

INTOSAI



# *Fundamental Principles of Public Sector Auditing*

*Proposed*

*Endorsement Version*

*(In the PSC working language)*

*For approval by the PSC*

*Steering Committee*

*(Cf. Due Process - Stage 3)*

# INTOSAI



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## INTRODUCTION

1. The application of professional standards and guidelines are essential for the credibility, quality and professionalism of public sector auditing. The International Standards of Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) enable independent and effective auditing by Supreme Audit Institutions (SAIs).
2. The ISSAIs encompass public sector auditing requirements at the organisational (SAI) level and on the level of individual audits aim to support the members of INTOSAI in the development of their own professional approach in accordance with their national laws and regulations and mandate.
3. INTOSAI's framework of Professional Standards has four levels. Level 1 contains the framework's founding principles. Level 2 (ISSAIs 10-99) sets out the prerequisites for the proper functioning and professional conduct of a SAI relating to organisational considerations including independence, transparency and accountability, ethics and quality control which are relevant for all SAI audits. Levels 3 and 4 address the conducting of individual audits and include the generally recognised professional principles that underpin effective, independent auditing of public sector entities.
4. The Fundamental Auditing Principles at level 3 (ISSAIs 100-999) draw and elaborate on ISSAI 1 The Lima Declaration and the ISSAIs at level 2 and provide the authoritative international frame of reference that defines public sector auditing.
5. Level 4 translates the Fundamental Auditing Principles into more specific, detailed and operational guidelines that can be used on a daily basis in the conduct of an audit and can be used as auditing standards when national auditing standards have not been developed. The General Auditing Guidelines (ISSAIs 1000-4999) contain the requirements for financial, performance and compliance auditing.
6. ISSAI 100 Fundamental Principles of Public Sector Auditing provides detailed information on:
  - the purpose and authority of the ISSAIs
  - the framework for public sector auditing
  - the elements of public sector auditing
  - the organisational requirements relating to quality control and ethics
  - the principles to be applied in public sector auditing.

## PURPOSE AND AUTHORITY OF THE ISSAIs

7. ISSAI 100 provides the fundamental principles which are applicable to all public sector audit engagements irrespective of their form or context. ISSAIs 200, 300 and 400 builds on and further develop the principles to be applied in the context of financial auditing, performance auditing and compliance auditing. The principles contained in these documents should be

applied in conjunction with the principles presented in ISSAI 100. These principles do not override national laws, regulations or mandates and do not prevent that SAls may perform investigations, reviews, or other engagements which are not specifically covered by the existing ISSAIs.

8. The Fundamental Auditing Principles represent the core of the General Auditing Guidelines (ISSAI 1000-4999) contained on level 4 of the ISSAI framework. The principles can be used as a basis for developing authoritative standards in three ways:

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

The standards developed by a SAI may be contained in a single document, a series of standards documents or standards documents and other authoritative documents taken together.

SAls should declare the standards applied in the conducting of audits and this declaration should be accessible to users of the SAI's report. Where the standards are based on several sources taken together this should also be stated. SAls are encouraged to make such declarations as part of their audit report, however a more general form of communication may be used.

9. A SAI may declare that the standards it has developed or adopted are based on or are consistent with the Fundamental Auditing Principles only if the standards fully comply with all relevant principles.

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

*...We conducted our audit in accordance with [standards] based on [or consistent with] the Fundamental Auditing Principles (ISSAIs 100-999) of the International Standards of Supreme Audit Institutions.*

In order to properly adopt or develop auditing standards based on the Fundamental Auditing Principles, an understanding of the entire text related to the principles included in the Fundamental Auditing Principles is necessary. In achieving this understanding it may be helpful to consult the relevant guidance related to the audit as addressed in the General Auditing Guidelines (ISSAIs 1000-4999).

