practice with ISSAIs using FA iCAT

Assess needs for implementing FA ISSAIs

ISSAI implementation strategy for financial audit

Figure: 4.1: Financial audit ISSAI implementation decision process
As shown in Figure 4.1 when an SAI wants to implement ISSAIs and set implementation strategy it needs to consider: what is its mandate, what are the stakeholder expectations from the SAI, what are the resources available to it and what in environment it is operating. Along with these four aspects the SAI needs to determine the key question - At which level of ISSAIs it wishes to refer to ISSAIs?

EV ISSAI 100 provides two possibilities when referring to the standards in the auditor’s opinion:

i. An audit engagement conducted in accordance with standards based on the Fundamental Audit Principles. EV ISSAI 100 explains that the fundamental principles (Level 3 ISSAIs) can be used as the basis on which national standards are developed or basis for the adoption of the Level 4 standards. Therefore the SAI can make reference to the Level 3 standards as the authoritative standards in cases where the SAI has manuals in place and has been observed at the audit practice level, which correspond with principles laid down on Level 3 of ISSAIs.

ii. The SAI may choose to adopt the General Auditing Guidelines (ISSAIs 1000-4999) as authoritative standards. In such cases the auditor shall comply with all ISSAIs relevant to the audit.

Before formulating an ISSAI implementation strategy for financial audit a SAI needs to decide at which level it wants to refer to the ISSAIs. If a SAI decides to refer to ISSAIs at level 3 it needs to have detailed national standards for financial audit. If the SAI does not have such standards it needs to develop it. The next step would be to map the national standards with the requirements of respective level 3 ISSAIs. While referring to ISSAIs at level 3, it is not enough to check that the national standards follow Level 3 ISSAIs. It is equally important to ascertain that the SAI’s audit is actually conducted as per the standards. Through this mapping a SAI will be able to identify needs by assessing the gaps in both standards and practice. An implementation strategy can then be formulated to address these issues.

If a SAI aims to refer to Level 4 financial audit it can start by mapping its current financial audit practice with ISSAI requirements at level 4. The FA iCAT can be used for this purpose. The next section in this handbook provides detailed guidance on development of an ISSAI Implementation Strategy for Financial Audit based on the FA iCAT.

4.1.2. ISSAI Implementation Strategy Framework

As an attempt to assist SAIs in integrating Level 4 ISSAIs in their auditing practices, a toolkit has been developed to provide a step-by-step process. This process takes into account several factors that may lead different SAIs to adopt differing strategies in accordance with their mandate, national legislation and regulations.

The proposed financial audit ISSAI Implementation Strategy Framework (Figure 4.2) describes each step that the SAI may need to undergo to formulate ISSAI implementation strategies that are adapted to its nature, experiences and the environment it operates in. The SAI then integrates the strategies into its Strategic Plan.
Figure 4.2 Financial Audit ISSAI Implementation Strategy Framework

SAI’s Financial Audit Function

iCAT

INPUT

SWOT

Strengths

Weaknesses

SAI Core

Independence & Legal Framework

SAI Core

Leadership & Internal Governance

Threats

Stakeholders

Opportunities

Determine Priority Issues

PROCESS

Formulate Strategic Options

Size

Environment:
Political
Social
Economic

Re-
Expe-

ISSAI Implementation Strategy

OUTPUT
4.2. Process for the formulation of the ISSAI Implementation Strategy

As shown in the Figure 4.1 above, there are several critical steps for the SAI to follow in order to formulate a robust and effective ISSAI Implementation Strategy that would aid progressive and sustainable implementation of the ISSAIs. These steps are explained below:

4.2.1. Step 1: Assessing Compliance to ISSAI requirements in Financial Auditing Practices

The first step for the SAI is to ascertain ISSAI requirements, assess the status of the SAI vis-a-vis the requirements, identify the causes for non compliance and the actions required to be compliant. The ISSAI Compliance Assessment Tool (iCAT) developed under the ISSAI Implementation Initiatives (3i) Programme would help the SAI with this exercise. It is important that the SAI conducts this exercise very seriously as it forms a critical input into formulating practical and implementable strategies.

Under the same Programme, the IDI in collaboration with the three sub-committees of the INTOSAI Professional Standard Committee and regional SAIs have trained a pool of ISSAI facilitators in select SAIs. Details also available on the 3i Community portal. The ISSAI facilitators in each SAI can help the SAIs conduct the iCAT for their respective auditing practices. Therefore, SAIs are strongly encouraged to engage the trained facilitators to guide and assist the team conducting the iCAT.
To assist with the illustration of the process of figure 4.2 a simple and fictitious SAI case study will be used throughout the process. The context is as follows:

SAI ABC has a constitutional mandate to conduct financial, compliance and performance audits and has exclusive audit authority over all government agencies. It has an Auditing Code which clarifies its constitutional powers and functions, organizational structure, audit jurisdiction.

The SAI has a Code of Ethics which is currently being updated. An Administrative Investigation Office has been created under the office of the SAI Head to conduct investigation of auditors’ misbehaviour and violations against the Code of Ethics and the Anti-Corruption Law. Employees’ submission of Statement of Assets and Liabilities is strictly enforced in the SAI.

The SAI also has a Continuing Education Centre which continuously provides role based or ladderized training to its personnel in various disciplines. Completing the courses in a particular ladder is required for promotion purposes. The SAI only recruits licensed professionals such as lawyers because of its quasi-judicial functions, Certified Public Accountants, engineers and other professionals who passed the Civil Service Examination.

The SAI awards exemplary performance and for a number of years, its awardees have received national recognition by the head of state.

The auditing code requires that the audited agencies provide a permanent and adequate office space, operating funds and equipment for the SAI’s audit teams (Resident audits). The code strictly prohibits audit teams from receiving more than these provisions from the audited entities. Violators are strictly dealt with, with penalties ranging from reprimand to termination with suspension of benefits.

The SAI prescribes a Risk-Based Audit (RBA) Manual to be used by all its audit teams. Audit clusters or audit groups undergo an audit focusing process whereby high impact issues which are perceived to be existing in different agencies or where projects are implemented by various agencies are required by the Directors to be looked into simultaneously. When this is done, Auditors complete templates for each phase of the audit starting with the understanding of the agency which is the basis for the identification of risks of material misstatement and other risks. Results of each template are linked to the templates for each phase till the audit reaches reporting phase.

While the review process is somewhat elaborate, SAI ABC has not yet operationalized the Quality Assurance Office to undertake an independent review of audit quality control processes. Just recently, an assessment of the SAI’s compliance to the ISSAIs was conducted using the FA iCAT. Partial results are shown below.
Table 4.1 provides extracts from of the iCAT used for assessing compliance with the Level 4 ISSAI requirements in SAI ABC. The example exhibits a few cases of compliance with ISSAI requirements in SAI ABC. The example does not illustrate carrying out an assessment using the iCAT. The e-course delivered in October-December 2012 under the 3i Programme provided guidance on doing an assessment using the iCAT.

There are over 500 financial audit requirements in the ISSAI which are reflected in the Level 4 iCAT – 63 requirements relating to the pre-engagement phase, 186 requirements relating to the planning phase, 123 related to the fieldwork phase, and 159 requirements relating to the reporting phase.

SAI ABC rapidly came to the realisation that it would not be possible to implement all the ISSAIs in one attempt. To facilitate its review and gradual implementation of the ISSAI, SAI ABC reviewed the iCAT list of ISSAI. The SAI did the review with a view to identifying those entry level requirements that were the most critical to the implementation of an ISSAI compliant financial audit practice.

SAI ABC used the following criteria:

- Requirements that determine the audit process;
- Items which are fundamental to the day to day operations of the audit
- Requirements which if satisfied will substantially embrace other requirements (concept of higher level requirement)

Accordingly SAI ABC decided to start by ensuring implementation of the resulting list of 125 ISSAI requirements (see appendix 2.1). While SAI ABC can’t claim that it conducts financial audit that are in compliance with the Level 4 ISSAI. All applicable requirements must be met to claim compliance. SAI ABC chose to do it over time knowing that at some point enough would be in place to soon claim compliance. The table 4.1 below shows only the assessment of a few requirements under Level 4 which exhibits the results of the iCAT conducted by SAI ABC with a compliance status ascertained as “Met”.


**Table 4.1: iCAT of SAI ABC on Level 4 ISSAI requirements with status “Met”**

<table>
<thead>
<tr>
<th>Reference</th>
<th>Requirement</th>
<th>Compliance</th>
<th>System/Mechanisms/ Instrument of Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISSAI 1220.15</td>
<td>The engagement partner shall take responsibility for: (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (b) The auditor's report being appropriate in the circumstances.</td>
<td>Met</td>
<td>The audit engagement leadership responsibilities are in a policy included in the Auditing Code to its Directors. The person assigned with engagement leadership responsibilities (engagement partner) ensures the audit team assigned to the audit has all the competencies and skills necessary to perform the audit. Throughout the audit he ensures significant matters are brought to his attention and carefully discussed. At the end of the audit the Director ensures the audit opinion is appropriate in the circumstances and recommends it for signature to the audit report signatory.</td>
</tr>
<tr>
<td>ISSAI 1220.16</td>
<td>The engagement partner shall take responsibility for reviews being performed in accordance with the firm’s review policies and procedures.</td>
<td>Met</td>
<td>The Director (engagement partner) supervises and reviews the work of his Audit Team Leaders following a checklist of activities that are cross-referred to the ISSAIs and appropriate regulatory requirements. Any deviation is carefully discussed and appropriate action taken by the Audit Supervisor.</td>
</tr>
<tr>
<td>ISSAI 1220.17</td>
<td>On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.</td>
<td>Met</td>
<td>The Director (engagement partner) in reviewing the audit report requires the production of evidences from the Audit Team Leader or through own review of specific file documentation carefully assesses the sufficiency and propriety of the evidences obtained. This is evidenced done through review and signoff of an audit completion checklist. In case of contentious issues involving legal matters, he requests a meeting with the Legal Office for further guidance in accordance with office policies.</td>
</tr>
<tr>
<td>ISSAI 1230.10</td>
<td>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.</td>
<td>Met</td>
<td>The audit team prepares a schedule (Summary of audit observations and recommendations) summarizing significant audit observations and recommendations, management’s comments and auditor’s further comments to be finally discussed with Management in an exit conference prior to finalizing an audit report. The audit team also includes in the file minutes from their meetings with those charged with governance and others as appropriate.</td>
</tr>
<tr>
<td>ISSAI 1315.11</td>
<td>The auditor shall obtain an understanding of the following :(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (b) The nature of the entity, including: (i) its operations; (ii) its ownership and governance structures; (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and (iv) the way that the entity is structured and how it is financed to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (c) The entity’s selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity’s accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (d) The entity’s objectives and strategies, and those related business risks that may result in risks of material misstatement. (e) The measurement and</td>
<td>Met</td>
<td>The auditors complete a series of templates in accordance with the RBA Manual to understand the audited agency taking into account these requirements in the Standard. The accomplished templates serve as a basis for identifying risks of material misstatements in the financial statements.</td>
</tr>
</tbody>
</table>
Similarly, the Table 4.2 exhibits few cases of non-compliance with ISSAI requirements in SAI ABC.

**Table 4.2: iCAT of SAI ABC on Level 4 ISSAI requirements with status “Not Met”**

<table>
<thead>
<tr>
<th>Reference</th>
<th>Requirement</th>
<th>Compliance Status</th>
<th>Reasons for Non-Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISSAI 1230.7</td>
<td>The auditor shall prepare audit documentation on a timely basis.</td>
<td>Not met</td>
<td>Auditors often complete file documentation related to significant matters many weeks after the date of the independent auditor’s report.</td>
</tr>
<tr>
<td>ISSAI 1230.8</td>
<td>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements; (b) The results of the audit procedures performed, and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.</td>
<td>Not met</td>
<td>While the auditors prepare audit documentation, there is still a need for them to come and explain to the reviewer the contents of their working papers and to explain what they did and how they reached their conclusions.</td>
</tr>
<tr>
<td>ISSAI 1300.12</td>
<td>The auditor shall include in the audit documentation: (a) The overall audit strategy; (b) The audit plan; and (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.</td>
<td>Partially met</td>
<td>While audit strategies and audit plans are documented, there is no requirement in the RBA Manual to document changes to the audit strategy or audit plan. Most audit files do not include documentation of changes to the audit plan.</td>
</tr>
<tr>
<td>ISSAI 1315.15</td>
<td>The auditor shall obtain an understanding of whether the entity has a process for: (a) Identifying business risks relevant to financial reporting objectives; (b) Estimating the significance of the risks; (c) Assessing the likelihood of their occurrence; and (d) Deciding about actions to address those risks.</td>
<td>Not met</td>
<td>It is believed that most of the entities audited have no risk management process. Accordingly audit teams do not make any enquiries on the matter.</td>
</tr>
</tbody>
</table>

Note 1: Reasons for non-compliance can be expressed in terms of:
- The reasons *why* we say we are not compliant, that is, stating what the actual underlying issue is, or;
- The facts that demonstrate *how* we are not meeting or partially meeting a requirement as illustrated in this example.

