

**INTOSAI**



*Code of Ethics*

*and*

*Auditing Standards*

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## **Auditing Standards Committee**

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# *P*reamble

*At the XVI<sup>th</sup> INCOSAI in Montevideo in 1998, the Congress unanimously approved and issued The INTOSAI Code of Ethics.*

*At the same meeting it was furthermore decided that the INTOSAI Auditing Standards Committee should restructure the Auditing Standards in order to facilitate updates and additions in the future, but without changing its content. The Committee has now produced a restructured version of the Auditing Standards.*

*For practical reasons it has been proposed that the Code of Ethics and the Auditing Standards are made available jointly in one volume.*

*It is however important to see the relationship between the relevant INTOSAI documents:*

*With the Lima Declaration of Guidelines on Auditing Precepts as its foundation, the INTOSAI Code of Ethics should be seen as a necessary complement, reinforcing the INTOSAI Auditing Standards issued by the INTOSAI Auditing Standards Committee in June 1992.*

*In the minutes of the XVI<sup>th</sup> INCOSAI meeting in 1998 the following was stated.*

*The different documents may be regarded as a comprehensive framework with the following elements:*

- The Lima Declaration is the foundation with its comprehensive precepts on auditing in the public sector.*
  - The Code of Ethics represents the next level with its statement of values and principles guiding the daily work of the auditors. One of the principles outlined in the Code of Ethics is the auditor's obligation to apply generally accepted auditing standards.*
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- *The Auditing Standards on the next level, contain the postulates and principles for carrying out the audit work.*
- *Guidance Material, which is the fourth level provides practical assistance to SAIs in implementing the Standards in their individual constituents.*

*In this volume, thus, will be found the Code of Ethics together with the Restructured Auditing Standards, which was approved by the XVIIth Congress of INTOSAI in Seoul 2001.*

*Inga-Britt Ahlenius  
Chairman of the Auditing Standards Committee*

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# *C*ode of Ethics

*Issued by the  
Auditing Standards Committee at the  
XVI<sup>th</sup> Congress of INTOSAI in 1998 in  
Montevideo, Uruguay*



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# *F*oreword

*I am pleased to provide the members of the International Organisation of Supreme Audit Institutions (INTOSAI) with this Code of Ethics for auditors in the public sector, which received the Governing Board's approval at the 44<sup>th</sup> meeting in Montevideo in November 1998.*

*The Code constitutes a significant step forward in the process of harmonising the ethical concepts within the INTOSAI. It consists of only the basic postulates of ethics, since national differences of culture, language and legal and social systems bring about the need to adapt such postulates to the environment of the specific country. Therefore, this Code should be seen as a foundation for national codes of ethics to be developed by each Supreme Audit Institution.*

*Finally, I wish to express, on behalf of the Auditing Standards Committee, my deep gratitude and appreciation for the co-operation of all of the INTOSAI members in our effort to develop this Code of Ethics. I also thank my Committee colleagues for their timely support and positive contribution to this activity.*

*Inga-Britt Ahlenius  
Chairman of the Auditing Standards Committee*

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# *P*reamble

*This draft Code of Ethics is the result of the joint labour of the members of the INTOSAI Auditing Standards Committee, which has included the Supreme Audit Institutions of:*

*Austria  
Australia  
Argentina  
Brazil  
Costa Rica  
Japan  
Philippines  
Portugal  
Saudi Arabia  
Sweden; Chairman  
United Kingdom  
United States*

*A working plan for the Committee was presented and approved by the Governing Board at its 42<sup>nd</sup> meeting held in Vienna on June 24, 1996. The development of this Code of Ethics was one of the tasks set in that plan. The actions to fulfil it started with the collection of Codes of Ethics from all INTOSAI members in order to study similarities and differences. This led to a first preliminary draft discussed at a Committee meeting in Sweden in January 1997.*

*After the Committee meeting a new draft was developed and sent to all INTOSAI members for comments. After these comments were considered this final draft was developed.*

*The Governing Board has been informed of the progress of the work at its 43<sup>rd</sup> meeting in Montevideo in November 1997.*

*I would like to thank all the members of the INTOSAI Auditing Standards Committee for their dedication and co-operation in completing this project.*

*Inga-Britt Ahlenius*

*Auditor General, Swedish National Audit Office*

*Chairman, INTOSAI Auditing Standards Committee*

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# Chapter 1

## Introduction

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### Concept, Background and Purpose of the Code of Ethics

1. INTOSAI has deemed it essential to establish an international Code of Ethics for auditors in the public sector.

2. A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors. The independence, powers and responsibilities of the public sector auditor place high ethical demands on the SAI and the staff they employ or engage for audit work. A code of ethics for auditors in the public sector should consider the ethical requirements of civil servants in general and the particular requirements of auditors, including the latter's professional obligations.

3. With the Lima Declaration of Guidelines on Auditing Precepts<sup>1</sup> as its foundation, the INTOSAI Code of Ethics should be seen as a necessary complement, reinforcing the INTOSAI Auditing Standards issued by the INTOSAI Auditing Standards Committee in June 1992.

4. The INTOSAI Code of Ethics is directed at the individual auditor, the head of the SAI, executive officers and all individuals working for or on behalf of the SAI who are involved in audit work. However, the Code should not be interpreted as having any impact on the organisational structure of the SAI.

Due to national differences of culture, language, and legal and social systems, it is the responsibility of each SAI to develop its own Code of Ethics which best fits its own environment. Preferably these national Codes of Ethics should clarify the ethical concepts. The INTOSAI Code of Ethics is intended to constitute a foundation for the national Codes of Ethics. Each SAI has the

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<sup>1</sup> From the IXth Congress of INTOSAI, meeting in Lima. Can be obtained from the INTOSAI General Secretariat in Austria.



responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the national Code of Ethics and act accordingly.

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

**6.** It is of fundamental importance that the SAI is looked upon with trust, confidence and credibility. The auditor promotes this by adopting and applying the ethical requirements of the concepts embodied in the key words Integrity, Independence and Objectivity, Confidentiality and Competence.

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## **Trust, Confidence and Credibility**

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

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

**9.** The legislative and/or executive authority, the general public and the audited entities should be fully assured of the fairness and impartiality of all the SAI's work. It is therefore essential that there is a national Code of Ethics or similar document which governs the provision of the services.

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

**11.** All work performed by the SAI must stand the test of legislative and/or executive scrutiny, public judgements on propriety, and examination against a national Code of Ethics.

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## *Chapter 2*

### **Integrity**

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

**13.** Integrity can be measured in terms of what is right and just. Integrity requires auditors to observe both the form and the spirit of auditing and ethical standards. Integrity also requires auditors to observe the principles of independence and objectivity, maintain irreproachable standards of professional conduct, make decisions with the public interest in mind, and apply absolute honesty in carrying out their work and in handling the resources of the SAI.