10. SAls may choose to adopt the General Auditing Guidelines (ISSAIs 1000-4999) as their authoritative standards. In such cases the auditor shall comply with all ISSAIs relevant to the audit. Reference to the ISSAIs applied may be made by stating:

*...We conducted our audit[s] in accordance with the International Standards of Supreme Audit Institutions.*

In order to enhance transparency the statement may further specify which ISSAI or range of ISSAIs the auditor has considered relevant and applied. This may be achieved by adding the following to the above:

*The audit[s] was based on ISSAIs xxx [name of the ISSAI or range of ISSAIs]*

11. The International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC) are incorporated in the financial auditing guidelines (ISSAIs 1000-1999). In case of financial audits reference may be made either to the ISSAIs or to the ISAs. The ISSAIs provide additional public sector application material (guidance) beyond what is provided by the ISAs, but the requirements of the auditor are the same. The ISSAIs included in the financial audit guidelines and the ISAs constitute a set of standards and cannot be referred to individually. If the ISSAIs on level 4 or the ISAs have been adopted as the SAI's standards for financial audits, the auditor's report should include reference to these standards. This would equally apply to financial audits in combination with other types of audits.
12. Audits may be conducted in accordance with both the General Auditing Guidelines and standards from other sources provided that such other standards do not contradict the General Auditing Guidelines. In which case reference should be made both to such standards and the ISSAIs.

## FRAMEWORK FOR PUBLIC SECTOR AUDITING

### *Mandate*

13. A SAI exercises its public sector audit function within a specific constitutional arrangement and by virtue of its office and mandate which ensures sufficient independence and powers to apply discretion in performing its duties. The mandate of a SAI may define its general responsibilities for the conduct of public sector auditing and provide further prescriptions concerning the audits and other engagements to be performed.
14. SAIs may be mandated to perform many types of engagements regarding any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public funds and assets. The extent or form of these engagements and reporting thereon varies in line with the legislated mandate of the SAI.
15. In certain countries, the SAI is a court, composed of judges, which has authority over State accountants and other public officials who must render accounts to it. There exists an important relationship between this jurisdictional authority and the characteristics of public sector auditing. This jurisdictional function requires the SAI to make sure that whoever is charged with dealing with public funds is held accountable and is in this regard is subject to its jurisdiction.
16. SAIs may make strategic decisions in order to respond to the requirements in its mandate and other legislative requirements. Decisions may include which auditing standards are applicable, which engagements will be conducted and with what priority.

### *Public sector auditing and its objectives*

17. Public sector auditing is conducted in the environment where governments and other public sector entities are the parties responsible for resources raised from taxpayers and other sources for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and performance, and their use of resources to those that provide them with the resources and those that depend on them to use the resources to deliver necessary services, including citizens. Public sector auditing helps to create the conditions and to reinforce the expectation that public sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with laws and regulations.
18. In general public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions correspond with established criteria. Public sector auditing is essential in providing information and independent and objective assessments of the stewardship and performance of government policies, programmes or operations, to legislatures, oversight bodies, those charged with governance and the public.
19. With this aim SAs serve as important pillars of their national democratic systems and governance mechanisms and play an important role in enhancing public sector administration by emphasising the principles of transparency, accountability, governance and performance. ISSAI 20 Principles of Transparency and Accountability contain guidance in this regard.
20. All public sector audits begin with objectives which may differ depending on the type of audit being conducted. However all public sector auditing contributes to good governance by:
  - Providing intended users with independent, objective and reliable information, conclusions or opinions based on sufficient and appropriate evidence relating to public entities.
  - Enhancing accountability, transparency and encouraging continuous improvement and confidence in the appropriate use of public funds and assets and of public administration performance.
  - Facilitating the functions of those bodies within the constitutional arrangement that are exercising general monitoring and corrective functions over those responsible for the management of publicly funded activities.
  - Creating incentives for change by providing knowledge, comprehensive analysis and well founded recommendations for improvement.
21. In general public sector audits can be categorised into one or more of the three main types: the audit of financial statements, the audit of compliance with authorities and performance audits. The objectives of the audit to be conducted will determine the applicable standards to be followed.