The examples of iCAT from Tables 4.1 and 4.2 provide the insights on the extent of compliance to the Level 4 ISSAI requirements for FA in SAI ABC. However, to have a complete picture, the SAI has to complete the assessment for the whole requirements for FA. The information from the iCAT assists the assessment team in identifying gaps and systems and practices in place that support compliance with requirements.

**4.2.2. Step 2: Conducting SWOT analysis**

After the assessment of compliance to the ISSAI requirements using the iCAT, the team should conduct the SWOT Analysis of the SAI, in terms of financial audit, to determine its strengths and weaknesses. The exercises would help to explore both opportunities and threats surrounding the SAI, and assist the top
management in making informed decisions. Note that the causes for the iCAT outcome would generally find their origin at the broader organisational level such as the institution’s mandate, the legislations and the SAI’s established procedures and daily practices of its staff. Those are illustrated in Figure 4.2. Note that a SAI can group its iCAT findings into any grouping it felt relevant.

*Figure 4.3: Four main domains under Level 2 of the ISSAIs*

The first domain refers to the institutional independence of the SAI and describes the requirements under ISSAI 10. The second domain refers to the organizational and professional staff capacity of the SAI that is driven by SAI leadership. A combination of Level 2 ISSAI requirements are placed under this domain. The third domain refers to SAI core processes, which are the SAI level requirements specific to audit processes. The fourth domain refers to external stakeholder relations both in terms of reporting requirements and communicating with stakeholders for audit effectiveness and impact.

The SWOT Analysis would help to assess the current situation of the SAI and serve as the guiding factor for framing strategic options for the financial audit ISSAI implementation in the SAI. Assessing the current situation would involve ascertaining the position of the SAI with regard to the different elements and domains under the Level 2. The exercise would assist to identify all the weaknesses and potential threats that undermine the financial audit practices in the SAIs. Once the weaknesses and associated threats are identified, it would provide proper direction to the SAI to channel its resources for improvement. The exercise would also help explore strengths and opportunities that the SAI can capitalize upon to chart out the strategies to assist in instituting robust financial audit practices compliant with all the requirements of the ISSAIs. An example of SWOT analysis for SAI ABC is exhibited in the Table 4.3.
On dissecting the issues identified under each quadrangle, we get the overview of the problems and challenges confronting the SAIs that impede achieving compliance to ISSAI requirements. The SAIs can also discover its own strengths and good practices which are attributed for facilitating compliance to the ISSAI requirements. Therefore, the SWOT analysis, if conducted objectively, would present a unique set of facts for each SAI and within the four Level 2 domains. For example, ISSAI 1220.15 requirement presented in the iCAT of SAI ABC in Table 1.1 provides that “The engagement partner shall take

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independence and Legal Framework</strong></td>
<td><strong>Independence</strong></td>
</tr>
<tr>
<td>• Clear and strong mandate</td>
<td>• Resident audits</td>
</tr>
<tr>
<td><strong>Leadership and Governance</strong></td>
<td><strong>Leadership and Governance</strong></td>
</tr>
<tr>
<td>• Strong and dynamic leadership, leads by example</td>
<td>• Lack of time or not enough resources allocated to carrying the audits</td>
</tr>
<tr>
<td>• Competent and strong financial auditors who are also trained on statutory and legal construction, and appreciation of audit evidence</td>
<td><strong>SAI Core Processes</strong></td>
</tr>
<tr>
<td>• Clear accountability for audit engagement</td>
<td>• Lack of skills in organizing and preparing working papers that can be easily understood</td>
</tr>
<tr>
<td>• Assigned and assumed accountability for the audit engagement</td>
<td><strong>SAI Core Processes</strong></td>
</tr>
<tr>
<td><strong>SAI Core Processes</strong></td>
<td>• No standardised engagement level quality framework in place</td>
</tr>
<tr>
<td>• Strong system for communicating audit results</td>
<td>• Inadequate understanding of the risk management process of the audited entities</td>
</tr>
<tr>
<td>• Strong legal support</td>
<td>• Inadequately prepared overall audit strategy and audit planning</td>
</tr>
<tr>
<td>• Continuing education for SAI personnel</td>
<td></td>
</tr>
<tr>
<td>• Good number of auditors implementing risk-based audit</td>
<td></td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
<td><strong>Threats</strong></td>
</tr>
<tr>
<td><strong>Leadership and internal governance</strong></td>
<td><strong>Independence</strong></td>
</tr>
<tr>
<td>• Leadership supports a strong practice by nominating its awardee-auditors for national recognition.</td>
<td>• Heightened reputational risk due to perceived lack of independence</td>
</tr>
<tr>
<td><strong>SAI core processes</strong></td>
<td><strong>SAI core processes</strong></td>
</tr>
<tr>
<td>• Exclusive authority in the determination of audit scope, areas and methodology</td>
<td>• Increased audit risk</td>
</tr>
<tr>
<td>• Freedom from external interventions</td>
<td>• Inefficient and ineffective audit practices</td>
</tr>
<tr>
<td>• Excellent understanding of the audited entities</td>
<td><strong>External stakeholders’ relations</strong></td>
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<tr>
<td><strong>External stakeholders’ relations</strong></td>
<td><strong>Risk of issuance of an inappropriate auditor’s report</strong></td>
</tr>
<tr>
<td>• Encourages donors to fund training activities with the presence of a Continuing Education Centre and an Audit Manual</td>
<td></td>
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<tr>
<td>• Encourages audited entities to train on accounting and auditing laws, rules and regulations and accounting standards with the presence of SAI training facilities</td>
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responsibility for: (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (b) The auditor’s report being appropriate in the circumstances.”.

Concurrently, the SWOT analysis for the SAI ABC revealed that it has a strength identified as “Clear accountability for audit engagement”.

The link established between the iCAT and the SWOT analysis will explain many of the causal relationship for the gaps identified through the iCAT. Therefore, the analysis will also help to identify the reasons for the gaps. When considering the gaps and their causes across domains, identified as independence and legal framework, leadership and internal governance, SAI’s core processes and external relationships, it may appear that many of the gaps across domains can be linked under a common issue. Example, ISSAI 1230.14 provides that “The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor’s report.” – a requirement not met by SAI ABC as revealed through the iCAT. On further analysis using SWOT, it revealed that the SAI ABC does not have a quality framework in place that would clarify expectations and rules around audit file completion which explains the deficiency observed through the iCAT. Therefore, integrating the results of the two tools, the iCAT and the SWOT would reveal a number of strategic issues that may warrant interventions.

4.2.3. Step 3: Determine the priority issues for the SAI

Once the SWOT analysis for the SAI has been conducted by the team, the results would present the main issues confronting the organisation. At this stage, the assessment team should list the strengths and weaknesses in the different areas. In many cases, similar strengths and weaknesses may exist across the four domains. The team is expected to group the issues to come up with broad issues that the SAI is facing. The issues should be considered as strategic priorities if they have the potential of directly affecting or deterring the establishment of a robust financial audit practice in the SAI. As an example, SAI ABC does not have a “Quality Control Framework” in place. It is an issue of concern for the SAI as the framework could provide direction around timely file finalisation and set-out clear file documentation expectations. Likewise, issues such as lack of skills and staff independence may be the priority issues for SAI ABC.

At this stage, the team may have to perform more in depth analysis to identify common issues across the main domains. We anticipate that the trained ISSAI facilitators have the adequate skills for such exercises. Caution and due diligence should be exercised to identify priority issues under each domain. It may be advisable to involve top management, middle level managers as well as the entire staff, if possible. However, it is recommended to at least engage staff representatives, team leaders or a focus group which understand the policy, practices and constraints of the current working environment. The involvement of various levels of staff would provide different perspectives and assist with the identification of strategic issues.
The SAI should prioritise the issues included in the weakness quadrangle, and the resource allocation or strategic direction should focus on the remedy of the observed deficiencies and the mitigation of the possible threats. However, a SAI should not neglect its own strengths as they represent different opportunities to lever off the best practices and systems already in place. Building on these strengths will assist the SAI in meeting its ultimate objective that is to implement an ISSAI compliant financial audit practice.

As illustrated in SAI ABC iCAT examples and SWOT analysis some of the priority issues confronting the SAI are:

- Audit scoping;
- Weakness in audit planning activities;
- Documentation process including working papers;
- Evidence gathering methodology;
- Quality reviews; and
- Independence of resident auditors.

4.2.4 Step 4: Identify strategic options to address the prioritised issues for ISSAI Implementation in the SAI

Based on the priority issues identified under Step 3 above, the team should formulate various strategic options. As discussed above in Step 3, the priority issues should be the focus and get more resources allocated to their resolution.

Since the ultimate objective is to implement financial audit practices compliant with the requirement of the Level 4 ISSAIs in the SAI, it is critical to develop a realistic and doable strategy.

In our example, SAI ABC identified the priority issues listed under Step 3. At this stage, it is important that the team identify various strategic options aimed at tackling these issues. Therefore, the team should begin by consulting and brainstorming on the root causes of the issues. As in Step 3, the team should involve top management, middle level managers, and the focus group to identify various strategic options. Such a participative approach also helps increase the acceptability and reduce the employees’ resistance on implementation of the strategies.

To illustrate this step, we take into consideration a few of the priority issues identified for SAI ABC. Based on the identified priority issues, some of the probable strategies one can suggest are (It is important to note that following are examples and not an exhaustive list):

- SAI review of audit scoping practices;
- Update the existing financial audit methodology for file documentation, risk assessment and audit planning;
- Build team skills for documenting its financial audit work; and
- Develop sound quality assurance system

4.2.5. Step 5: Select ISSAI implementation strategic options for the SAI

Once the team formulates the various strategic options, it should weigh the alternatives on the backdrop of various key factors that would determine the feasibility of the strategies. Therefore, while evaluating the strategic options, the team should consider the resources availability, the size of SAI, the number of years of experiences in conducting financial audits and the dynamics of the environment it operates in. All of those factors need careful consideration as they may involve intricate issues that may have a potential to undermine the initiatives or proposed strategies during the actual implementation.

Each strategic option identified under Step 4 would undergo various screening processes, weighed against several factors to justify practicality and cost-effectiveness of the proposed strategies. Therefore, the selection of the ISSAI Implementation strategic options has to be looked at from four main aspects or factors as exhibited in Figure 4.3.

*Figure 4.4: Factors determining selection of ISSAI implementation strategic options*
i. Resources
The choice for any strategic option has to be weighed against the availability of resources, both human and financial. It is quite common, especially for developing SAIs that this consideration weighs too heavy in determining the choice of available alternatives. Since some proposed strategies may involve bringing in an overhaul of the financial auditing practices, which may include bringing in institutional reforms, development and harmonisation of existing legislations, manuals and policy documents, the resource considerations are fundamental to all of these proposed initiatives. The institutional and human resources are also vital considerations in determining whether the SAIs have the capacity to implement the proposed strategies.

ii. Size
Generally, the small SAIs may find it more difficult to implement the proposed strategies as they likely have limited resources available to undertake projects other than the mandated audit activities as compared to the big SAIs. However, it may not be the case in all the situations depending on the local contexts and other factors. Therefore, the team should consider the options taking into account the actual context of the SAIs’ size.

iii. Experiences
There are different SAIs with varied level of experiences in financial auditing. The general rule is that, the SAIs with more years of experiences may have an edge in implementation of the strategies as compared to those SAIs that are just beginning or have no experience of conducting financial auditing. Therefore, the selection of strategic options may also largely depend on the number of years of experiences the SAIs have in conducting financial audit.

iv. Environment
The viability and feasibility of financial audit ISSAI implementation strategies in SAIs would also largely depend on the environment the SAIs are currently operating in. Therefore, the team should also scan the environment from various aspects, including social, economic, political and cultural diversity to select the most viable strategic options. In fact, it would be important to note that each SAI is operating in completely different environments, and there may not be a single strategy fit for all SAIs. There are SAIs with institutional set-up under Court system or Westminster system, depending on the country specific political system. Likewise, each SAI is operating in a country with different level of socio-economic development and holding different beliefs and cultural values, thus, having a single straightjacket strategy may not make any sense. From the very broad perspectives and the regional location, all the SAIs around the globe are grouped under one of the many regional groups, like ASOSAI, AFROSAI-E, ARABOSAI, CAROSAI, CREFIAF, EUROSAI, PASAI and OLACEFS. However, it is still possible that all SAIs under the regional group may not have a single situation in common, thus calling for a different and unique set of strategy befitting to SAI’s specific needs and situation govern by its environment.
4.2.6 Step 6: Financial audit ISSAI implementation strategy

The SAIs should not try to do too much too quickly. Implementation of some strategies are time consuming, and even more so for newcomers. In order to get full scale strategies implemented, it is advisable to look for some quick wins in one or two easy strategies that the SAI has some experience and confidence in dealing with. Starting with small and easy strategies may provide valuable lessons and experiences in dealing with complicated strategies that may bring about major overhaul in the financial audit practices.