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## Chapter 3

### Independence, Objectivity and Impartiality

**14.** Independence from the audited entity and other outside interest groups is indispensable for auditors. This implies that auditors should behave in a way that increases, or in no way diminishes, their independence.

**15.** Auditors should strive not only to be independent of audited entities and other interested groups, but also to be objective in dealing with the issues and topics under review.

**16.** It is essential that auditors are independent and impartial, not only in fact but also in appearance.

**17.** In all matters relating to the audit work, the independence of auditors should not be impaired by personal or external interests. Independence may be impaired, for example, by external pressure or influence on auditors; prejudices held by auditors about individuals, audited entities, projects or programmes; recent previous employment with the audited entity; or personal or financial dealings which might cause conflicts of loyalties or of interests. Auditors have an obligation to refrain from becoming involved in all matters in which they have a vested interest.

**18.** There is a need for objectivity and impartiality in all work conducted by auditors, particularly in their reports, which should be accurate and objective. Conclusions in opinions and reports should, therefore, be based exclusively on evidence obtained and assembled in accordance with the SAI's auditing standards.

**19.** Auditors should make use of information brought forward by the audited entity and other parties. This information is to be taken into account in the opinions expressed by the auditors in an impartial way. The auditor should also gather information about the views of the audited entity and other parties. However, the auditors' own conclusions should not be affected by such views.

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## **Political neutrality**

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

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

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## **Conflicts of interest**

**22.** When auditors are permitted to provide advice or services other than audit to an audited entity, care should be taken that these services do not lead to a conflict of interest. In particular, auditors should ensure that such advice or services do not include management responsibilities or powers, which must remain firmly with the management of the audited entity.

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

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

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

26. Auditors should not use information received in the performance of their duties as a means of securing personal benefit for themselves or for others. Neither should they divulge information which would provide unfair or unreasonable advantage to other individuals or organisations, nor should they use such information as a means for harming others.

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## *Chapter 4*

### **Professional Secrecy**

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

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## *Chapter 5*

### **Competence**

28. Auditors have a duty to conduct themselves in a professional manner at all times and to apply high professional standards in carrying out their work to enable them to perform their duties competently and with impartiality.

29. Auditors must not undertake work they are not competent to perform.

30. Auditors should know and follow applicable auditing, accounting, and financial management standards, policies, procedures and practices.

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Likewise, they must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity.

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## **Professional Development**

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

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

**33.** Auditors have a continuous obligation to update and improve the skills required for the discharge of their professional responsibilities.

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## *Glossary*

The terms used in this Code of Ethics have the same interpretation or definition as those used in the INTOSAI Auditing Standards.

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# *A*uditing Standards

*Issued by the  
Auditing Standards Committee at the  
XIV<sup>th</sup> Congress of INTOSAI in 1992 in  
Washington, D.C.,  
United States as amended by the  
XV<sup>th</sup> Congress of INTOSAI 1995 in Cairo, Egypt.*





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# *F*oreword

This revision of the INTOSAI Auditing Standards is a significant step forward in the development of truly international auditing standards. It flows from a recommendation of the XIII<sup>th</sup> INCOSAI (Berlin) that the previous version be amended to recognise the particular needs of countries whose SAIs are constituted as courts of accounts.

I speak for the Committee on Auditing Standards in expressing appreciation of the efforts made by all INTOSAI members in developing the standards. In particular I wish to acknowledge the invaluable contributions of the Court of Accounts of Belgium, the newest member of the INTOSAI Auditing Standards Committee, and other SAIs constituted as courts of accounts. I also wish to thank my other Committee colleagues for their support and positive contribution to the revision.

While INTOSAI Auditing Standards do not have mandatory application they reflect a "best practices" consensus among SAIs. Each SAI must judge the extent to which the standards are compatible with the achievement of its mandate.

It is the view of both the Governing Board and the Auditing Standards Committee that these Standards are a "living" document. As such they should reflect, to the extent possible, the current trends, issues and concerns in auditing methodology and practice.

The Governing Board gave its approval to these Standards at its 35<sup>th</sup> meeting in Washington in October 1991. I commend to members of INTOSAI the revised standards.

J.C. Taylor  
Chairman of the Auditing Standards Committee

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# *P*reface

As chairman of the INTOSAI Committee on Auditing Standards, I am very pleased to present the final draft of our work.

Our Committee was established in May 1984 to present recommendations and plans for developing an INTOSAI auditing standards project. Subsequently, the Committee was expanded to include the Supreme Audit Institutions of:

- Austria: ex-Officio
- Argentina
- Australia
- Brazil
- Costa Rica
- Japan
- Philippines
- Saudi Arabia: Chairman
- Sweden
- United Kingdom
- United States

A working plan for the Committee was presented to and approved by the Governing Board at its meeting held in Sydney in March 1985. This working plan called for the formation of four study groups to divide the work as follows:

- The first group consisting of the United States (Group Coordinator), Costa Rica, and the Philippines to work on "General Principles in Government Auditing".
- The second group consisting of Australia (Group Coordinator) and Argentina to work on "General Standards in Government Auditing".
- The third group consisting of Sweden (Group Coordinator) and Japan to work on "Field Standards in Government Auditing".
- The fourth group consisting of United Kingdom (Group Coordinator) and Brazil to work on "Reporting Standards in Government Auditing".

Each of the four groups developed a discussion memorandum on their subject and elicited, analysed and researched comments and suggestions from other committee members. On the basis of these discussion memoranda, suggestions and comments were incorporated into preliminary exposure drafts on each topic. Further research, suggestions and comments received from the INTOSAI Governing Board and committee members resulted in the preparation of final exposure drafts. The Governing Board approved these drafts at the May 1987 meeting in Vienna and commissioned the Committee to meet in London to harmonise terminology and style of the four drafts.

A group of experts representing the Committee met for five days in London during June 1987 to prepare the final consolidated draft. This group of experts consisted of Mr. Abdullah I. Al Saleh and Dr. Issam J. Merei from Saudi Arabia (Chairman), Mr. W.A. Broadus (United States), Mr. Nazario Anis (Philippines), Mr. Cyril Monaghan (Australia), Mrs. Gunhild Lindstrom (Sweden), Sr. Fernando Goncalves (Brazil) and Messrs. John Pearce and Andy Burchell (United Kingdom).

The Governing Board at its 31<sup>st</sup> meeting in Berlin agreed to the following arrangements concerning the re-exposure of the INTOSAI Auditing Standards and the consideration of any comments received:

1. The comments received shall be compiled and transmitted to the Committee Chairman by the Secretary General.
2. The INTOSAI Auditing Standards Committee Chairman and the Secretary General shall decide jointly on the necessity and appropriateness of possible changes.
3. The document shall then be submitted to the Berlin Congress for adoption.

The Committee Chairman and the Secretary General have analysed the comments received and have made the changes as deemed appropriate.

Although the word "Standards" was used throughout this document, it is understood that this word is to be used synonymously with the word "guidelines" which keeps the authority for compliance within the domain of each Supreme Audit Institution.