### *Types of public sector auditing*

22. The three main types of public sector auditing are defined as follows:

Financial Auditing focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion on whether the financial information is free from material misstatement whether due to fraud or error.

Performance auditing focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. This is accomplished by examining performance against suitable criteria and by analysing causes of deviations from criteria or problems. The aim is to answer key audit questions and to provide recommendations for improvement.

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

23. SAIs may perform audits or other engagements regarding any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public resources. These engagements may include reporting on the quantitative measures of the outputs and outcomes of the entity's service delivery activities, sustainability reports, future resource requirements, adherence to internal control standards, real-time audits of projects or other matters. The audits conducted by SAIs may be a combination of financial, performance and/or compliance audits.

## **ELEMENTS OF PUBLIC SECTOR AUDITING**

24. The concept of public sector auditing is inherent in public administration as the management of public resources represents a trust. The responsibility for management of public resources for intended purposes is entrusted to an entity or person to act on behalf of the public. Public sector auditing enhances the confidence of intended users by providing information and independent and objective assessments on deviations from accepted standards or principles of good governance.

Public sector audits have the same basic elements: the auditor, the responsible party, intended users (the 3 parties in the audit), criteria used to assess the subject matter and the resulting subject matter information. Public sector audits can be categorized as two different types of audit engagements; attestation engagements and direct reporting engagements.



### *The three parties*

25. Public sector audits involve at least three separate parties: The auditor, a responsible party and intended users. The relationship between the parties needs to be viewed within the context of the specific constitutional arrangements relating to the type of audit.
- The auditor: In public sector auditing the role of auditor is fulfilled by the Head of the SAI and by persons delegated the task of conducting the audits. The overall responsibility for public sector audits within the SAI's mandate remains with the Head of the SAI. In this context the public sector auditor is hereinafter referred to as "the auditor".
  - The responsible party: In public sector auditing the relevant responsibilities are determined by the constitutional arrangement or the law. The responsible parties may be the party responsible for statements about the subject matter information, the party responsible for managing the subject matter, or the party responsible for addressing recommendations. The responsible party may sometimes be an individual or an organisation.
  - Intended users: The intended users are the individuals, organisations or classes thereof for whom the auditor prepares the audit report. The intended users can be legislatures, oversight bodies, those charged with governance and the public

### *Subject matter, criteria and subject matter information*

26. Subject matter refers to the information, condition or activity that is measured or evaluated by applying criteria. Subject matter can take many forms and have different characteristics depending on the audit objective. An appropriate subject matter is identifiable, and capable of consistent evaluation or measurement against identified criteria, such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion.
27. Criteria are the benchmarks used to evaluate the subject matter of an audit. Each audit should have criteria suitable to the circumstances of the audit. In determining the suitability of the criteria the auditor considers relevance, completeness, reliability, neutrality, comparability, acceptability as well as availability, understandability and objectivity. The audit criteria used may depend on a range of factors including the objective and the type of audit. Criteria can be specific or more general, and may be drawn from various sources including laws, regulations, standards, sound principles, best practices. The criteria should be available to the intended users to enable them to understand how the subject matter has been evaluated or measured.

28. Subject matter information refers to the outcome of the evaluation or measurement of the subject matter against the criteria. Subject matter information can take many forms and have different characteristics depending on the audit objective and audit scope.

### *Types of engagements*

29. There are two types of engagements:

- In attestation engagements it is the responsible party who measures the subject matter against criteria and presents the subject matter information, on which the auditor gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.
- In direct reporting engagements it is the auditor who measures or evaluates the subject matter against criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of the measurement of the subject matter against the criteria may be presented in the format of findings, conclusions, recommendations or an opinion in the audit report. The audit of the subject matter may also provide new information, analyses or insights.