Therefore, the team should take into consideration all the factors discussed above in determining the most viable ISSAI implementation strategy. However, at this stage, it is also very important for the team to facilitate a process for getting the Head of the SAI and senior management involved for selecting the most viable strategic options. In fact, the top management is the main driver and would have a larger role on the success or failure on the implementation of the strategies. Therefore, the endorsement of the ISSAI implementation Strategies from the Head of the SAI is very critical.

From the same example of SAI ABC, the team has formulated a list of strategic options as outlined in Step 4 for the SAI to choose from. Assuming resources are available, small size, moderate level of experience in conducting financial audits and an environment conducive to the implementation of selected strategic options, the team identified the following strategic options (It is important to note that following are examples set for the team, and may not hold true in all situations):

- Update the existing financial audit methodology for file documentation, risk assessment and audit planning
- Develop a sound quality assurance system

4.3. Conclusion

The formulation of a robust financial audit ISSAI implementation strategy is key to the ultimate implementation of a solid financial audit practice, compliant with the ISSAI requirements which the member of the INTOSAI community endorsed during the XX INCOSAI in South Africa. Therefore, this Handbook proposes a structured approach that may prove handy to the ISSAI facilitators or team to formulate the financial audit ISSAI implementation strategy for their respective SAIs.

The step-by-step process takes into account several factors to be considered under each step starting from conducting the iCAT to performing a SWOT analysis. The SWOT can help determine priority issues and explore alternative strategies and select the most viable strategic options, befitting to the nature, experiences and the SAI’s environment. The selection of strategic options also takes into account the resource availability as most of the developing SAIs function under resource constraints. These steps have been illustrated through the example provided for SAI ABC.
The gaps between the SAI’s current situation or practices and the ISSAI requirements are explained through the causal relationship identified in the SWOT analysis conducted for the SAI. The analysis helps to identify several strengths and weaknesses and ascertain the position of the SAI. Integrating the results of the two tools, the iCAT and the SWOT reveals many of the strategic issues that may warrant intervention. It is interesting to note that many of the gaps identified have a causal relationship with the deficiencies inhibiting at the higher spectrum of the four domains identified under Level 2. Therefore, the key to the successful implementation of robust financial audit practices in the SAI may rest on eliminating the deficiencies that find their source in the Level 2 main domains.
Chapter 5: Implementing an Action Plan

5.1. General Introduction

In the previous chapter we developed a strategy for implementation of those ISSAIs that the SAI was not complying with based on the result of the iCAT. In the strategy we determined the SAI’s priority issues based on the SWOT analysis carried out (fig 4.1 chapter 4), we also formulated our strategic options, based on the SAI’s current audit environment. Having completed the above exercise we suggest that these options be translated to an action plan. This action plan is not an ISSAI requirement but a management tool that will assist in the prioritisation of task to effectively accomplish the ISSAI implementation strategy.

Before going to the action plan, it is helpful to look into some of the key issues facing SAIs across the developing world. These issues have been recurrent in many of the INTOSAI, IDI and regional conferences and initiatives. They relate primarily to issues of capacity both human and other resources as well as quality assurance and control. The issues are listed below:

- Problems relating to human resources requirements;
- Problems relating to other resources;
- Managing outsourced audits; and
- Quality assurance and control.

Each section below breaks down the issues into components that are assessed and discussed. Furthermore, details are given below in Appendix 5.1 to 5.4, which provide examples of solutions to the problems raised in this section. Also the tables provide a linkage to the relevant paragraphs of the ISSAIs. As can be seen from the tables in Appendix 5.1 to 5.4, these issues are mainly on level 2 of the ISSAI framework.

After providing the information from the issue analysis, the facilitators can then move on to consider putting together an action plan. The action plan is intended to be at a strategic level and therefore will be identifying potential projects or improvements to current processes. It should not be too detailed and ideally each action plan will be provided per domain. This can then be easily identified and aligned to the SWOT analysis and can be used in line with other strategic documents.
5.2. Problems relating to human resource requirements

5.2.1. Introduction

For SAIs to conduct ISSAI compliant audit, it is deemed necessary to have a competent and professional staff to understand the requirements contained in respective standards and application thereof in the audit. Most SAIs around the world, especially in the developing countries struggle having competent staff to conduct their annual audits. With the commitment to implement ISSAIs, the need to have professionally qualified and competent staff would be a challenge lying ahead of some of the SAIs.

While Principle 6 of ISSAI 20 requires the SAI to maintain and develop skills and competencies needed to perform the work to achieve its mission and meet its responsibilities, most SAIs function without having right number and quality of staff. This might question whether SAIs around the world meet the expectations of stakeholders in delivering the services on time and of right quality, let alone capacity to implement ISSAIs.

Before the SAIs venture into implementing ISSAIs, it is necessary to take stock of the current situation with respect to human resources capacity, and design measures to address such critical issues. Therefore, this handbook contains list of potential problems and possible solutions relating to human resource capacity, most of which may be common to all SAIs.

5.2.2. Identifying potential problems and possible solutions with linkage to relevant ISSAI requirements

While identifying the potential problems relating to human resource requirement, especially the professional staff, the SAIs should consider the possible solutions that are of both short term and long term in nature, and which are sustainable. This handbook considers using the following model to make an assessment of human resource issues in the SAIs, which is further supported by a matrix in – Appendix 5.1:

Before referring to the matrix, the SAI should take into account the main elements of Human resource issues indicated in the figure 5.1 given below and ask questions against each of them, which would lead to identifying potential problems and suggesting possible solutions.

The matrix given in Appendix 5.1 illustrates the potential problems and possible solutions, with linkage to relevant Paragraphs of ISSAIs and their requirements. The requirements of the ISSAIs referred in the matrix mostly relates to ISSAI level 2, which demand appropriate actions at the strategic level of the SAIs.
Figure 5.1 Problem assessment model of professional human resource related issues in the SAI

The model is further elaborated below with reference to the matrix given in Appendix 5.1.

- Whether laws exist to govern the recruitment of personnel in SAI.
- Whether policies & procedures have been put in place to guide recruitment.
- Whether SAIs have Strategic plan covering their manpower projection.

- Whether SAIs have adequate number of auditors to support the core function of auditing and reporting (No. of Auditors: No. of Entities).
- Whether the total number of auditors constitutes adequate number of professional auditors to carry out ISSAI compliant audit.

- Whether necessary support in terms of training has been put in place to keep abreast with profession.
- Whether the top management supports the professional career and advancement (conducive environment).

- Whether necessary incentive packages have been put in place to motivate the auditors.
- Whether the incentive packages are attractive enough to motivate the auditors.

- Whether SAIs have retention strategy in place to retain the professional auditors.
- Whether the retention strategy is robust.
5.2.2.1. Recruitment

In most of the cases, the authority to hire and fire employees is given to the SAIs by virtue of its own legislation (an Act), which is in line with Section 5.2 of ISSAI 1. However, in some cases the recruitment of SAI personnel is governed by legislation or the rules that apply to whole civil service in a country, in which case they may face difficulty in recruiting the right number and of the required qualification. In such situation, the matter may be referred to the Parliament and the civil service authority to allow the recruitment to be done broadly in line with the Civil Service Rules & Regulations.

In a situation where the respective legislation of the SAIs empowers them to carry out independent recruitment of its staff, the need to have dynamic recruitment policy and a realistic manpower planning is a desirable one.

5.2.2.2. Adequacy of staff

Given the number of entities to be audited on an annual basis as required by respective SAIs’ mandate, the availability of adequate number of staff becomes a critical issue. On the other hand, the SAIs may have adequate number to fulfil the annual audits, but may not necessarily have the right number and mix of professionals required for carrying out the audit. In such a situation, the SAI should prioritise the agencies for audit on an annual basis to address immediate problem. The SAIs can carry out an ISSAI compliant audit of these agencies.

However, the SAIs should gradually attain the ideal number of auditors with respect to number of agencies required for auditing on an annual basis. In an ideal situation, the financial audit should be carried out on an annual basis to provide timely assurance to the stakeholders.

5.2.2.3. Professional support to auditors

The stakeholders and general public expect the SAIs to render highly professional and credible services. To achieve and sustain this expectation, it is essential for SAIs to provide professional support services to auditors on a continuous basis. Therefore, the existence of adequate policies such as Continuous Professional Development and long-term career advancement programmes is necessary. The policies should be implemented and results evaluated on a regular basis.

To provide necessary professional support to auditors, leaders of SAI should demonstrate strong commitments, which would also enable in creating conducive environment of professional advancement. In other words it is setting the tone at the top.
5.2.2.4. Incentive packages

The people in the organisation are the key drivers to achieve its objectives. Therefore, adequate incentive packages should be put in place to motivate the auditors. These packages can be in the form of both variable and fixed nature. The variable form of incentive package could be in the form of performance based incentive scheme, which can be rewarded purely based on the performance of auditors (usually in the form of financial package rewarded annually). The fixed nature of incentives could be in the form of fixed financial incentive package (as a % of basic salary) in addition to the salary of other civil or corporate employees. Some SAIs benchmark the entitlements of their employees with the Firms of Professional Accountants, which could also form a good basis.

The incentives need not necessarily be in the form of financial. It could be in the form of fast track promotion based on performance or other position specific entitlements in kind.

5.2.2.5. Retention of professionals

Retaining professional auditors is a big challenge for SAIs in those countries where the job market has become very competitive. Unless a retention strategy to retain professional auditors is put in place, it would affect the sustainability of service delivery of an SAI and will not meet the mandate to carry out its annual audits.

As it is done in some of the SAIs, a reward scheme (mainly financial) based on achievement of number of years of service in an SAI can be introduced (such as doubling the salary after completing 10-15 years of service in the SAI). This form of reward scheme might not only address the retention of professional auditors, but would also serve as an attraction of potential competent auditors.

5.3. Problems relating to other resources

5.3.1. Introduction

This section outlines about other resources, which include monetary/funds, equipment, office accommodation, communication network and working tools. Equipment may include vehicles, furniture and computers, and working tools can be either manual or electronic (like audit manual/audit methodology), data analysis and audit documentation software. These resources should be adequately available and properly managed, for a SAI to fully implement all the requirements of ISSAIs.

While principle 8 of ISSAI 10 requires SAIs to have necessary and reasonable human, material and monetary resources, it proves difficult for many SAIs especially in developing countries to have adequate resources to undertake their operations to the extent of having full implementation of the ISSAIs.
As a matter of fact, ISSAIs should be implemented in full regardless of SAI’s resources, since they will eventually result into high quality audit works and strengthen the credibility of the SAI.

Element 3 of ISSAI 40: Acceptance and Continuance states; “SAIs normally operate with limited resources. SAIs should consider their work programme and whether they have resources to deliver the range of work to the desired level of quality. To achieve this, SAIs should have a system to prioritise their work in a way that takes into account the need to maintain quality. If resources are not sufficient and pose risk to quality, the SAI should have procedures to ensure that the quality of resource is brought to the attention of the Head of the SAI and, where appropriate, the legislature or budgetary authority.”

It is very important for SAIs to assess its environment, mandate, work load and public/stakeholders’ expectation versus available resources. The potential problems/challenges of SAIs can be addressed after a thorough analysis in the order of their priority as guided by Element 3 of ISSAI 40.