I would like to thank all the members of the INTOSAI Auditing Standards Committee for their dedication and cooperation in completing this project. Special thanks is given to the group of experts who improved the final drafts during their meeting in London.

Omar A. Fakieh, State Minister  
President, General Auditing Bureau of Saudi Arabia  
Chairman, INTOSAI Auditing Standards Committee  
Rijadh, March, 1989

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# Chapter I

## Basic Principles in Government Auditing

1.0.1 The general framework of the auditing standards for the International Organisation of Supreme Audit Institutions (INTOSAI) has been deduced from the Lima and Tokyo Declarations, the statements and reports adopted by INTOSAI in various congresses, and the report of the United Nations Expert Group Meeting in Public Accounting and Auditing in Developing Countries.

1.0.2 The INTOSAI auditing standards consist of four parts (see chart):

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

INTOSAI has developed these standards to provide a framework for the establishment of procedures and practices to be followed in the conduct of an audit, including audits of computer-based systems. They should be viewed in the particular constitutional, legal and other circumstances of the Supreme Audit Institution (SAI).

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

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

1.0.5 Interpretations and explanations of these standards are the prerogative of the INTOSAI Governing Board, while amendments are the responsibility of the INTOSAI Congress.

1.0.6 The basic principles are

- (a) The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those organised as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality (see paragraph 1.0.8).
- (b) The SAI should apply its own judgement to the diverse situations that arise in the course of government auditing (see paragraph 1.0.15).
- (c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively (see paragraph 1.0.20).
- (d) Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information (see paragraph 1.0.23).
- (e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets (see paragraph 1.0.25).
- (f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations (see paragraph 1.0.28).



- (g) The existence of an adequate system of internal control minimises the risk of errors and irregularities (see paragraph 1.0.30).
- (h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (see paragraph 1.0.32).
- (i) All audit activities should be within the SAI's audit mandate (see paragraph 1.0.34).
- (j) SAIs should work towards improving techniques for auditing the validity of performance measures (see paragraph 1.0.45).

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

1.0.8 The basic auditing principles stipulate that

The SAI should consider compliance with the INTOSAI auditing standards in all matters that are defined material. Certain standards may not be applicable to some of the work done by SAIs, including those organised as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality (see paragraph 1.0.6a).

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

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

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

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

1.0.12 SAIs often carry out activities that by strict definition do not qualify as audits, but which contribute to better government. Examples of non-audit work may include (a) gathering data without conducting substantial analysis, (b) legal work, (c) an information mission of the elected Assembly as regards the examination of draft budgets, (d) an assistance mission for members of the elected Assemblies as regards investigations and consultations of SAIs' files, (e) administrative activities and (f) computer-processing functions. These non-audit activities provide valuable information to decision-makers and should be of consistently high quality.

1.0.13 Because of the approach and structure of some SAIs, not all auditing standards apply to all aspects of their work. For example, the collegial and judicial nature of the reviews conducted by Courts of Account make aspects of their work fundamentally different from the financial and performance audits conducted by SAIs which are organised under a hierarchic system led by an Auditor-General or a Comptroller General.

1.0.14 To ensure that high quality work is done, appropriate standards must be followed. The objectives of the particular type of work or the particular assignment should dictate the specific standards that are followed. Each SAI should establish a policy on which INTOSAI standards, or other specific standards, should be followed in carrying out the various types of work that the organisation conducts to ensure that the work and products are of high quality.

1.0.15 The basic auditing principles stipulate that

The SAI should apply its own judgement to the diverse situations that arise in the course of government auditing (see paragraph 1.0.6b).

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

1.0.17 The terms of the audit mandate with which the SAI is endowed override any accounting or auditing conventions with which they conflict, and hence have a crucial bearing on the auditing standards that the SAI applies. Consequently, the INTOSAI auditing standards--and indeed any auditing standards external to the SAI--cannot be prescriptive, or have a mandatory application to the SAI or members of its staff.

1.0.18 The SAI must judge the extent to which external auditing standards are compatible with the SAI's fulfilment of its mandate. The SAI should recognise, however, that the INTOSAI auditing standards embody a consensus of opinion among government auditors and try to apply them where they are compatible with the SAI's mandate. The SAI should seek removal of incompatibilities where this is necessary to permit the adoption of desirable standards.

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

1.0.20 The basic auditing principles stipulate that

With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a greater need for the accountability process to be in place and operating effectively (see paragraph 1.0.6c)

1.0.21 In some countries, arrangements require the accountable entities to report to a President, Monarch or State Council, but in most they report to an elected legislature, either directly or through the executive branch of government. Certain SAIs have a jurisdictional status. This jurisdictional power is exercised, depending on the country, over the accounts, over the accountants, or even over administrators. The judgements and decisions that these institutions make are natural complements to the administrative audit function with which they are charged. Their jurisdictional actions should be

seen as part of the logic of the general objectives pursued by external audit and in particular those objectives which relate to accounting questions.

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

1.0.23 The basic auditing principles stipulate that

Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information (see paragraph 1.0.6d).

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

1.0.25 The basic auditing principles stipulate that

Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets (see paragraph 1.0.6e).

1.0.26 The SAIs should work with the accounting standards setting organisations to help ensure that proper accounting standards are issued for the government.

1.0.27 The SAIs should also recommend to the audited entities that measurable and clearly stated objectives be established and that performance targets be set for these objectives.

1.0.28 The basic auditing principles stipulate that

Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations (see paragraph 1.0.6f).

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

1.0.30 The basic auditing principles stipulate that

The existence of an adequate system of internal control minimises the risk of errors or irregularities (see paragraph 1.0.6g).

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

1.0.32 The basic auditing principles stipulate that

Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (see paragraph 1.0.6h).

1.0.33 The SAI must have access to the sources of information and data as well as access to officials and employees of the audited entity in order to carry out properly its audit responsibilities. Enactment of legislative requirements

for access by the auditor to such information and personnel will help minimise future problems in this area.

1.0.34 The basic auditing principles stipulate that

All audit activities should be within the SAI's audit mandate (see paragraph 1.0.6i).

1.0.35 SAIs generally are established by the supreme lawmaking body, or by constitutional provision. In some cases elements of the SAI's role may be by convention rather than by specific legal provision. Commonly, the establishing law or regulation sets out the form of the SAI (such as court, board, commission, statutory office or ministry), the terms and conditions of incumbency, tenure, powers, duties, functions and general responsibilities, and other matters governing the holding of office and the discharge of the functions and duties to be performed.

1.0.36 Whatever the arrangements, the essential function of the SAI is to uphold and promote public accountability. In certain countries, the SAI is a court, composed of judges, which has authority over State accountants who must render accounts to it. This jurisdictional function requires the SAI to make sure that whoever is charged with dealing with public funds is accountable to it and is in this regard subject to its jurisdiction.