30. Financial audits are always an attestation engagement and are based on financial information presented by the responsible party. Performance audits are normally direct reporting engagements. Compliance audits may be both attestation engagements or direct reporting engagements. The following constitute the subject matter or the subject matter information in the three types of auditing covered by the ISSAIs:

- *Financial auditing:* The subject matter of a financial audit is the financial performance or conditions for which the subject matter information on financial position, financial performance and cash flow is recognized, measured, and presented in financial statements. The subject matter information, the financial statements, should be identifiable and capable of consistent evaluation or measurement against the identified criteria, such that it can be subjected to procedures for gathering audit evidence to support the audit opinion.
- *Performance auditing:* The subject matter of a performance audit is defined by the audit objectives and the audit questions. The subject matter can be activities, non-financial or financial information or actual conditions or its causes and consequences, defined by the objective and formulated in the audit questions. The auditor measures or evaluates the subject matter to determine the extent to which established criteria have or have not been met.
- *Compliance auditing:* The subject matter of a compliance audit is defined by the scope of the audit. The subject matter of compliance audits can be activities, financial transactions and information. For attestation engagements on compliance it is more relevant to identify the subject matter information. The subject matter information maybe a statement of compliance in accordance with an established and standardized reporting framework.

## *Confidence and assurance in public sector auditing*

### The need for confidence and assurance

31. Intended users seek confidence about the reliability and relevance of the information used as the basis for their decisions. Therefore, audits provide information based on sufficient and appropriate evidence and auditors perform procedures to reduce or manage the risk of reaching inappropriate conclusions. The level of assurance that can be provided to the intended user should be communicated in a transparent way. However, due to inherent limitations, audits can never provide absolute assurance.

### Forms to provide assurance

32. Depending on the needs of the users and the audit assurance can be communicated in two ways:

- Through opinions and conclusions which explicitly conveys the level of assurance. This applies to all attestation engagements and certain direct reporting engagements.
- By other forms: In some direct reporting engagements the auditor does not provide an explicit statement of assurance on the subject matter. In this case the auditor conveys the confidence required by the user by providing explicit explanations of how findings, criteria and conclusions were developed in a balanced and logically reasoned manner, including why the combinations of findings and criteria result in a certain overall conclusion or recommendation.