5.3.2. Identifying potential problems and possible solutions with linkage to relevant ISSAI requirements

In identifying potential problems and challenges with respect to the nature, circumstances and environments, SAIs should consider both short term and long term possible solutions. This handbook considers using a proposed model in Figure 5.2 below to make an assessment of problems relating to financial and other resources in the SAIs, which is further linked to the matrix given in Appendix 5.2. Figure 5.2 should be read together with Appendix 5.2 (matrix).
The model is further elaborated below with reference to matrix given in Appendix 5.2.

5.3.2.1. **Financial resource/budget**

Most SAIs in developing countries are not financially independent. They have limited budget and in most of the cases, the Treasury controls the budget proposed by the SAIs making it difficult for them to meet their operating cost.
In this situation, the SAIs should bring the issue to the attention of the legislature or budgetary authority in line with Element 3 of ISSAI 40. In the absence of financial independence, SAIs should spearhead and work closely with legislature for the enactment or amendment of legislation addressing this problem.

### 4.3.2.2. Office accommodation and working environment

Some SAIs accommodate their auditors within the entities’ premises - “the resident auditors” as an alternative to reducing the cost and easing the lack of office space and proper working environment. Besides, lack of communication facilities like local area networks, internet and intranet have also been a problem in some of the SAIs, which would further limit implementation of ISSAIs.

SAIs may have priority to construct office structures and install communication facilities for the prioritized works as guided by Element 3 of ISSAI 40, and may explore funds from donor agencies for construction or to rent a proper office accommodation. A similar approach may be followed for procurement of communication facilities.

### 5.3.2.3. Equipments and working tools

Inadequate equipment like vehicles, furniture, computers, and absence of working tools, i.e. audit manual/methodology, data analysis and audit documentation software are also some of the critical problems faced by many SAIs in developing countries.

The SAIs should prioritise the audit works and allocate the available resources accordingly. Besides, the SAIs may hire some equipment not available in-house after assessing the cost and benefit between buying and hiring. The experts from professional bodies like INTOSAI and its regional organisations, and IFAC could be used for development of audit manual/methodology. In the absence of advanced audit tools such as TeamMate and IDEA, the SAIs can still use available electronic tools like MS Word, MS Excel for audit documentation and data analysis.

### 5.4. Problems relating to Managing outsourced audits - outsourcing seen as suitable option to address the resource gap in carrying out audit

**Introduction**

Given the mandate to carry out huge number of annual audits with limited professional staff, outsourcing is seen as one of the suitable options to close this gap. The limited professional staff in this regard would relate to not having the required number and expertise in the SAIs to carry out their annual audits.

Engaging the Firms of Professional Accountants per se to carry out the annual audits may not appear too complicated. However, managing it has become a contentious issue across the SAIs mainly on account of
ethical issues, and how effectively and efficiently the audits were being carried out by the Firms. It also questions whether the SAIs have technically competent staff to monitor and manage the outsourced audits.

Ensuring the quality of outsourced audits has also become a critical issue, and if not addressed, would affect the credibility of the SAIs and confidence of the stakeholders on the financial statements certified by the Firms of Professional Accountants. While outsourcing the audits, the SAIs cannot construe that they do not bear any responsibility and accountability. When the authority to outsource the audits rests with the SAIs by virtue of their respective legislations and ISSAI 20 (Principle 5), it is logical and justifiable to conclude that they should also assume the responsibility and accountability to manage it effectively and efficiently. Various guidance and requirements in using the work of experts are provided in ISSAI 1620.

This section explains the potential problems relating to outsourcing the audits and how it can be managed by suggesting possible solutions.

5.4.2. Identifying potential problems and possible solutions with linkage to relevant ISSAIs requirements

The potential problems and possible solutions in managing the outsourced audits are elaborated in the matrix given in Appendix – 5.3, which are arrived at based on Figure 5.3 below. The potential problems and possible solutions are linked to various requirements of ISSAIs, mainly at level 2.
Figure 5.3: Problem assessment model of managing outsourced audits in SAIs

Key elements of Outsourcing the audits

- Legal & Regulatory Framework
  - Whether law exists authorising the SAIs to outsource the audits.
  - Whether appropriate policies have been put in place to outsource the

- Selection of Firms or Persons
  - Whether SAIs have good practice of selecting the Firms of Professional Accountants and any other suitably qualified persons to be eligible to carry out the audits.
  - Whether SAIs carry out due diligence exercise of Firms and any other persons suitably qualified to be empanelled.
  - Whether terms and conditions of empanelment have been clearly set out including the ethical code of conduct.

- Engagement/Appointment
  - Whether polices and procedures have been put in place to guide engagement/appointment of Firms and Persons.
  - Whether an independent committee has been formed to appoint the Firms and Persons to carry out the audit.
  - Whether terms and conditions have been clearly set out in the appointment letter including the remuneration.

- Responsibilities & Obligations
  - Whether the SAIs have good practice of selecting the Firms of Professional Accountants and any other suitably qualified persons to be eligible to carry out the audits.
  - Whether SAIs have competent staff to monitor and check the quality of works done by Firms/Persons.
  - Whether the Quality Assurance Review process has been put in place.

Questions SAIs need to ask against each element mainly relating to managing outsourced audits?

- Quality Control & Quality Assurance
  - Whether the SAIs understand their responsibilities.
  - Whether the SAIs have made the reporting requirements and responsibilities made available to the Firms/Persons.
  - Whether the Firms/Persons understand the reporting requirements and reporting responsibilities.
  - Whether the SAIs have Quality Control procedures in place to ensure the quality of outsourced audits.
  - Whether the SAIs have competent staff to monitor and check the quality of works done by Firms/Persons.
The model is further elaborated below with reference to the matrix given in Appendix – 5.3.

### 5.4.2.1. Legal & Regulatory Framework

While outsourcing is considered as one of effective tools to address the resource constraints, one has to appreciate whether the respective legislation of the SAIs empower them to do so. In the context of this handbook, it is presumed that the SAIs have necessary legislation in place, which allow them to outsource the audits.

Having legislation alone will not facilitate effective management of outsourced audits, as it will by no means contain detailed processes and procedures. Therefore, the SAIs should develop an outsourcing policy covering the dynamics of how such works can be managed. The policy document should be implemented and enforced in its strict sense.

### 5.4.2.2. Practice of selecting the Firms of Professional Accountant and suitably qualified persons

In cases where an SAI is required to outsource its audits, rather than following a planned approach the outsourcing is done on an ad-hoc basis as and when deemed necessary. Following such approach may not lead to achievement of an objective of outsourcing the audits, and may result into wastage of resources rather than minimising them.

Therefore, a planned approach – for instance selecting the Firms of Professional Accountants and suitably qualified persons for a fixed term of two to three years may be adopted. In doing so, the SAIs should carry out due diligence of the Firms and Persons aspiring to empanel with the SAI, and adequate terms and conditions should be set forth for such empanelment.

Besides the ethical codes of conduct issued by respective professions, the SAIs should also prescribe separate codes for the Firms and Persons empanelled with them suiting to the environment within which they are likely to take up the assignment. The compliance to these codes should be monitored by the SAIs from time to time.

### 5.4.2.3. Appointment of auditors

Once the system of selection is put in place, the appointment of auditors to carry out the audit on behalf of the SAIs should be from such list of Firms only. The appointment of auditors should be based on adequate terms and conditions including the remuneration (professional fee and out-of-pocket expenses).

For appointment of auditors, it is appropriate to form an independent committee within the SAIs, who will make an assessment as to which Firms or Persons from the list are competent to carry out the audit of entities that are identified to outsource. While the due diligence carried out at the selection level
would generally cover the technical competency and other expertise of the Firms or Persons to carry out the audits, an assessment at the appointment level should mainly cover attributes related to a particular entity so that the adequacy in terms of quality and coverage is not compromised while carrying out the audit.

5.4.2.4. Responsibilities and obligations of parties involved

A well-defined responsibility between the parties involved is one of the pre-requisites of works that are contracted out. Therefore, when the audit works are outsourced to the Firms or Persons, the respective responsibilities in the conduct of audit should be clearly defined and communicated. For instance it is the responsibility of SAI to provide necessary guidance and other reference materials in the conduct of audit for the first time by a Firm or Person.

On the other hand, it is also important that the SAIs and the Firms or Persons understand their obligations of the contract that they have entered into. For instance, it is the obligation of the Firms or Persons to deliver a good quality audit report on time.

The concept of responsibility and obligation should extend to the management of the entity identified for audit. For instance, it is the responsibility and obligation of the management to provide proper working space to the auditors.

5.4.2.5. Coordination and Communication

An effective coordination and communication mechanism should exist throughout the audit of an entity, i.e. from the appointment till completion of audit, so that none of the parties suffer due to absence of such system. The parties involved, i.e. an SAI, Firm and Entity should coordinate the audit through meetings, and critical information communicated well on time. Some SAIs do face challenges in establishing and maintaining this system of communication. As a result, the Firms may find at times that they are at their own after the letter of appointment to carry out the audit has been issued by an SAI.

In order to maintain such mechanism, it is our recommendation that the SAIs appoint a competent focal person who can also monitor the works carried out by the outsourced auditors.

5.4.2.6. Reporting requirements

The Firms or Persons engaged by the SAIs to carry out the audit at times failed to meet the reporting requirements required by various laws, rules and regulations. This could be either due to lack of understanding of those requirements or clarity in the appointment letter issued to the Firms or Persons. In such situation it is recommended that, the appointment letter clearly indicates the reporting requirements, and the Firms or Persons at the time of appointment are made aware of the laws, rules and regulations that are applicable to a particular audit.
In order to uphold objectivity and independence of auditors, the final authority to finalise the auditor’s report should remain with an SAI, and to deal with the matters that are sensitive in nature.

5.4.2.7. Quality Control and Quality Assurance Review

Ensuring the quality of services rendered by the outsourced auditors including the audit reports has become a cause of concern for most of the SAIs. Although the output of due diligence exercise carried out at the time of selection would have provided some degree of assurance to maintain the required quality given their technical competencies and experiences, the actual performance in the field at times differ. The SAIs should institutionalise quality control mechanism to review the work at least at the reporting stage, if not covering the entire process of audit. For this to take place, SAIs can either create a dedicated division to look after the outsourced audits covering the mandate of quality control as well. Further, a post quality assurance review of the works performed by Firms or Persons should be carried out by a SAI or peer reviewed by another Firm of Professional Accountants.

5.5. Quality Assurance and Control

5.5.1. Introduction

It is important to have a proper quality control system in place. SAIs that have quality control system in place also face number of challenges in implementing the system that addresses the requirements of the ISSAIs. Before embarking on the implementation of ISSAIs, a SAI needs to determine whether it has the requisite resources, especially the required number of staff and their competencies.

This section outlines the potential problems related to Quality Assurance and Quality Control in SAIs along with possible solutions, mainly considering the best practices adopted by some the SAIs in their effort to carry out ISSAI compliant audits.

5.5.2. Identifying potential problems and possible solutions with linkage to relevant requirements of ISSAIs

The potential problems and possible solutions of quality assurance and control audits are elaborated in the matrix given in Appendix – 5.4, which are based on Figure 5.4 given below. The potential problems and possible solutions are linked to various requirements of ISSAIs.
Does the Head of SAI commit to quality through demonstration of organisation’s culture to quality and accountability of resources that are provided to carry out its tasks?

Questions SAI need to ask against each element?

- Whether laws exist to give the SAI the level of independence to carry out its mandate.
- Whether the SAI has adopted code of ethics and policies and procedures exist to ensure that the SAI and staff observe ethical requirement.

Does the SAI has appropriate policies and procedures:
- Regarding the acceptance and continuance of relationships with the audited entity and specific audits.
- That addresses risks arising from capability of staff, level of resources and any ethical issues which might arise.

Does the SAI has the resources to hire, retain, train and develop its staff.
- Does the audit team collectively has the appropriate capabilities, competence and knowledge to perform the audit in accordance with professional standards and applicable regulatory requirements.

Whether SAI has appropriate quality control procedures are in place (such as supervision, review responsibilities and engagement control review) for all works carried out.

Does the SAI has sufficient resources at its disposal to maintain the system of quality control within the organization.
- Has the SAI established a monitoring process that provides assurance that the policies and procedures in relation to quality control are relevant, adequate and operating effectively.

Figure 5.4: Problem assessment model of Quality Assurance and Control in a SAI
The model is further elaborated below with reference to matrix given in Appendix 5.4.