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

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

1.0.39 Regularity audit embraces:

- (a) attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- (b) attestation of financial accountability of the government administration as a whole;

- (c) audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- (d) audit of internal control and internal audit functions;
- (e) audit of the probity and propriety of administrative decisions taken within the audited entity; and
- (f) reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed.

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

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

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

1.0.42 In many countries the mandate for performance auditing will stop short of review of the policy bases of government programs. In any case the mandate should clearly delineate the SAI's powers and responsibilities in relation to performance auditing in all areas of government activity, among other things to facilitate the application of appropriate auditing standards by the SAI.

1.0.43 In some countries the constitution or legislation in force do not always confer on the SAI the authority to audit "effectiveness" or "efficiency" of the financial management of the Executive. In these cases evaluation of the appropriateness or the utility of administrative decisions and the effectiveness of management is for Ministers, to whom is given the task of the organisation of administrative services and who are responsible for their management before the legislative body. The expression which would appear in this case to be the most adequate to describe the audits of the SAI which go beyond the traditional framework of regularity and legality is that of "audit of good management." Such an audit aims to proceed with an analysis of public expenditure in the light of general principles of sound management. The two types of audit--of regularity and of management--can in practice be carried out in one operation, the more so since they are mutually reinforcing: audits of regularity being able to prepare audits of management, and the latter resulting in the correction of situations causing irregularities.

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

1.0.45 The general auditing principles stipulate that

SAIs should work towards improving techniques for auditing the validity of performance measures (see paragraph 1.0.6j).

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

1.0.47 The scope of the audit mandate will determine the scope of the standards to be applied by the SAI.



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## *Chapter II*

### **2.1 General Standards in Government Auditing**

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

2.1.2 The general auditing standards are that the SAI should adopt policies and procedures to

- (a) Recruit personnel with suitable qualifications (see paragraph 2.1.3).
- (b) Develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff (see paragraph 2.1.5).
- (c) Prepare manuals and other written guidance and instructions concerning the conduct of audits (see paragraph 2.1.13).
- (d) Support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 2.1.15).
- (e) Review the efficiency and effectiveness of the SAI's internal standards and procedures (see paragraph 2.1.25).

2.1.3 The general standards for SAIs include

The SAI should adopt policies and procedures to recruit personnel with suitable qualifications (see paragraph 2.1.2a).

The following paragraph explains recruitment as an auditing standard.

2.1.4 SAI personnel should possess suitable academic qualifications and be equipped with appropriate training and experience. The SAI should establish, and regularly review, minimum educational requirements for the appointment of auditors.

2.1.5 The general standards for SAIs include

The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their task effectively and to define the basis for the advancement of auditors and other staff (see paragraph 2.1.2b).

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

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

2.1.7 The SAI should maintain an inventory of skills of personnel to assist in the planning of audits as well as to identify professional development needs.

2.1.8 The SAI should establish and regularly review criteria, including educational requirements, for the advancement of auditors and other staff of the SAI.

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

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

2.1.11 Audit of financial systems, accounting records and financial

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

2.1.12 The SAI should encourage its personnel to become members of a professional body relevant to their work and to participate in that body's activities.

2.1.13 The general standards for SAIs include:

The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits (see paragraph 2.1.2c).

The following paragraph explains written guidance as an auditing standard.

2.1.14 Communication to staff of the SAI by means of circulars containing guidance, and the maintenance of an up-to-date audit manual setting out the SAI's policies, standards and practices, is important in maintaining the quality of audits.

2.1.15 The general standards for SAIs include

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify those skills which are absent; provide a good distribution of skills to auditing tasks and a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern (see paragraph 2.1.2d).

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

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

2.1.17 The extent to which academic attainments should be related specifically to the audit task varies with the type of auditing undertaken. It is not necessary that each auditor possesses competence in all aspects of the audit mandate. However, policies and procedures governing the assignment of

personnel to audit tasks should aim at deploying personnel who have the auditing skills required by the nature of the audit task so that the team involved on a particular audit collectively possesses the necessary skills and expertise.

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

2.1.19 Policies and procedures governing supervision of audits are important factors in the performance of the SAI's role at an appropriate level of competence. The SAI should ensure that audits are planned and supervised by auditors who are competent, knowledgeable in the SAI's standards and methodologies, and equipped with an understanding of the specialities and peculiarities of the environment.

2.1.20 Where the SAI's mandate includes the audit of financial statements which cover the executive branch of government as a whole, the audit teams deployed should be equipped to undertake a co-ordinated evaluation of departmental accounting systems, as well as of central agency co-ordination arrangements and control mechanisms. Teams will require a knowledge of the relevant governmental accounting and control systems, and an adequate expertise in the auditing techniques applied by the SAI to this type of audit.

2.1.21 Unless the SAI is equipped to undertake, within a reasonable time-scale, all relevant audits, including performance audits covering the whole of every audited entity's operations, criteria are needed for determining the range of audit activities which, within the audit period or cycle, will give the maximum practicable assurance regarding performance of public accountability obligations by each audited entity.

2.1.22 In determining the allocation of its resources among different audit activities, the SAI must give priority to any audit tasks which must, by law, be completed within a specified time frame. Careful attention must be given to strategic planning so as to identify an appropriate order of priority for discretionary audits to be undertaken.

2.1.23 Assignment of priorities compatible with maintaining the quality of performance across the mandate involves exercise of the SAI's judgement in the light of available information. Maintenance of a portfolio of data pertaining to the structure, functions and operations of audited entities will assist the SAI in identifying areas of materiality and vulnerability and areas holding potential for improvements in administration.

2.1.24 Before each audit is undertaken proper authorisation for its commencement should be given by designated personnel within the SAI. This authorisation should include a clear statement of the objectives of the audit, its scope and focus, resources to be applied to the audit in terms of skills and quantum, arrangements for reviews of progress at appropriate points, and the dates by which fieldwork is to be completed and a report on the audit is to be provided.

2.1.25 The general standards for SAIs include

The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI's internal standards and procedures (see paragraph 2.1.2e).

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

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

2.1.27 The SAI should establish systems and procedures to:

- (a) confirm that integral quality assurance processes have operated satisfactorily;
- (b) ensure the quality of the audit report; and
- (c) secure improvements and avoid repetition of weaknesses.

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

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

2.1.30 The quality of the work of the SAI can be enhanced by strengthening internal review and probably by independent appraisal of its work.

2.1.31 In certain countries the audit of regularity and legality takes the form of a preventative control of public expenditure, by means of an approval by the SAI of the expenditure.

2.1.32 Generally, preventative audit should be understood as an audit which is carried out at a time which still permits the auditing institution to prevent an act which is judged to be irregular.

2.1.33 While "a posteriori" audit may only find irregularities when they have already happened and when it is more difficult to correct them, "a priori" audit brings by contrast an immediate sanction: the refusal to authorise settlement in case of juridical or accounting irregularity established by the SAI.

2.1.34 Some SAIs help develop and/or review and approve accounting systems, and then later review the application of the same systems in operation.