### Levels of assurance

33. Assurance can be either reasonable or limited.

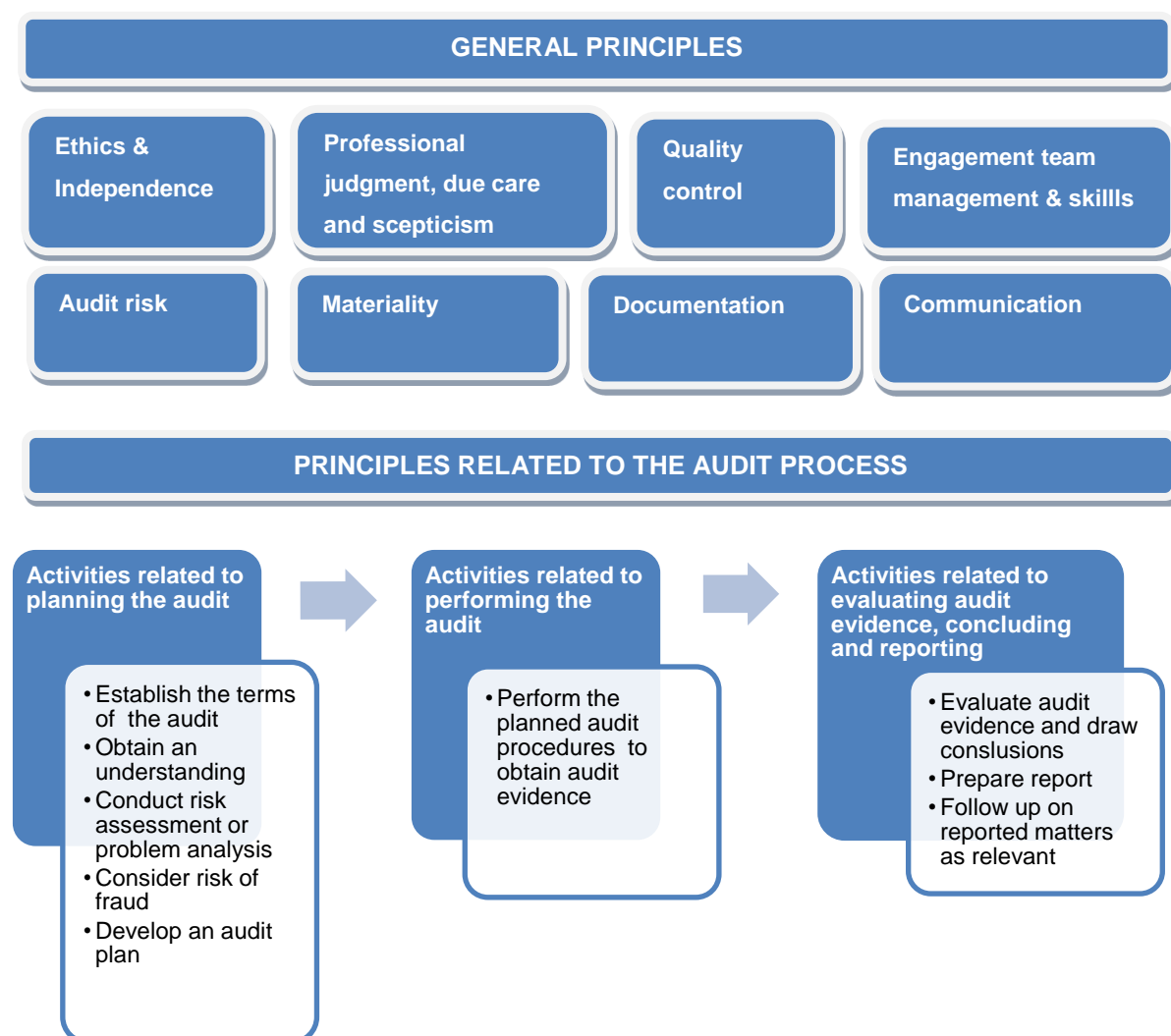
Reasonable assurance is high but not absolute assurance. The auditor's conclusion is expressed positively, conveying that in the auditor's opinion the subject matter is / is not in compliance, in all material respects, or, when relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria.

When providing limited assurance, the auditor's conclusion conveys that, based on the procedures performed, nothing has come to the auditor's attention to cause the auditor to believe the subject matter is not in compliance with the applicable criteria. The procedures performed in a limited assurance audit are limited compared with what is necessary in a reasonable assurance audit, but it is planned to obtain a level of assurance that is, in the auditor's professional judgement, meaningful to the intended users. The limited assurance report communicates the limited nature of the assurance provided.

## PRINCIPLES FOR PUBLIC SECTOR AUDITING

34. The principles detailed below are fundamental to the conduct of an audit. An audit is a cumulative and iterative process but, for the purposes of presentation in this ISSAI the fundamental principles have been grouped into principles related to organisational requirements of the SAI, principles that the auditor should consider prior to commencement and at more than one point throughout the audit process (General principles) and those principles related to identified steps in the audit process itself.

**Figure 3: Areas covered by the principles for public sector auditing**



### *Organisational requirements*

#### **35. SAls should establish and maintain appropriate procedures for ethics and quality control**

A SAI should establish and maintain procedures for ethics and quality control on an organizational level to provide it with reasonable assurance that the SAI and its personnel comply with professional standards and applicable ethical, legal and regulatory requirements. ISSAI 30 Code of Ethics and ISSAI 40 Quality Control for SAls contain guidance in this regard which should be seen as reflecting minimum requirements. The existence of these procedures at SAI level is a prerequisite for applying or for developing national standards based on the Fundamental Auditing Principles.

### *General principles*

#### Ethics and independence

#### **36. Auditors should comply with relevant ethical requirements and be independent.**

Ethical principles should be embodied in an auditor's professional behaviour. The SAls ethical policies should address ethical requirements and emphasise the need for compliance by each individual auditor. Auditors should remain independent so that their reports will be impartial and be seen as such by the intended users.