5.5.2.1. Leadership Responsibility for Quality

Leadership responsibility for quality requires the Head of the SAI to take full responsibility for the quality of the work. Therefore, the Head of a SAI should develop and implement policies and procedures to ensure that quality is maintained. To implement the ISSAIs, the Head of a SAI should translate the requirements of the ISSAIs (ISSAI 40) into policies and procedures to guide the entire operations of the SAI, including the system of holding persons accountable for their quality of work such as performance appraisal system.

Requisite resources such as people, infrastructure and funds should support the system and procedures initiated for quality control. For a small SAI, or those without adequate resources could establish network with other SAIs and adapt to their policies and procedures, which may be ISSAI compliant.

5.5.2.2. Relevant Ethical Requirements

Each SAI is expected to establish policies and procedures designed to provide them assurance that the audit personnel comply with relevant ethical requirements. This could be in the form of a code of conduct, and rotation policy to reduce familiarity threats. At the pre-engagement level, there should be a system of declaring the conflict of interest. Where threats to objectivity and independence are reported, the SAI should put measures in place such as removing the auditor from the assignment, instructing the auditor to discontinue a transaction or relationship with the entity to mitigate these threats.

For small SAIs that cannot afford to rotate its staff on a regular basis, closer supervision of work and more robust review systems in the form of an Engagement Quality Control Review is recommended.

5.5.2.3. Acceptance and Continuance

This involves adopting policies and procedures for the acceptance and continuance of entity relationships and specific engagements. The Head of the SAI should also ensure that it has the right amount of resources such as time and technical competence of staff to perform the audit engagement. If the SAI does not have the available resources, it could consider outsourcing the audit and contracting the technical personnel to perform the engagement.

For small SAIs that have limited staff, management could consider rescoping the work by doing a risk profile of all their client and ensure that the audit of the entities having high risks are conducted annually, and the others could be rotated based on available resources. They could also assign the technical audits to more experienced staff or consider secondment of persons from other developed SAIs to assist the audits.
5.5.2.4. Engagement Performance

This requires the SAI to develop and implement policies and procedures, which outline the process of audit engagement to ensure compliance with professional standards and applicable legal and regulatory requirements. The policies and procedures could be in the form of an audit manual, which outlines the audit methodologies to be used in an audit and documenting the work performed.

Critical to a quality control system at the engagement level is the need to carry out an Engagement Quality Control Review (EQCR). The review should be carried out by someone independent of the audit team, and should ensure such review is done before the audit report is issued. This review should also include an objective evaluation of the significant judgments made by the audit team, and the conclusions reached in formulating the auditor’s opinion and report.

The small SAIs could network with other SAI who have ISSAI compliant manual and tailor it to their environment. The auditors could be provided with necessary training on such manuals. Small SAIs within close proximity having similar systems could consider forming an audit team using auditors from each SAI to conduct joint audits, or they could jointly hire a consultant to do the audits along with their staff, which would also synergise the audit efforts.

5.5.2.5. Monitoring

This requires the SAIs to establish a process to monitor its system of quality control to provide assurance that the policies and procedures in relation to quality control are relevant, adequate and operating effectively.

This process can be achieved through Quality Assurance Review (QAR) of the audit works. Generally, a QAR is carried out after the audit report is issued. Someone independent of the audit process should carry out the QAR. The QAR can be done internally by the SAI or external entity through peer review by another SAI covering the entire process of audit.

The SAI should develop policies and procedures to implement the QAR process. The SAI can set up a QAR unit/division depending on its resource capacity. For small SAIs or for those who do not have the resources could use auditors independent of the audit process to carry out the QAR, or could request another SAI.
Conclusion

The answers to some of these questions are linked to the responses given in the iCAT that were completed by many SAIs. From these answers we can determine that SAIs are faced with a number of common issues in implementing a system of quality control that meets the requirement of the ISSAIs. This is due to a number of reasons both at the strategic and engagement levels. Some of these are due to their size, lack of independence, inadequate resources, absence of policies and procedures, and lack of commitment on leadership. All these issues are addressed in the ISSAIs, and some common contentious quality control issues are highlighted in a matrix format given in Appendix – 5.4, which are mapped to the relevant ISSAIs to identify the related requirements.

5.6. Formulation of an Action Plan

The action plan will follow from the SWOT analysis and after undergoing consideration of the needs analysis. This will be presented in the form of four (4) domains with the issues that have been identified. Below is an example of an action plan format for one domain.
Table 5.1: Example and Format of preparing action plan

<table>
<thead>
<tr>
<th>Domain 1: Independence and Legal Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actions steps</strong></td>
</tr>
<tr>
<td>[What will be done?]</td>
</tr>
<tr>
<td>Spearhead and work closely with legislature for the enforcement of financial autonomy provision of SAI-R in the audit act.</td>
</tr>
<tr>
<td>Spearhead and work closely with legislature for proposing amendment of the act to give SAI mandate autonomy of SAI-R in recruitment and professional enhancement of auditors.</td>
</tr>
</tbody>
</table>
| Prioritise the audit assignments according to financial and human resources available and staff competency. | Q4 2013 (ST) | Heads of Divisions | No costs | • Categorised entities into the category of A, B and C [A: Audit annually; B: Audit once in two years; and C: Audit once in three years].
• The amount of budget allocated to entities, nature and risk profile used as |

Note: ST-Short Term Solution & LT-Long Term Solution

Approved by:
Signature: _____________________________ Date: __________________________
Name: _____________________________ Title: __________________________

5.7. Commitment and direction of the leadership in implementing the Action Plan

Once an action plan has been prepared based on number of issues faced by the SAI in implementing the ISSAIs, the same should be placed before the Head of SAIs as the successful implementation would depend on his/her commitment and necessary directives. The timeline and resources indicated in an action plan should be agreed and approved by the Head of an SAI.

To demonstrate the commitment to implementation of action plan, for example, an executive order or a standing order should be issued by the Head of SAIs re-enforcing the responsible officials to comply with the timeline set in the plan and evaluate the outcome of actions implemented. The SAI should also develop a culture of accountability wherein the responsible officials indicated in the action plan are held accountable for their failure if any, and the performers are rewarded appropriately.
It is also the role of the Head of SAI to seek necessary funding to implement the action plan, especially in the areas of training and procurement of equipment, and putting the related infrastructure in place, which are necessary to achieve the intended outcome.

Since the implementation of ISSAIs may be a completely new area for some of the SAIs, management and adaptation to such changes often become difficult. Therefore, the leadership of the SAI should be committed to managing such change. The Head of the SAI can delegate the responsibility on implementation of action plan. However, he/she should assume the final accountability.

5.8. Guidance on preparing Action Plan

In translating these options to an action plan, the SAI would need to identify the; activities, timelines, resources required and responsibility. The action plans should be evaluated for continuous monitoring to ensure that ISSAI implementation is always on track. After the completion of this action plan it should be discussed at the management level and with the responsible officer and approved by the head of the SAI.

5.8.1. Identifying the activities to reach end result

In identifying the activities, SAI should list the projects or enhancement to existing processes that will be undertaken to accomplish the end result.

5.8.2. Timelines

What is also vital in this action plan is the scheduling of each task and as such, SAIs need to set timelines for the accomplishment/approval of each task. The SAI should determine whether these timelines should be short or long term based on their priorities and current environment. The timelines set by the SAI to accomplish task/activity should be realistic, achievable and aligned with the SAI environment and availability of resources. Smaller SAI may have to consider reallocating functions/duties or staff may have to multi-task as they do not have dedicated staff to carry out some of these activities. This may require more time to accomplish tasks. The sourcing of funding may be long-term as some SAIs have to go through a budget process.

5.8.3. Resources Required

SAIs need to consider the resources needed to implement the solutions. These resources could entail funding, technical experts, material, equipment, people, systems among other things. The SAI would also need to consider the cost for these resources based on their current environment and situation.
In order for a strategy to be successful, human resource is one of the most critical factors to the success of any strategy. Therefore, the SAI would need to consider the persons who will carry out the various tasks. The persons chosen should be responsible and act as a change agent to get all people affected by the strategy/project involved, to ensure their support and commitment. The task/activities to be accomplished should be translated to the responsible officer’s individual work plan.

**5.8.4. Responsible Officer**

In the action plan, provision should also be made for the monitoring of the plan. This should be done to measure the timely accomplishment of the planned tasks/activities and identify problems and recommend contingent actions.

**5.8.5. Monitoring of Plan**
### Appendix – 5.1:
Matrix showing potential problems faced by SAIs on human resource related issues - Identifying potential problems and suggesting possible solutions with linkage to ISSAIs requirements where relevant

**ST:** Short Term Solution  
**LT:** Long Term Solution

<table>
<thead>
<tr>
<th>Sl.</th>
<th>Potential Problems</th>
<th>Relevant Para of ISSAIs</th>
<th>ISSAI Requirements</th>
<th>Possible Solutions</th>
</tr>
</thead>
</table>
| 1.  | Absence/ Unfavourable recruitment policy – recruitment governed by a common rule applicable to civil service across the board – not meeting the demand of SAI. | Principle 8, ISSAI 10   | The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfil their mandate.  
SAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfil their mandate. | • Develop and implement recruitment policy addressing both short term and long-term issues.  
• Consultation with the Parliament to provide independence on recruitment.  
• Determine the number and qualification by the SAI and make recruitment in line with the common rule prescribed for Civil Service recruitment or its own service rules and regulations. |
| 2.  | Inadequate number of qualified auditors with reference to number of annual audits to be conducted | Principle 6, ISSAI 20   | The SAI maintains and develops skills and competencies needed to perform the work to achieve its mission and meet its responsibilities. | • Prioritise the entities to be audited according to its category - use specific criteria such as amount of budget allocated to agencies and categorise agencies into A, B & C - Agencies falling under category A to be audited on annual basis, and agencies falling under B, C, and D to be audited once in two years and three year respectively.  
• Determine the ratio of qualified auditors to number of annual audits (working out ideal ratio) to arrive at an ideal number of auditors required for carrying out the audit on regular basis.  
• Make recruitment of professional staff on gradual basis (say spread over five years). |
| 3.  | Non-availability of qualified auditors – (adequate number of auditors, but non-availability of qualified auditors) | Principle 6, ISSAI 20   | The SAI maintains and develops skills and competencies needed to perform the work to achieve its mission and meet its responsibilities | • Manpower rationalisation – workout the requirement of qualified auditors and then match with the number of annual audits.  
• Make an assessment of competency required for a particular assignment, and introduce one to one mentoring before taking up the audit.  
• Job mapping (creating levels of position in the SAI and determining the level of qualification required at respective levels) |
|   | **4. Non-existence of continuous professional development policy** | Element 4, ISSAI 40 | The SAI promotes learning and training of all the staff to encourage their professional development and ensures that personnel are trained in current developments in the profession. | • Develop and implement a policy containing the requirement to achieve minimum units in a year to be eligible to carry out the audit of financial statements and to qualify as professional auditor.  
• Prepare and implement annual training programme calendar based on the CPD policy.  
• Institute dedicated training administration division to administer and implement annual training programme calendar. | ST/LT  
|   |   |   |   | ST  
|   |   |   |   | ST/LT  
|   |   |   |   | LT  
|   | **5. Non-implementation of CPD Policy** | Element 4, ISSAI 40 | The SAI promotes learning and training of all the staff to encourage their professional development and ensures that personnel are trained in current developments in the profession. | • Issue a policy directive by the Head of SAI to implement the CPD Policy.  
• Engage in-house experts to deliver training to auditors on audits that scheduled to be taken in a year.  
• Explore the funding sources to enable implementation of CPD programmes. | ST  
|   |   |   |   | ST/LT  
|   |   |   |   | LT  
|   | **6. Absence of strategic plan to support the auditors in attaining professional qualification – Human Resource Planning and Projections** | Element 4, ISSAI 40 | To achieve a culture that recognizes and rewards high quality work, the Head of SAI sets the tone at the top by emphasising the importance of quality in all of the work of the SAI, including work, which is contracted out. | • Develop and adopt a strategic plan (1-3 years/1-5 years) covering inter-alia the Human resource projection of the SAI, specifically outlining the types of preferred professional qualification and number.  
• Explore donor support to finance the long-term professional capacity building. | LT  
|   |   |   |   | LT  
|   | **7. Lack of leadership support – tone at the top (lack senior management support for career advancement of auditors)** | Element 1, ISSAI 40 | The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfil their mandate. | • Impart change management programmes to the Head of the SAI and senior management.  
• Educate the leader on ISSAIs to understand its importance and the complexities involved in implementing those requirements. | ST  
|   |   |   |   | ST  
|   | **8. Lack of attraction and retention policy** | Principle 8, ISSAI 10 | The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfil their mandate. | • Create a different entry-level grade for professional auditors with attractive remuneration package.  
• Introduce Performance Based Incentive Schemes (PBIS) to motivate the auditors and improve the performance.  
• Extend opportunity for short courses and secondment and attachment with other SAIs. | ST  
|   |   |   |   | ST/LT  
|   |   |   |   | ST/LT  