2.1.35 The SAI should ensure that applicable standards are followed on both pre-audits and post-audits and that deviations from the standards which are determined to be appropriate are documented.

## 2.2 Standards With Ethical Significance

2.2.1 The general auditing standards include:

- (a) The auditor and the SAI must be independent (see paragraph 2.2.2).
- (b) SAIs should avoid conflict of interest between the auditor and the entity under audit (see paragraph 2.2.31).
- (c) The auditor and the SAI must possess the required competence (see paragraph 2.2.33).
- (d) The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 2.2.39).

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### Independence

2.2.2 The general standards for the auditor and the SAI include

The auditor and the SAI must be independent (see paragraph 2.2.1a).

The following paragraphs explain independence as an auditing standard. In particular, paragraphs 2.2.5 - 2.2.12 explain independence from the legislature, paragraphs 2.2.13 - 2.2.24 from the executive, and paragraphs 2.2.25 - 2.2.29 from the audited entity.

2.2.3 Whatever the form of government, the need for independence and objectivity in audit is vital. An adequate degree of independence from both the legislature and the executive branch of government is essential to the conduct of audit and to the credibility of its results.

2.2.4 Criteria for establishing and maintaining adequate SAI independence can most readily be made explicit for countries in which there is an elected legislature, distinguished from the executive branch of government (whether or not members of the government are also members of the

legislature). As arrangements broadly of this sort operate in a high proportion of INTOSAI member countries, these standards set out SAI independence criteria for countries with such arrangements, acknowledging that modification and adaptation of those criteria would be necessary in other countries.

2.2.5 The legislature is one of the main users of the SAI's services. It is from the constitution or legislature that the SAI derives its mandate, and a frequent feature of the SAI's function is its reporting to the legislature. The SAI can be expected to work closely with the legislature, including with any committees empowered by the legislature to consider SAI reports. Such liaison can contribute to effective follow-up of the SAI's work.

2.2.6 Similarly the important results of audits of the carrying-out of the State budget and of administration and disputes and disagreements with audited administrations should be brought to the attention of the legislative body by way of report or special communication.

2.2.7 Special committees created within the legislative body may be charged with examining, in the presence of Ministers, delegates from the audited services and other representatives, the comments in the SAI reports and special communications. The close link between the legislative body and the SAI can also be implemented by a budgetary enquiry as well as by technical assistance to the work of parliamentary committees charged with the examination of draft budgets.

2.2.8 The SAI may give members of the legislature factual briefings on audit reports, but it is important that the SAI maintains its independence from political influence, in order to preserve an impartial approach to its audit responsibilities. This implies that the SAI not be responsive, nor give the appearance of being responsive, to the wishes of particular political interests.

2.2.9 While the SAI must observe the laws enacted by the legislature, adequate independence requires that it not otherwise be subject to direction by the legislature in the programming, planning and conduct of audits. The SAI needs freedom to set priorities and program its work in accordance with its mandate and adopt methodologies appropriate to the audits to be undertaken.

2.2.10 In some countries the audit of the executive's financial management is the prerogative of the Parliament or elected Assembly; this may also apply to the audit of expenditure and receipts at a regional level, where external audit is the responsibility of a legislative assembly. In these cases audits are



conducted on behalf of that body and it is appropriate for the SAI to take account of its requests for specific investigations in programming audit tasks. It is nevertheless important that the SAI remain free to determine the manner in which it conducts all its work, including those tasks requested by the Parliament.

2.2.11 It is appropriate for legislation to specify minimum reporting requirements, including the matters to be subject to an audit opinion and a reasonable time within which reports should be made. Apart from that, flexible arrangements for the SAI's reporting to the legislature, without restriction on content or timing of reports, would support the maintenance of independence.

2.2.12 It is necessary that the legislature provide the SAI with sufficient resources, for which the SAI is accountable, as well as for the effective exercise of its mandate.

2.2.13 The executive branch of government and the SAI may have some common interests in the promotion of public accountability. But the essential relationship with the executive is that of an external auditor. As such the SAI's reports assist the executive by drawing attention to deficiencies in administration and recommending improvements. Care should be taken to avoid participation in the executive's functions of the kind that would militate against the SAI's independence and objectivity in the discharge of its mandate.

2.2.14 It is important for the independence of the SAI that there be no power of direction by the executive in relation to the SAI's performance of its mandate. The SAI should not be obliged to carry out, modify or refrain from carrying out, an audit or suppress or modify audit findings, conclusions and recommendations.

2.2.15 A degree of co-operation between the SAI and the executive is desirable in some areas. The SAI should be ready to advise the executive in such matters as accounting standards and policies and the form of financial statements. The SAI must ensure that in giving such advice it avoids any explicit or implied commitment that would impair the independent exercise of its audit mandate.

2.2.16 Maintenance of the SAI's independence does not preclude requests to the SAI by the executive proposing matters for audit. But if it is to enjoy

adequate independence, the SAI must be able to decline any such request. It is fundamental to the concept of SAI independence that decisions as to the audit tasks comprising the program should rest finally with the SAI.

2.2.17 A sensitive area in relationships between the SAI and the executive concerns provision of resources to the SAI. In varying degrees, reflecting constitutional and institutional differences, arrangements for the SAI's resource provision may be related to the executive branch of government's financial situation and general expenditure policies. As against that, effective promotion of public accountability requires that the SAI be provided with sufficient resources to enable it to discharge its responsibilities in a reasonable manner.

2.2.18 Any imposition of resource or other restrictions by the executive which would constrain the SAI's exercise of its mandate would be an appropriate matter for report by the SAI to the legislature.

2.2.19 The legal mandate should provide for full and free access by the SAI to all premises and records relevant to audited entities and their operations and should provide adequate powers for the SAI to obtain relevant information from persons or entities possessing it.

2.2.20 Also, by legal provision or convention, the executive should permit access by the SAI to sensitive information which is necessary and relevant to the discharge of the SAI's responsibilities.

2.2.21 Conditions of tenure for the head of the SAI can contribute to the SAI's independence from the executive, for instance through appointment for a lengthy fixed term or until a specified retirement age. Conversely, tenure conditions which put an SAI under pressure to please the executive would have an erosive influence on independence. For this reason it is in principle desirable that provisions relating to the termination of appointment or removal from office should be exercisable only by special process akin to that relating to the holders of judicial or like office.

2.2.22 For those SAIs which exercise a jurisdictional function and which are most frequently organised in a collegial form, the independence of their members should be assured by various guarantees, particularly the principle of irremovability of judges, the privilege of jurisdiction, the determination of the treatment by the law, and the independence of the examining magistrate.

2.2.23 In order that the SAI not only exercise its functions independently of the executive but be seen to do so, it is important that its mandate and its independent status be well understood in the community. The SAI should, as appropriate opportunities arise, undertake an educational role in that regard.