Auditors can find guidance on independence in ISSAI 10 Mexico Declaration on SAI Independence. Guidance on the key ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are defined in ISSAI 30 Code of Ethics.

#### Professional judgement, due care and scepticism

#### **37. Auditors should maintain an appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the audit.**

Professional scepticism and professional judgement are to be applied when formulating the auditors' decisions about the appropriate course of action and to determine the attitude of the auditor. Auditors should further exercise due care to ensure an appropriate professional behaviour.

Professional scepticism means maintaining professional distance and an alert and questioning attitude in assessing the sufficiency and appropriateness of evidence obtained throughout the audit. It includes also to remaining open-minded and receptive to views and arguments. Professional judgement represents the application of collective knowledge, skills and experience to the audit process. Due care means that the auditor should plan and conduct the audit in diligent manner. Auditors should avoid any conduct that might discredit the auditors work.

These principles are based on the interaction of professional and behavioural characteristics that recognize the auditor's responsibility to perform the audit and reach conclusions.

### Quality control

#### **38. Auditors should perform the audit in accordance with professional standards on quality control.**

A SAI's quality control policies and procedures should comply with professional standards. The aim is to ensure that audits are performed to a consistently good level of quality. Quality control procedures should include matters such as the direction, review, and supervision, of the audit process and consulting and reaching decisions on difficult or contentious matters. Auditors can find additional guidance in ISSAI 40, Quality Control for SAIs.

### Audit team management and skills

#### **39. Auditors should possess or have access to the necessary skills.**

The individuals in the audit team should collectively possess the knowledge, skills and expertise necessary to successfully complete the audit. This includes an understanding of and practical experience of the type of audit being conducted; an understanding of the applicable standards and legislation; an understanding of the entity's operations; and the ability and experience to exercise professional judgement. Consistent for all audits are the needs for recruiting personnel with suitable qualifications, developing and training employees, the preparation of manuals and other written guidance and instructions concerning the conduct of audits, and the assignment of sufficient resources for the audit. Auditors should maintain professional competence through continuing professional development.

In circumstances where it is relevant or necessary and in line with its mandate, and applicable legislation the auditor may use the work of internal auditors, other auditors or experts. The auditor should perform procedures that provide a sufficient basis for using the work of others and in all cases the auditor should obtain evidence concerning the other auditor or expert's competence and independence and the work performed. However the SAI has sole responsibility for any audit opinion or report it might make on the subject matter and that responsibility is not reduced by its use of the work of others.

The objectives of internal audit are different from those of the external audit, however both internal and external audit promote good governance through contributions to transparency and accountability for the use of public resources, as well as to promote efficient, effective, and economic public administration. This offers opportunities for coordination and cooperation and the possibility of eliminating duplication of effort.

Some SAIs use the work of other auditors working at state, province, region, district or parish level within the country, or in public accounting firms where they have completed audit work related to the audit objective. These arrangements should include conditions to ensure work is performed in accordance with public sector auditing standards.

Audits may require specialized techniques, methods or skills from disciplines not available within the SAI. In this case experts may be used to e.g. provide knowledge or conduct specific work.

### Audit risk

#### **40. Auditors should manage the risks of providing an inappropriate report in the circumstances of the audit**

The audit risk is the risk that the auditor's report may be inappropriate. An auditor performs procedures to reduce or manage the risk of reaching inappropriate conclusions, recognizing that there are inherent limitations in all audits. These limitations mean that an audit can never provide absolute certainty of the condition of the subject matter.

When providing reasonable assurance the auditor reduces audit risk to an acceptably low level in the circumstances of the audit. The auditor may also provide limited assurance where the risk is greater than in a reasonable assurance audit. A limited assurance audit is planned to obtain a level of assurance that is, in the auditor's professional judgment, meaningful to the intended users.

### Materiality

#### **41. Auditors should consider materiality throughout the audit process.**

Materiality is relevant in all audits. A matter may be judged material if knowledge of it would be likely to influence the decisions of intended users. Determining materiality is a matter of professional judgement and is based on the auditor's interpretation of the needs of the users. The judgment may relate to an individual item or to a group of items in aggregate. Materiality is often considered in terms of value but has both quantitative and qualitative aspects. The inherent characteristics of an item or a group of items may also render a matter material by its nature. A matter may also be material because of the context in which it occurs.