ISSAI Implementation Handbook – Financial Audit
**Appendix 5.2:**

Matrix showing potential problems faced by SAIs on financial and other resources - Identifying potential problems and suggesting possible solutions with linkage to ISSAIs requirements where relevant

*ST- Short Term Solution

*LT- Long Term Solution

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Potential Problems</th>
<th>Relevant Para of ISSAIs</th>
<th>ISSAI Requirements</th>
<th>Possible Solutions</th>
<th>ST/ LT Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inadequate funding from the state or the government if SAIs budget is approved and provided by the Ministry of Finance (lack of financial independence)</td>
<td>Principle 8, ISSAI10</td>
<td>SAIs should have available necessary and reasonable human, material and monetary resources</td>
<td>Prioritise activities of the SAI and allocate the limited resources to important areas.</td>
<td>ST</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Principle 8, ISSAI 10</td>
<td>The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfil their mandate.</td>
<td>spearhead and work closely with legislature for the enactment or amendment of legislation addressing SAI financial independency</td>
<td>LT</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>SAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfil their mandate.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Inadequate office accommodation and unconducive working environment</td>
<td>Principle 8, ISSAI 10</td>
<td>SAIs should have available necessary and reasonable human, material, and monetary resources</td>
<td>spearhead and work closely with legislature for the enactment or amendment of legislation addressing SAI financial independency</td>
<td>LT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Element 3, ISSAI 40</td>
<td>SAIs should have a system to prioritise their work in a way that takes into account the need to maintain quality.</td>
<td></td>
<td>ST</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Element 3, ISSAI 40</td>
<td>Funding issues should be brought to the attention of the Head of the SAI and, where appropriate to the legislature or budgetary authority...”</td>
<td>Maintain a strong and sustained relationship with the Parliament to approve the budget as proposed</td>
<td>LT</td>
</tr>
<tr>
<td>3</td>
<td>Inadequate equipment (e.g. vehicles, computers, furniture etc.)</td>
<td>Principle 8, ISSAI 10</td>
<td>SAIs should have available necessary and reasonable human, material, and monetary resources</td>
<td>Allocate the available equipment to key functions and divisions in the SAI responsible to carry out audit in order of priority.</td>
<td>ST</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Acquire and maintain manageable number of equipment.</td>
<td>ST</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Hire equipment not available from within.</td>
<td>ST</td>
</tr>
</tbody>
</table>

| 4 | Absence/inadequate working tools (audit manual/methodology, audit and data analysis software etc.) | Element 5, ISSAI 40 | The SAI ensures that appropriate policies, procedures and tools, such as audit methodologies, are in place to carry out the range of work that is the responsibility of the SAI. | • Develop Audit manual/methodology in compliance with ISSAI requirements. | LT |
|   |                                                               |                        |                                                             | • Train auditors in the use of ISSAI compliant audit manual. Big SAI may use phased approach in training and implementation. | LT |
|   |                                                               |                        |                                                             | • Procure audit tools such as Team mate, IDEA and train auditors, these tools increase audit efficiency and effectiveness. | LT |

| Principle 9, ISSAI 20 | The SAI complies with the International Standards of Supreme Audit Institutions and strives for continued learning by using guidance or expertise from external parties. | • Use experts from professional organizations like INTOSAI, IFAC, INTOSAI regions in development of audit manual/methodology and staff training. | LT |
|                       |                                                             | • Utilized materials, guidance and references offered by IDI, INTOSAI and IFAC etc. to develop working tools/audit manuals suitable to SAI mandates and environment | LT |

| Principle 3, ISSAI 20 | The SAI adopts standards and methodologies that comply with INTOSAI fundamental auditing principles elaborated under the International Standards of Supreme Audit Institutions | • Develop Audit manual/methodology in compliance with ISSAI requirements. | LT |
|                       |                                                             | • Train auditors in the use of ISSAI compliant audit manual. Big SAI may use phased approach in training and implementation. | LT |
|                       |                                                             | • Procure audit tools such as Team mate, IDEA and train auditors, these tools increase audit efficiency and effectiveness. | LT |
| Principle 6, ISSAI 20 | The SAI maintains and develops skills and competencies needed to perform the work to achieve its mission and meet its responsibilities | • Make use of internal IT experts to develop basic e-tools for the office.  
• Identify auditors not having adequate knowledge and experience on basics of audit and computer and impart training by using in-house professionals.  
• Use non-financial incentives to staff with outstanding performance, i.e. fast track promotion, short-term trainings, exchange programmes, secondment etc. | ST  
ST  
ST |
### Appendix 5.3:

**Matrix showing how to manage outsourced audits - Identifying potential problems and suggesting possible solutions with linkage to ISSAIs requirements where relevant**

*ST-Short Term Solution  
LT-Long Term Solution*

<table>
<thead>
<tr>
<th>SL. No.</th>
<th>Potential Problems</th>
<th>Relevant Para of ISSAIs</th>
<th>ISSAI Requirements</th>
<th>Possible Solutions</th>
<th>ST/ LT Solution</th>
</tr>
</thead>
</table>
| 1       | Non-existence of outsourcing policy | Principle 5, ISSAI 20 | Outsourcing of expertise and audit activities to external entities, public or private, falls within the responsibility of the SAI and is subject to ethical policies (especially conflict of interest) and policies to ensure integrity and independence | • Develop and implement outsourcing policy on audit.  
• Develop and implement rules and guidelines to implement the outsourcing Policy. | ST/LT |
| 2       | Lack of system to carry out due diligence of Firms and Persons eligible to conduct audit, and unplanned approach in appointing auditors |  |  | • Adopt and implement the due diligence system and select auditors eligible to carry out audit on behalf of the SAIs.  
• Develop and issue terms and conditions for selection and prescribe the code of ethics for auditors. | ST |
| 3       | Non-existence of independent committee within the SAIs to appoint Firms or Persons to carry out the audit and appointment on an ad-hoc basis. |  |  | • Form a Committee under the Executive Order of Heads of SAIs stating the clear TOR, which includes the responsibility to select the Firms and suitably qualified persons to conduct audit on behalf of SAI.  
• Appoint Firms or Persons having a required experience and skills that match with the nature of business of any entities outsourced for audit. | ST/LT |
<table>
<thead>
<tr>
<th></th>
<th>Lack of understanding on the responsibilities and obligations of the parties involved in outsourcing audits.</th>
<th>ISSAI 1620.11</th>
<th>The auditor shall agree, in writing when appropriate, on the following matters with the auditor’s expert: (a) The nature, scope and objectives of that expert’s work; (b) The respective roles and responsibilities of the auditor and that expert; (c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and (d) The need for the auditor’s expert to observe confidentiality requirements.</th>
<th>Define the responsibilities and obligations either as a separate statement or include in the appointment letter at the time of appointment of Firms. Make the entity aware of its responsibilities and obligations (e.g. Obligation to respond to outsourced auditors as well as SAIs).</th>
<th>ST</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Lack of communication &amp; Coordination between the SAIs and the Firms or Persons.</td>
<td>ISSAI 1620.11</td>
<td>The auditor shall agree, in writing when appropriate, on the following matters with the auditor’s expert: (a) The nature, scope and objectives of that expert’s work; (b) The respective roles and responsibilities of the auditor and that expert; (c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and (d) The need for the auditor’s expert to observe confidentiality requirements.</td>
<td>Clearly indicate in the appointment letter or in the TOR the need to maintain effective communication between the SAIs and the Firms or Persons in the conduct of audit. Appoint a focal person from the SAI to coordinate the outsourced audits, and the focal person should serve as a contact at the frontline to deal with any matters relating to outsourced audits.</td>
<td>ST</td>
</tr>
<tr>
<td>6</td>
<td>Lack of capacity to monitor the outsourced audits and to control the quality of works performed by the Firms or Persons – lack of ownership.</td>
<td>ISSAI 1620.11</td>
<td>The auditor shall agree, in writing when appropriate, on the following matters with the auditor’s expert: (a) The nature, scope and objectives of that expert’s work; (b) The respective roles and responsibilities of the auditor and that expert; (c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and (d) The need for the auditor’s expert to observe confidentiality requirements.</td>
<td>Create a dedicated division to monitor and manage the outsourced audits, which will also review the quality of the works performed by the Firms or the Persons. Strengthen the professional capacity of the staff working in the Division through training and other professional enhancement programme in order to ensure they have the right knowledge and expertise to check the quality of the works performed by Firms of Persons.</td>
<td>ST</td>
</tr>
<tr>
<td>7</td>
<td>Lack of basis to fix remuneration of auditors resulting into over and under payment – underpayment would result into compromising the quality of work.</td>
<td>ISSAI 1620.11</td>
<td>The auditor shall agree, in writing when appropriate, on the following matters with the auditor’s expert: (a) The nature, scope and objectives of that expert’s work; (b) The respective roles and responsibilities of the auditor and that expert; (c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and (d) The need for the auditor’s expert to observe confidentiality requirements.</td>
<td>Develop &amp; implement the criteria such as size of the organisation in terms of budget, turnover, and number of employees, and accordingly determine the level of professional fee for auditors.</td>
<td>ST</td>
</tr>
</tbody>
</table>
| 8 | Non-compliance to ethical code of conduct – possible influence by the management of client on coverage of audit and reporting (to the extent of not allowing the auditors to qualify the audit opinion) | Principle 5, ISSAI 20 | Outsourcing of expertise and audit activities to external entities, public or private, falls within the responsibility of the SAI and is subject to ethical policies (especially conflict of interest) and policies to ensure integrity and independence. | • Post review the works performed by the outsourced audit and see whether the conclusions arrived at agrees with the audit opinion provided.  
• Introduce a whistle blowing system (can be created on SAI’s web page) to indicate non-compliance to ethics by Firms or Persons (auditors) and take timely and appropriate action.  
• De-list the Firms or Persons from the list maintained by the SAIs for their failure to comply with Ethical Codes of Conduct and notify the appropriate authorities. | ST |

| 9 | The Firms or Persons appointed by the SAIs to conduct the audit may disclose classified and confidential information obtained via their professional relationship with the entity, that may even have possible effect on the security and sovereignty of the country, and may use for their own purpose. | Principle 5, ISSAI 20 & Element 2, ISSAI 40 | The SAI ensures that contracts for outsourced activities do not compromise its accountability and transparency principles and are subject to appropriate confidentiality agreements. | • Execute a legally binding agreement containing amongst others to refrain from disclosing confidential information that would have bearing on the security and sovereignty of the nation, and client sensitive information that may affect the confidence of the client.  
• Classify types of entity in terms of its functional sensitivity in the country (e.g. Defence Ministry, Security Forces, Ministry of Foreign Affairs, etc.), and refrain from outsourcing these entities. | ST |
<table>
<thead>
<tr>
<th></th>
<th>Lack of quality control on the works performed by the Firms or Persons, which would also affect the credibility of the SAIs besides loosing the confidence of the entity audited.</th>
<th>Element 6, ISSAI 40</th>
<th>If work is contracted out, the SAI seeks confirmation that the contracted firms have effective systems of quality control in place.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ST</td>
<td></td>
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</tbody>
</table>

- While carrying out the due diligence of Firms or Persons at the time of conducting selection exercise, the SAIs should review and confirm that they have quality control system in place.
- Include in the appointment letter that a third partner review is mandatory for the works performed by an engagement partner, and report reviewed by the SAIs.
- SAIs can review the works performed by Firms or Persons. If SAIs have Quality Assurance Division in place, the works performed by Firms or Persons should be reviewed by this Division.