2.2.24 The SAI's functional independence need not preclude arrangements with executive entities in regard to the SAI's administration in matters such as industrial relations, personnel management, property management or common purchasing of equipment and stores, though executive entities should not be in a position to take decisions that would jeopardise the SAI's independence in discharging its mandate.

2.2.25 The SAI must remain independent from audited entities. It should, however, seek to create among audited entities an understanding of its role and function, with a view to maintaining amicable relationships with them. Good relationships can help the SAI to obtain information freely and frankly and to conduct discussions in an atmosphere of mutual respect and understanding. In this spirit, the SAI, while retaining its independence, can agree to be associated with reforms which are planned by the Administration in areas such as public accounts or financial legislation or agree to be consulted about the preparation of draft laws or rules affecting its competence or its authority. In these cases it is not, however, a matter of the SAI interfering in administrative management but a matter of co-operating with certain administrative services by giving them technical assistance or by putting SAI financial management experience at their disposition.

2.2.26 In contrast to private sector audit, where the auditor's agreed task is specified in an engagement letter, the audited entity is not in a client relationship with the SAI. The SAI has to discharge its mandate freely and impartially, taking management views into consideration in forming audit opinions, conclusions and recommendations, but owing no responsibility to the management of the audited entity for the scope or nature of the audits undertaken.

2.2.27 The SAI should not participate in the management or operations of an audited entity. Audit personnel should not become members of management committees and, if audit advice is to be given, it should be conveyed as audit advice or recommendation and acknowledged clearly as such.

2.2.28 Any SAI personnel having close affiliations with the management of an audited entity, such as social, kinship or other relationship conducive to

a lessening of objectivity, should not be assigned to audit that entity.

2.2.29 Personnel of the SAI should not become involved in instructing personnel of an audited entity as to their duties. In those instances where the SAI decides to establish a resident office at the audited entity with the purpose of facilitating the ongoing review of its operations, programs and activities, SAI personnel should not engage in any decision making or approval process which is considered the auditee's management responsibility.

2.2.30 The SAI may co-operate with academic institutions and enter formal relationships with professional bodies, provided the relationships do not inhibit its independence and objectivity, in order to avail itself of the advice of experienced members of the profession at large.

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## **Conflict of interest**

2.2.31 SAIs should avoid conflict of interest between the auditor and the entity under audit (see paragraph 2.2.1b).

2.2.32 The SAI performs its role by carrying out audits of the accountable entities and reporting the results. To fulfil this role, the SAI needs to maintain its independence and objectivity. The application of appropriate general auditing standards assists the SAI to satisfy these requirements.

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## **Competence**

2.2.33 The general standards for the auditor and the SAI include

The auditor and the SAI must possess the required competence (see paragraph 2.2.1c).

The following paragraphs explain competence as an auditing standard.

2.2.34 The mandate of a SAI generally imposes a duty of forming and reporting audit opinions, conclusions and recommendations. In some SAIs this duty may be imposed on the head of the organisation. In SAIs organised on a collegiate basis the duty is usually placed on the institution itself.

2.2.35 Discussion within the SAI promotes the objectivity and authority of opinions and decisions. Where a SAI is structured in collegiate form, the final opinions and decisions represent the view of the organisation as a whole, even if the action is taken or exercised in bodies differentiated by their composition but not their power--for example, a Chamber, Joint Chamber or section of a Chamber. If the SAI has a single head all opinions and decisions are taken by that head or in his name.

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

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

2.2.38 The wider and more discretionary in nature the SAI's mandate, the more complex becomes the task of ensuring quality of performance across the whole mandate. Thus a mandate which leaves the SAI discretion in the frequency of audits to be carried out and the nature of reports to be provided, demands a high standard of management within the SAI.

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## **Due Care**

2.2.39 The general standards for the auditor and the SAI include

The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations (see paragraph 2.2.1d).

The following paragraphs explain due care as an auditing standard.

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

2.2.41 Performance and exercise of technical skill should be of a quality appropriate to the complexities of a particular audit. Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorised operations, waste, inefficiency or lack of probity.

2.2.42 Where an authorised or recognised entity sets standards or guidelines for accounting and reporting by public enterprises, the SAI may use such guidelines in the course of its examination.

2.2.43 If the SAI employs external experts as consultants it must exercise due care to assure itself of the consultants' competence and aptitude for the particular tasks involved. This standard applies also where outside auditors are engaged on contract with the SAI. In addition care must be taken to ensure that audit contracts include adequate provision for the SAI to determine the planning, the audit scope, the performing, and the reporting on the audit.

2.2.44 Should the SAI, in the performance of its functions, need to seek advice from specialists external to the SAI, the standards for exercise of due care in such arrangements have a bearing also on the maintenance of quality of performance. Obtaining advice from an external expert does not relieve the SAI of responsibility for the opinions formed or conclusions reached on the audit task.

2.2.45 When the SAI uses the work of another auditor(s), it must apply adequate procedures to provide assurance that the other auditor(s) has exercised due care and complied with relevant auditing standards, and may review the work of the other auditor(s) to satisfy itself as to the quality of that work.

2.2.46 Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of an audit and the formation of an opinion or in reporting in accordance with the auditor's responsibilities. It is essential that the SAI maintain confidentiality regarding audit matters and information arising from its audit task. However,

the SAI must be entitled to report offences against the law to proper prosecuting authorities.

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## *Chapter III*

### **Field Standards in Government Auditing**

3.0.1 The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. These steps and actions represent the rules of research that the auditor, as a seeker of audit evidence, implements to achieve a specific result.

3.0.2 The field standards establish the framework for conducting and managing audit work. They are related to the general auditing standards, which set out the basic requirements for undertaking the tasks covered by the field standards. They are also related to the reporting standards, which cover the communication aspect of auditing, as the results from carrying out the field standards constitute the main source for the contents of the opinion or report.

3.0.3 The field standards applicable to all types of audit are

- (a) The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner (see paragraph 3.1.1).
- (b) The work of the audit staff at each level and audit phase should be properly supervised during the audit; and documented work should be reviewed by a senior member of the audit staff (see paragraph 3.2.1).

- (c) The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control (see paragraph 3.3.1).
- (d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

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

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

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the SAI is to make sure, by all the means put at its disposal, that the State budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the financial obligations of the State. To achieve this objective the SAI will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge" (see paragraph 3.4.1).



- (e) Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit (see paragraph 3.5.1).
- (f) In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements (see paragraph 3.6.1).

## **3.1 Planning**

### **3.1.1 The field standards include**

The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner (see paragraph 3.0.3a).

The following paragraphs explain planning as an auditing standard.

**3.1.2** The SAI should give priority to any audit tasks which must be undertaken by law and assess priorities for discretionary areas within the SAI's mandate.

**3.1.3** In planning an audit, the auditor should:

- (a) identify important aspects of the environment in which the audited entity operates;
- (b) develop an understanding of the accountability relationships;
- (c) consider the form, content and users of audit opinions, conclusions or reports;
- (d) specify the audit objectives and the tests necessary to meet them;

- (e) identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses;
- (f) determine the materiality of matters to be considered;
- (g) review the internal audit of the audited entity and its work program;
- (h) assess the extent of reliance that might be placed on other auditors, for example, internal audit;
- (i) determine the most efficient and effective audit approach;
- (j) provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and
- (k) provide for appropriate documentation of the audit plan and for the proposed fieldwork.

3.1.4 The following planning steps are normally included in an audit:

- (a) collect information about the audited entity and its organisation in order to assess risk and to determine materiality;
- (b) define the objective and scope of the audit;
- (c) undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
- (d) highlight special problems foreseen when planning the audit;
- (e) prepare a budget and a schedule for the audit;
- (f) identify staff requirements and a team for the audit; and
- (g) familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

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

## **3.2 Supervision and Review**

3.2.1 The field standards include

The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff (see paragraph 3.0.3b).

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

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

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

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

3.2.4 All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out

as each part of the audit progresses. Review brings more than one level of experience and judgement to the audit task and should ensure that:

- (a) all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;
- (b) all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and
- (c) changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.

3.2.5 This standard operates differently in SAIs organised in a collegiate form. In such a structure, decisions, except those of a routine nature, are taken on a collegiate basis at a level appropriate to the importance of the matter. Such an entity, as a whole, decides on the scope of the examination, the tests to be undertaken and the methods to be used.

### **3.3 Study and Evaluation of Internal Control**

3.3.1 The field standards include

The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control (see paragraph 3.0.3c).

The following paragraphs explain internal control as an auditing standard.

3.3.2 The study and evaluation of internal control should be carried out according to the type of audit undertaken. In the case of a regularity (financial) audit, study and evaluation are made mainly on controls that assist in safeguarding assets and resources, and assure the accuracy and completeness of accounting records. In the case of regularity (compliance) audit, study and evaluation are made mainly on controls that assist management in complying with laws and regulations. In the case of performance audit, they are made on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner, ensuring adherence to management policies, and producing timely and reliable financial and management information.

3.3.3 The extent of the study and evaluation of internal control depends on the objectives of the audit and on the degree of reliance intended.

3.3.4 Where accounting or other information systems are computerized, the auditor should determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data.

## **3.4 Compliance With Applicable Laws and Regulations**

3.4.1 The field standards include:

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

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

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the SAI is to make sure, by all the means put at its disposal, that the State budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the financial obligations of the State. To achieve this objective the SAI will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge" (see paragraph 3.0.3d).

The following paragraphs explain compliance as an auditing standard.

3.4.2 Reviewing compliance with laws and regulations is especially important when auditing government programs because decision makers need to know if the laws and regulations are being followed, whether they are having the desired results, and, if not, what revisions are necessary. Additionally government organisations, programs, services, activities, and functions are created by laws and are subject to more specific rules and regulations.

3.4.3 Those planning the audit need to be knowledgeable of the compliance requirements that apply to the entity being audited. Because the laws and regulations that may apply to a specific audit are often numerous, the auditors need to exercise professional judgement in determining those laws and regulations that might have a significant impact on the audit objectives.

3.4.4 The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may indirectly impact the results of the audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor needs to determine the extent to which these acts affect the audit results.

3.4.5 In conducting audits in accordance with this standard, the auditors should choose and perform audit steps and procedures that, in their professional judgement, are appropriate in the circumstances. These audit steps and procedures should be designed to obtain sufficient, competent, and relevant evidence that will provide a reasonable basis for their judgements and conclusions.

3.4.6 Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, auditors should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance.

3.4.7 Without affecting the SAI's independence, the auditors should exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include consulting appropriate legal counsel and the applicable law enforcement organisations to

determine the audit steps and procedures to be followed.

## **3.5 Audit Evidence**

3.5.1 The field standards include

Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit (see paragraph 3.0.3e).

The following paragraphs explain audit evidence as an auditing standard.

3.5.2 The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer-based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant.

3.5.3 Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence. The SAI should ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.

3.5.4 In choosing approaches and procedures, consideration should be given to the quality of evidence, i.e., the evidence should be competent, relevant and reasonable.

3.5.5 Auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.

3.5.6 Adequate documentation is important for several reasons. It will:

- (a) confirm and support the auditor's opinions and reports;
- (b) increase the efficiency and effectiveness of the audit;

- (c) serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- (d) serve as evidence of the auditor's compliance with Auditing Standards;
- (e) facilitate planning and supervision;
- (f) help the auditor's professional development;
- (g) help to ensure that delegated work has been satisfactorily performed; and
- (h) provide evidence of work done for future reference.

3.5.7 The auditor should bear in mind that the content and arrangement of the working papers reflect the degree of the auditor's proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

## **3.6 Analysis of Financial Statements**

3.6.1 The field standards include

In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements (see paragraph 3.0.3f).

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

3.6.2 Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual



trends. The auditor should therefore thoroughly analyse the financial statements and ascertain whether:

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

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

3.6.4 Where the SAI is required to report on the execution of budgetary laws, the audit should include:

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

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## *Chapter IV*

### **Reporting Standards in Government Auditing**

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

4.0.2 The expression "reporting" embraces both the auditor's opinion and other remarks on a set of financial statements as a result of a regularity (financial) audit and the auditor's report on completion of a performance audit.

4.0.3 The auditor's opinion on a set of financial statements is generally in a concise, standardised format which reflects the results of a wide range of tests and other audit work. There is often a requirement to report as to the compliance of transactions with laws and regulations and to report on matters such as inadequate systems of control, illegal acts and fraud. In some countries, constitutional or statutory obligations may require the SAI to report specifically on the execution of budgetary laws, reconciling budgetary estimates and authorisation to the results set out in the financial statements.

4.0.4 In a performance audit, the auditor reports on the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are met. Such reports may vary considerably in scope and nature, for example covering whether resources have been applied in a sound manner, commenting on the impact of policies and programs and recommending changes designed to result in improvements.

4.0.5 In order to recognise reasonable user needs, the auditor's report in both regularity and performance auditing may need to have regard to expanded reporting periods or cycles and relevant and appropriate disclosure requirements.

4.0.6 For ease of reference in this chapter, the word "opinion" is used to mean the auditor's conclusions as a result of a regularity (financial) audit, and may embrace the matters described in paragraph 4.0.3; the word "report" is

used to mean the auditor's conclusions following a performance audit, as described in paragraph 4.0.4.

4.0.7 The reporting standards are

- (a) At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.
- (b) It is for the SAI to which they belong to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

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

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

The following paragraphs explain reporting as an auditing standard. Paragraph 4.0.8 relates both to opinions and reports, paragraphs 4.0.9 - 4.0.20 relate to opinions and paragraphs 4.0.21 - 4.0.26 to reports.

4.0.8 The form and content of all audit opinions and reports are founded on the following general principles:

- (a) Title. The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.
- (b) Signature and date. The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that

date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).