<table>
<thead>
<tr>
<th></th>
<th>Lack of understanding on the reporting responsibilities and requirements.</th>
<th></th>
<th></th>
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</table>

- Clearly indicate the reporting requirements and responsibilities in the letter of appointment, and ensure the Firms or Persons understand such requirements through holding meetings and provide clarification on such requirements by the SAIs.
- Prescribe the reporting requirements in line with the legislation of the SAI and other laws, rules and regulations applicable to audit of entity being outsourced.
### Appendix 5.4:

Matrix showing potential problems faced by SAIs on quality control related issues - Identifying potential problems and suggesting possible solutions with linkage to ISSAIs requirements where relevant

**ST-Short Term Solution**  
**LT-Long Term Solution**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Potential Problems</th>
<th>Relevant ISSAIs</th>
<th>ISSAI Requirements</th>
<th>Possible Solutions</th>
</tr>
</thead>
</table>
| 1.     | Leadership lack of commitment to quality | ISSAI 40, REF: ISQC 1 par 9 – 13, Principle 2, ISSAI 10 | Institutional level | • Develop policies and procedures to address the ISSAIs requirement for the 6 elements and for the operation of the SAI.  
• Small SAIs and those without resources should network with developed SAIs for ISSAIs compliant material and tailor it to their environment.  
• Develop an accountability framework with performance management framework to hold staff and SAI accountable for quality.  
• Put in place the requisite resources and systems to ensure quality e.g. QAR unit.  
• Head of SAI should lead by example and set the tone at the top. In doing they should be seen to conform to applicable legislative requirements and obligations. For example the Head of SAI should conform to the code of ethics, complete and file a requisite independence declaration. Audit work completed by management of SAI also should conform to requisite standards.  
• Head of SAI or management could implement value statements which speaks to quality as the SAI’s core value.  
• Head of SAI should allow audit and non-audit staff to participate in capacity building that will benefit the SAI as a whole.  
• Undertakes remedial action on issues raised and QAR internal audit or external assessment report. |

<p>|   | ST | ST/LT | ST/LT | ST/LT | ST/LT | ST/LT | ST | ST/LT |</p>
<table>
<thead>
<tr>
<th>2.</th>
<th>Relevant ethical requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Engagement level</strong></td>
<td>The engagement leader takes responsibility for the overall quality on each audit to which he or she is assigned by ensuring that suitable policies are set, including the policy in relation to the audits.</td>
</tr>
<tr>
<td></td>
<td>• Audit manual and methodology resources ISSAI compliant are in place.</td>
</tr>
<tr>
<td></td>
<td>• The policies and procedures should include the audit methodologies and SAIs practices, which should be communicated to staff</td>
</tr>
<tr>
<td></td>
<td>• Engagement leader assigned to each audit, direct, supervise of review audit work in accordance with Manual to ensure work produced is of quality standard.</td>
</tr>
<tr>
<td><strong>Institutional level</strong></td>
<td>An SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and all parties contracted to conduct work for the SAI, complies with the relevant ethical requirements.</td>
</tr>
<tr>
<td></td>
<td>• SAI develop its own code of ethics to include requirements for staff to declare interest or independence. How breaches of code will be monitored and actions to be taken.</td>
</tr>
<tr>
<td></td>
<td>• Develop rotation policy to mitigate familiarity threats.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3</th>
<th>Acceptance and continuance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit level</strong></td>
<td>The engagement leader remains alert throughout the audit for evidence of non-compliance with relevant ethical requirements by members of the audit team. Where matters have come to the attention of the engagement leader that members of the audit team have not complied with ethical requirements, the engagement leader in consultation with others in the SAI should determine the appropriate action and document such decisions.</td>
</tr>
<tr>
<td></td>
<td>• Engagement leader ensures that the code of ethics is implemented and complied with, also:</td>
</tr>
<tr>
<td></td>
<td>1. Ensure the declaration of Independence is completed, reviewed and take action if there is a threat.</td>
</tr>
<tr>
<td></td>
<td>2. Where threats are identified as high risk you withdraw the staff from the audit or ask to desist from transaction or relationship</td>
</tr>
<tr>
<td></td>
<td>• For small SAIs they could provide close supervision on the work of the auditor, if they are unable to rotate staff.</td>
</tr>
<tr>
<td>Lack of competent staff &amp; resources</td>
<td>ISSAI 40</td>
</tr>
<tr>
<td>------------------------------------</td>
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</tr>
<tr>
<td>Lack of SAI independences and performances</td>
<td>ISQC1 par 36 – 41</td>
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<table>
<thead>
<tr>
<th>Audit level</th>
<th>The team leader should ensure that the policies and procedures for this element have been complied with by ensuring that:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The engagement leader should be satisfied that appropriate procedures regarding the acceptance and continuance of relationships with the audited entity and specific audits have been followed, and that conclusions reached on this regard have been documented.</td>
<td>• The risks associated with the audit have adequately assessed and documented</td>
</tr>
<tr>
<td></td>
<td>• Risk profile of client conducted</td>
</tr>
<tr>
<td></td>
<td>• Annual audit plan done for the SAI and staff assigned to audit based on competencies</td>
</tr>
<tr>
<td></td>
<td>• If the audit is complex, it may be to outsourced or hire technical expert.</td>
</tr>
<tr>
<td>4</td>
<td>Human Resources</td>
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<tr>
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</tr>
<tr>
<td>Lack of professional quality staff</td>
<td>ISSAI 1220.14 Principle 8, ISSAI 10</td>
</tr>
</tbody>
</table>
|  |  | • Develop a recruitment policy and procedure.  
  * To include profiling of staff to be employed.  
  * The required qualification, competence and knowledge.  
  * How competencies of knowledge will be tested e.g. through case study, interviews.  
  • Verification of competencies and background details. | ST/LT |
| 5 | Engagement performance | Audit level |  |
| Absence of policies and procedures to guide the audit process.  
Lack of proper direction, supervision & review of audit work.  
Inadequate documentation | ISSAI 1230 Paragraph s 8 and 9 | The engagement leader should be satisfied that the audit team collectively has the appropriate capabilities, competence and time to perform the audit in accordance with professional standards and applicable regulatory requirements. |  |
|  | Institutional level | An SAI should establish policies and procedures designed to provide it with reasonable assurance that its tasks are performed in accordance with relevant standards and applicable legal and regulatory requirements, and that the SAI issues reports that are appropriate in the circumstances. Such policies and procedures should include:  
  a) matters relevant to promoting consistency in the quality of the work performed;  
  b) supervision responsibilities;  
  c) review responsibilities. |  |
|  |  | • Develop policies and procedures in line with the requirements of ISSAIs to guide the work of the SAI.  
Procedures could be in the form of ISSAIs compliant audit manual and methodologies.  
• Train the staff in the use of the manual and methodologies.  
• Develop an appropriate organisation structure and job descriptions to ensure that audit work is supervised and reviewed at all levels. The division of EQCR should be included in the structure.  
• Develop policies and procedures on how the EQCR is to be carried out.  
• For small SAIs they can carry out EQCR using senior officials from different audit teams. They can request other SAI’s or regional Secretariat to do the reviews. | ST |
### Audit level
The engagement leader is responsible for the direction, supervision and performance of the audit in compliance with professional standards and regulatory and legal requirements, and that the auditor’s report that is issued is appropriate in the circumstances.

#### (i) Engagement Quality Control Review
The engagement leader should:

- determine that an engagement quality control reviewer has been appointed;
- discuss significant matters arising during the audit, including those identified during the audit quality control review, with the engagement quality control reviewer; and
- not issue the auditor’s report until the completion of the engagement quality control review. An engagement quality control review should include an objective evaluation of the significant judgments made by the audit team, and the conclusions reached in formulating the auditor’s opinion and report.

- The team leader should ensure that the auditor follows the audit methodologies and standards in carrying out the audits.
- The audit documentation and evidence are recorded, included and on audit file and supports the conclusion of the audit.
- The use of checklist could assist in the documentation process to ensure that all documents and audit steps and procedures are followed.
- For small SAIs templates could be used.
- SAIs could source funding to automate the process to ensure consistencies e.g. use of Teammate.
- EQCR should be done in keeping with the SAIs policies and procedures and issues raised should be addressed before the report is issued.
- Small SAIs should ensure that EQCR is done if there is insufficient staff to do reviews.
- Staff should be evaluated on work done and rewarded accordingly
- Where there are weaknesses and poor performance remedial action should be undertaken.
- On-going training to develop staff competences and knowledge.
<table>
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<tr>
<th>6</th>
<th>Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lack of a functioning and effective QAR &amp; Monitoring process</strong></td>
<td><strong>Institutional level</strong>&lt;br&gt;ISSAI 1220.19, (Para. A23 -A25)</td>
</tr>
<tr>
<td>An SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. The monitoring process should:</td>
<td>The SAI could develop policies and procedures how the monitoring/QAR will be done or performed.</td>
</tr>
<tr>
<td>• include an ongoing consideration and evaluation of the SAI’s system of quality control, including review of a sample of completed tasks across the range of work performed by the SAI;</td>
<td>• If there is adequate resources then it could consider establishing a unit, develop job descriptions and train the staff.</td>
</tr>
<tr>
<td>• require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility;</td>
<td>• If there is insufficient staff, to establish a unit the SAI could consider training and using senior persons from different audit teams to do the QAR. The SAI could also consider using other SAIs or its regional Secretariat to do the QAR, however has to develop a MOU to guide the process.</td>
</tr>
<tr>
<td>• require that those performing the review have not taken part in the task or any quality control review of the task.</td>
<td></td>
</tr>
<tr>
<td>The SAI could develop policies and procedures how the monitoring/QAR will be done or performed.</td>
<td>If there is adequate resources then it could consider establishing a unit, develop job descriptions and train the staff.</td>
</tr>
<tr>
<td>If there is insufficient staff, to establish a unit the SAI could consider training and using senior persons from different audit teams to do the QAR. The SAI could also consider using other SAIs or its regional Secretariat to do the QAR, however has to develop a MOU to guide the process.</td>
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**Ref. ISSAI 1220, para 23 and A.32 to A.**
Appendix 5.5: Case Study

About SAI-Rightnow in Farawayland

The SAI-Rightnow (SAI-R), which is the Supreme Audit Institution of Farawayland is established under an Act of Parliament, which is mandated to carry out Financial, Compliance, Performance, and any other audits the Auditor General may consider significant and necessary.

The Act also prescribes the entities that need to be audited such as Government or any of its organs, which include, Ministries, Departments, Divisions, Units, Local Government Bodies, Foreign (donor) Assisted or Special Projects of the Government.

In addition, the SAI-R is also required to conduct the audit of Civil Society Organisations, Defence and Security Services, Legislature and related Institutions, Constitutional Offices, Judiciary and Judicial Bodies, Corporations, Financial Institutions including the Central Bank and their subsidiaries established under the Laws of the Farawayland in which the government has an ownership interest. In addition, the Act also says that the Parliament can direct the SAI to conduct the audit of accounts of those agencies at any given point of time.

The developmental activities initiated and implemented by the government are mostly funded through external borrowings and grants, which are availed from development partner countries and World Bank. One of the conditions of loan and grant agreements is the requirement to carry out the audit and submit the report to the donors and lenders within six months from the accounting year end (the accounting period for government agencies in Farawayland is 1 July to 30 June). The agreements also state that the SAI-R shall audit the financial statements of their projects. While many donors and lenders require the project management to prepare Receipts & Payments Statement supported by Fund Reconciliation Statements, some prefer just the preparation of Expenditure Statement.

Given the mandate and jurisdiction in the Act, the inventory of audited entities maintained by SAI-R shows a total of 1,500, which are permanent entities. This list excludes the donor assisted programmes and projects funded through external borrowings. The completion period of the projects and programmes of this nature ranges from three to five years. On an average, there would be at least 200 accounts of this nature to be audited on an annual basis.

While the SAI-R is not required to conduct the audit of 1,500 permanent entities on an annual basis, there is a growing expectation from these agencies that their accounts be audited on an annual basis.

Prior to enactment of Audit Act, the SAI-R was conducting mostly compliance audits of over 1,000 agencies. The Act has been enacted in the year 2000, and since then the SAI embarked on conducting
financial audit together with its usual practice of compliance audits. The SAI-R conducts its audits on Income and Expenditure Statement prepared based on accrual basis as required under the Finance Act and related regulations. It prepares consolidated audit reports, which include recommendations and management’s responses.

The SAI-R has been following the Generally Accepted Auditing Standards and the Financial Audit Manual to conduct the financial audit since the year 2000. With the adoption of International Standards of Supreme Audit Institutions (ISSAIs) in 2010, the SAI-R has been intending to re-align its Financial Audit Manual with the requirements of the ISSAIs and conduct ISSAI compliant financial, compliance and performance audits.