- (c) Objectives and scope. The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
- (d) Completeness. Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports should be presented as prepared by the auditor. In exercising its independence the SAI should be able to include whatever it sees fit, but it may acquire information from time to time which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor retains a responsibility for considering the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
- (e) Addressee. The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This may be unnecessary where formal procedures exist for its delivery.
- (f) Identification of subject matter. The opinion or report should identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
- (g) Legal basis. Audit opinions and reports should identify the legislation or other authority providing for the audit.
- (h) Compliance with standards. Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.

- (i) **Timeliness.** The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

4.0.9 An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 4.0.14) or a disclaimer (paragraph 4.0.15) of opinion.

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

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

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

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

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

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

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

4.0.15 **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

4.0.16 It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

4.0.17 In addition, regularity audits often require that reports are made where weaknesses exist in systems of financial control or accounting (as distinct from performance audit aspects). This may occur not only where weaknesses affect the audited entity's own procedures but also where they relate to its control over the activities of others. The auditor should also report on significant irregularities, whether perceived or potential, on inconsistency of application of regulations or on fraud and corrupt practices.

4.0.18 SAIs which have a jurisdictional statute have the ability to take action on certain irregularities discovered in financial statements. They may be authorized to reconcile the accounts prepared by the accountants and impose fines with regard to accountants, and in certain circumstances can cause their suspension or dismissal.

4.0.19 In reporting on irregularities or instances of non compliance with laws or regulations, the auditors should be careful to place their findings in the proper perspective. The extent of non-compliance can be related to the number of cases examined or quantified monetarily.

4.0.20 Reports on irregularities may be prepared irrespective of a qualification of the auditor's opinion. By their nature they tend to contain significant criticisms, but in order to be constructive they should also address future remedial action by incorporating statements by the audited entity or by the auditor, including conclusions or recommendations.

4.0.21 In contrast to regularity audit, which is subject to fairly specific requirements and expectations, performance audit is wide-ranging in nature and is more open to judgement and interpretation; coverage is also more selective and may be carried out over a cycle of several years, rather than in one financial period; and it does not normally relate to particular financial or other statements. As a consequence performance audit reports are varied and contain more discussion and reasoned argument.

4.0.22 The performance audit report should state clearly the objectives and scope of the audit. Reports may include criticism (for example where, in the public interest or on grounds of public accountability, matters of serious waste, extravagance or inefficiency are drawn to attention) or may make no significant criticism but give independent information, advice or assurance as to whether and to what extent economy, efficiency and effectiveness are being or have been achieved.

4.0.23 The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to be done in relation to specific areas of an entity's activities, the auditor should provide a report which describes the circumstances and arrives at a specific conclusion rather than a standardised statement. Where the audit is confined to consideration of whether sufficient controls exist to secure economy, efficiency or effectiveness, the auditor may provide a more general opinion.

4.0.24 Auditors should recognise that their judgements are being applied to actions resulting from past management decisions. Care should therefore be exercised in making such judgements, and the report should indicate the nature and extent of information reasonably available (or which ought to have been available) to the audited entity at the time the decisions were taken. By stating clearly the scope, objectives and findings of the audit, the report demonstrates to the reader that the auditor is being fair. Fairness also implies the presentation of weaknesses or critical findings in such a way as to encourage correction, and to improve systems and guidance within the audited entity. Accordingly the facts are generally agreed with the audited entity in order to ensure that they are complete, accurate and fairly presented in the audit report. There may also be a need to include the audited entity's responses to the matters raised, either verbatim or in summary, especially where the SAI presents its own views or recommendations.

4.0.25 Performance reports should not concentrate solely on criticism of the past but should be constructive. The auditor's conclusions and recommendations are an important aspect of the audit and, where appropriate, are written as a guide for action. Generally these recommendations suggest what improvements are needed rather than how to achieve them, though circumstances sometimes arise which warrant a specific recommendation, for example to correct a defect in the law in order to bring about an administrative improvement.

4.0.26 In formulating and following up recommendations, the auditor should maintain objectivity and independence and thus focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted.

4.0.27 In formulating the audit opinion or report, the auditor should have regard to the materiality of the matter in the context of the financial



statements (regularity (financial) audit) or the nature of the audited entity or activity (performance audit).

4.0.28 For regularity (financial) audits, if the auditor concludes that, judged against the criteria most appropriate in the circumstances, the matter does not materially affect the view given by the financial statements, the opinion should not be qualified. Where the auditor decides that a matter is material the opinion should be qualified, having determined the type of qualification (paragraphs 4.0.12 - 4.0.15).

4.0.29 In the case of performance audits that judgement will be more subjective as the report does not relate so directly to financial or other statements. Consequently the auditor may find that materiality by nature or by context is a more important consideration than materiality by amount.

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# *G*lossary

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## **Accounting Control System**

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

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## **Administrative Control System**

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

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## **Audited Entity**

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

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## **Audit Evidence**

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

**Competent:** information that is quantitatively sufficient and appropriate to achieve the auditing results; and is qualitatively impartial such as to inspire confidence and reliability.

**Relevant:** information that is pertinent to the audit objectives.

**Reasonable:** information that is economical in that the cost of gathering it is commensurate with the result which the auditor or the SAI is trying to achieve.

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## **Audit Mandate**

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

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## **Audit Objective**

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

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## **Audit Procedures**

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

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## **Audit Scope**

The framework or limits and subjects of the audit.

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## **Auditing Standards**

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

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## **Constitutional**

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

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## **Due Care**

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

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## **Economy**

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

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## **Effectiveness**

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

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## **Efficiency**

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

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## **Executive Branch of Government (Executive)**

The branch of government which administers the law.

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## **Field Standards**

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

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## **Financial Systems**

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

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## **Findings, Conclusions and Recommendations**

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

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## **Fundamental**

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

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## **General Standards**

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

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## **Independence**

The freedom of the SAI in auditing matters to act in accordance with its audit mandate without external direction or interference of any kind.

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## **Internal Audit**

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

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## **Internal Control**

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

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## **International Organisation of Supreme Audit Institutions (INTOSAI)**

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

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## **Legislature**

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

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## **Management Audit**

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

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## **Materiality and Significance (Material)**

In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material--for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved. In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to the overall view given by the accounts; the total of which it forms a part; associated terms; the corresponding amount in previous years. Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures.

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## **Opinion**

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

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## **Performance Audit**

An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.

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## **Planning**

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

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## **Principles**

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

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## **Public Accountability**

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

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## **Regularity Audit**

Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements; attestation of financial accountability of the government administration as a whole; audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations; audit of internal control and internal audit functions; audit of the probity and propriety of administrative decisions taken within the audited entity; and reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed.

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## **Report**

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

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## **Reporting Standards**

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

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## **Supervision**

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

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## **Supreme Audit Institution (SAI)**

The public body of a State which, however designated, constituted or organised, exercises by virtue of law the highest public auditing function of that State.