It has three regional offices located at different strategic locations with the responsibility mainly to conduct the financial and compliance audit of local government bodies, and other government Divisions, Units, project offices and corporate branch offices located within their jurisdiction. The audit of Central Government entities and corporate head offices is covered by its Headquarter, which consist of six functional divisions.

The SAI-R is headed by the Auditor General and has two Deputy Auditors General. The AG has held his position for 6 terms conservatively (1 term represents 3 years) and is appointed by an executive board with the concurrence of the MoF.

231 employees comprising of 136 field auditors, 25 non-field staff (middle management and follow-up auditors) and 44 support staff (non-auditors) currently support the Auditor General to discharge the organisational and functional responsibility of the SAI-R. 136 field auditors and 25 non-field staff of the SAI are of varied professional background as given below:

<table>
<thead>
<tr>
<th>Field Auditors</th>
<th>No. of auditors</th>
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<tbody>
<tr>
<td><strong>Sl. No.</strong></td>
<td><strong>Type of qualification</strong></td>
</tr>
<tr>
<td>1</td>
<td>Chartered Accountant <em>(recently qualified)</em></td>
</tr>
<tr>
<td>2</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>3</td>
<td>MBA in Finance</td>
</tr>
<tr>
<td>4</td>
<td>Masters in Accounting &amp; Control</td>
</tr>
<tr>
<td>5</td>
<td>B.Com &amp; BBA <em>(10 graduates recently recruited)</em></td>
</tr>
<tr>
<td>6</td>
<td>B. Sc. Engineering (Civil)</td>
</tr>
<tr>
<td>7</td>
<td>Diploma in Financial Management</td>
</tr>
<tr>
<td>8</td>
<td>Certificate in Financial Management</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
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</table>
The Act of the SAI-R empowers the Auditor General to hire and fire his employees, which is broadly in line with Principle 8 of the ISSAI 10. With the growing number of audit entities over the years, the number of employees did not increase proportionately; as a result the field auditors are under constant pressure to meet the auditing and reporting statutory deadlines, especially the externally funded projects and the central government ministries. They feel they are overworked, and some of them are even thinking of leaving the job. Over the past three years, 15 employees resigned from the SAI-R, which indicates that five employees resigned every year on an average. Most of them were holding key managerial positions.

The recruitment of employees in SAI-R is done on an ad-hoc basis, i.e. as and when the Auditor General feels necessary. The pre-requisite qualification required for joining SAI-R is not defined, and the Auditor General does not have adequate information on how many employees will be retiring/superannuating in next five years and at what level.

Recently the Parliament enacted the Civil Service Bill, which includes recruitment and employment conditions of the employees of SAI-R under the umbrella of this new Act.

The employees have mixed feelings about this recent change. Some felt the change was good since they would be able to move out to other government organisations for better opportunities. However, most of the employees expressed their concern that the change was not in the best interest of an oversight institution like SAI-R. Moreover, stakeholders of the Farawayland are also sceptical about whether SAI-R would be able to conduct the audit without fear, favour or prejudice, when there is no independence on recruitment and other service conditions of its employees.

While the new rules and regulations issued subsequent to enactment of Civil Service Act allowed the SAI-R to determine the number and types of employees required, the final approval rests with the Civil Service Authority who believes in the principle of small, compact and efficient civil service.

The Auditor General and the two Deputy Auditors General are more concerned about meeting the number of annual audits in a year. They have not progressed much on professional enhancement of their auditors. This has even led to all four professional accountants working in the SAI-R nearly failing to meet

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of qualification</th>
<th>No. of Staff</th>
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<tbody>
<tr>
<td>1</td>
<td>Cert. Accounting Technician (Head of Division)</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>B.Com Degree (Head of Division)</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>B.A. General (Head of Division)</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>MBA Finance (Policy &amp; Planning Division)</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>Diploma in Financial Accounting (Follow-up)</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Certificate in Financial Management (Follow-up)</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>25</strong></td>
</tr>
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</table>
their annual Continuous Professional Development (CPD) units required by their respective professional bodies. With exception to few employees attending the training programmes overseas, which are organised by the IDI and regional association of supreme audit institutions, the SAI-R currently does not have training plans and programmes of its own.

The field auditors are not aware of the recent changes taking place in the auditing profession. While the SAI-R has been conducting the financial audit along with its compliance audits, the Financial Audit Manual and audit methodologies do not adequately address the requirements of the financial audit ISSAIs. Although, the ISSAIs were adopted in XX INCOSAI held in Johannesburg in October 2010, some of the auditors, and even those at the managerial level are not aware of such changes.

Very recently, three key officials of SAI-R opted to resign and join other newly established private company who offered attractive remuneration packages and other benefits. The job satisfaction survey conducted by an independent consultant three months ago indicated that 30% of the employees intended to leave SAI-R if better opportunities were available elsewhere. The survey report also showed that 70% of the employees rated their motivation level low (rated between 1-4 in the scale of 1-10).

With the recent signing of the Statement of Commitment to implement ISSAIs in 3i Management Meeting, the Auditor General is worried whether SAI-R would be able to meet this with his given number of auditors and professionals, and when someone has started leaving the organisation.

Fearing more staff might resign, and to attract potential professional staff, the Auditor General and its two executives proposed some incentive packages targeting more towards retaining professional staff. The proposal submitted to the Ministry of Finance (MoF) contained salary increases of 45% for professional staff having professional accountancy qualification and Masters Degree, 30% for employees having university degrees and 15% for general staff. The proposal was well received by the employees, who were also motivated by the initiative.

However, the motivation level of the employees was short lived, when the MoF did not approve the proposal explaining that the government was experiencing huge fiscal deficit, and its tax revenue has not been able to meet the current expenditure of the government. Moreover, the Farawayland was also undergoing economic recession against which one of the austerity measures was to reduce the government spending as indicated from the recent press release issued by the Central Bank.

Although the Act provides financial autonomy to SAI-R and Principle 8 of ISSAI 10 requires the SAIs to have a privilege of enjoying financial autonomy, its annual budget is still approved by the MoF. For the past three consecutive fiscal years, the annual budgets proposed by SAI-R were slashed by 10-20%.

The SAI-R allocates its annual budget according to the number of audits to be taken up during the year,
and the procurement of equipment that were required for new recruits and replacement of obsolete ones. Since the SAI-R could not get the proposed budget, it has not been able to achieve its annual target. Some of the entities that required annual audits are located in remote areas, which required at least a day’s travel. The SAI-R could not conduct the audit of around 20 agencies last year since the travel budget allocated for the audit was not adequate.

The SAI-R has not been able to provide laptops to its 10 new recruits, and they have been using the equipment of entities in their field audit, which had even created some inconvenience to the entities’ employees.

Due to the issue of travel cost and not being able to get the right amount of travel budget, the SAI-R is proposing to introduce the concept of Resident Audit System, wherein the audit team will be housed in the entities’ office premises. The entities welcomed the new approach, and the SAI-R is currently working out on the level and number of auditors to be transferred as Resident Auditors. It is planning to achieve this within a time frame of one to two years.

As one of the measures to close the resource gap in SAI-R, the Auditor General is considering an option to outsource the financial audit of corporations, financial institutions, NGOs and externally funded projects to Firms of Professional Accountants.

The Auditor General of SAI-R commissioned an internal review of its audit processes, through pressures from the external country donors and other donor agencies. This review highlighted significant issues that pointed to a number of concerns, which affect the quality and efficiency of SAI-R’s operation. Due to economic recession within the country and recent cutting of SAI-R budget, the AG decided to delay the implementation of the recommendations of the review until Farawayland is returned on a growth path. The country’s government does not prescribe a code of ethics, and is not required to declare personal or private interests. This is a commonly accepted as being the norm in the Public Sector and is not required, regulated or administered by any agency in government, including the SAI-R. However, SAI-R has the practice of documenting the declaration of independence in their audit working papers.

In 2011 SAI-R announced that it adopted a Risk Based approach to its financial audits after 2 team leaders attended the IDI course. On return of these officers, the Auditor General issued an instruction (without any other support) that the training material received from the training be placed on the SAI’s website for auditors to uses as a guide.

The communication requirements with auditees in pre-engagement phase are not discussed in the Financial Audit Manual. It is the practice of the SAI-R team leader to intimate (through telephone call) the Accountant of the audited entity on the morning to commence the audits. It is at this time that the engagement letter is delivered and signed by both parties. Although the SAI has a rotation policy to rotate
staff every three years, some staff made request to remain at the audited entity for extended periods. Some have stayed for periods over 10 years, as they could not afford transportation costs for audit of entities located in remote areas.

Financial audits are conducted in audit teams of 2-5 auditors and one team leader. In an effort to meet the statutory deadline and complete the scheduled audits for the year, each auditor prepared their own audit programme (*no team discussion takes place*) and submit them with the working papers to the team leader after conducting an exit meeting with the client for review at the end of the fieldwork.

Due to shortage of staff, the team leader was responsible for two (2) audit teams and had to undertake equal amount of audit assignments as the auditors. Given the time constraint and the need to meet the statutory deadline, audit reports were often issued while the team was still carrying out the fieldwork. Further, the audit team usually takes up to 80 days to complete the audit files after the report is issued.

In carrying out the reviews of the audit files, the team leader agrees the lead sheet with the working copy of the financial statement, the management letter and signs the lead sheet indicating that the working paper file was reviewed. The team leader also signs the templates indicating that all the audit steps were carried out without checking the working papers for the relevant evidence.

The audit file for the audit of Oiltech Agency was submitted to the third reviewer (Deputy AG) at SAI–R head office for review. In carrying out this review, he noticed that the third party confirmation was addressed to the accountant of the audited entity and photocopy of that instead of the original document was in the file, which was dated after the management letter.

The reviewer also noted that the summary of errors did not reconcile to the lead sheet and return the file to the team leader asking her to do an Engagement Quality Control Review (EQCR).

In carrying out the EQCR, the team leader identified a difference of 3 million dollars between the general ledger for receivables (as represented in the financial statements) and the audited amount represented in the audit working papers. In making enquiries, the auditor informed the team leader that:

- Documentation supporting the audited figures has not been put on file;
- Verification of documentation from the client was at inadequate level of assurance. For e.g. Photocopied document of bank statement was accepted; and
- The auditors did not follow through on inconsistencies in the information provided related to the receivables process (including the bank reconciliation).

In an effort to train staff on the requirements and application of the ISSAIs, the Auditor General sought and received approval from SAI Shareitall to second an officer from SAI–R. Consequently, the team
leader of Oiltech audit was seconded to SAI Shareitall to receive on the job training in the application of the ISSAIs. During this secondment, a senior auditor who was recently recruited from a private audit firm acted in the post of Team Leader.

In the planning phase of the subsequent year audit of Oiltech, the acting team leader reviewed the prior working papers and decided to do a follow-up on the receivables issue. The result of the follow up done by the acting Team Leader revealed that the amount shown to the auditor on the bank statement was not a receivable but was in fact a Grant received from a donor agent.

The acting team leader was also concerned with the inconsistencies in the documentation of the audit process in several files, which included:

- The permanent file was up to date, however, fundamental changes (e.g. outsourcing of payroll and revenue collection) within the audited entity had not been taken into account for the audit strategy;
- No effective review process during the course of the audit; and
- No process of dealing with differences in opinion and support for basis of audit opinion.

These deficiencies identified by the team leader were communicated to the Auditor General who became enraged as the third reviewer; the Deputy Auditor General had issued an unmodified audit opinion in the audit report.

The Auditor General immediately requested to see the audit files. He was told that before going on the secondment the team leader took some audit evidence from the file in order to discuss an issue with the client. After discussing the issue the team leader was satisfied that the correct treatment was applied but she did not document this or replace the documents in the audit file. The papers taken from the audit file were left among some papers on her desk, which were shredded in clearing her desk during her secondment.

In order to correct the weaknesses in the system, the Auditor General decided to set up a Quality Assurance Review unit, but had second thought due to budget cuts and limited staff.
About the IDI 3i Programme

ISSAI Implementation Initiative Programme (3i Programme) is a global programme launched by IDI to support the implementation of ISSAIs. While programme activities in the relevant INTOSAI regions began in 2012, activities will be initiated in other regions in Arabic, French and Spanish in 2013-2014.

Partners

The ISSAI Implementation Programme is as a partnership programme between the INTOSAI Professional Standards Committee, its sub committees on Financial, Performance and Compliance Audit, INTOSAI Capacity Building Committee and relevant INTOSAI regions.

3i Community Portal

Access the 3i Programme information and participate in the 3i communities of practice at: www.idicommunity.org