Materiality considerations affect the determination of the nature, timing and extent of audit procedures to be applied as well as the evaluation of the results of the audit. Materiality considerations may include stakeholders concerns, public interest, regulatory requirements, or consequences for society etc.

### Documentation

#### **42. Auditors should prepare audit documentation in sufficient detail to provide a clear understanding of work performed, evidence obtained and conclusions reached.**

Audit documentation should include the audit strategy; audit plan; record of procedures performed; and evidence obtained, and should support the communicated results of the audit. Documentation should be in sufficient detail to enable an experienced auditor, having no

previous connection to the audit, to understand from the audit documentation; the nature, timing and extent and the results of procedures performed; the audit evidence obtained to support the auditor's conclusions and recommendations; and to record reasoning on all significant matters that required the exercise of professional judgement and related conclusions.

### Communication

#### **43. Auditors should establish effective communication throughout the audit process.**

It is essential that the audited entity is well informed of the matters related to the audit. This is important in developing a constructive working relationship. This communication includes obtaining information relevant to the audit and providing management and those charged with governance with timely observations and findings throughout the audit. The auditor may also have a responsibility to communicate matters related to the audit with other stakeholders such as the legislature and oversight bodies.

### *Principles related to the audit process*

#### Activities related to planning the audit

#### **44. Auditors should ensure that the terms of the audit have been clearly established**

Audits may be required by statutes, requested by legislatures or other oversight bodies, initiated by the SAI or carried out on the basis of an agreement with the audited entity. In all cases the auditor, the audited entity's management, those charged with governance and others as applicable should reach a common, formal understanding of the terms of the audit and their respective roles and responsibilities. Important information may include the subject, scope and objectives of the audit to be performed, access to information, the report that will result from the audit, the audit process, contact persons, and roles and responsibilities of the different parties to the engagement.

#### **45. Auditors should obtain an understanding of the nature of the entity/programme to be audited.**

This includes understanding the objectives, operations, regulatory environment, internal controls, financial and other systems, and business processes involved as well as the potential sources of audit evidence. Knowledge is obtained from regular interaction with management, those charged with governance, and other relevant stakeholders. This may also include consulting experts, studies of documents including earlier studies and other sources, in order to gain a broad understanding of the subject matter to be audited and its context.

#### **46. Auditors should conduct risk assessment procedures or problem analysis and revise this in response to audit findings as necessary.**

The nature of risks identified will differ depending on the objective of the audit. The auditor considers and assesses the risk of different types of potential deficiencies, deviations or misstatements that may occur in the subject matter. Risks are considered at both general and



detailed levels. This is achieved through understanding the entity and its environment including relevant internal control. The auditor should assess management's response to identified risks including implementation and design of internal controls to address the risks. In a problem analysis the auditor should consider actual problem indications or deviations from what should be or is expected. This process involves examining various problem indicators in order to define the audit objectives. The identification of risks and their impact on the audit should be considered throughout the audit process.

**47. Auditors should identify and assess the risks of fraud relevant to the audit objectives**

Auditors should make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives. Auditors should maintain an attitude of professional scepticism and be alert to the possibility of fraud throughout the audit process.

**48. Auditors should plan an audit to ensure that the audit is conducted in an effective and efficient manner.**

Planning the individual audit includes strategic and operational aspects:

Strategically, audit planning should define the scope, objectives and the approach to be applied in the audit. The objectives are what the audit is intended to accomplish. The scope defines the subject matter and criteria that the auditors will assess and report on and is directly related to the objectives. The approach describes the nature and extent of the audit procedures for gathering the audit evidence. The audit should be planned to reduce audit risk to an acceptably low level.

Operationally, planning the audit includes setting the, timing and direction of the audit and defines the nature, timing and extent of the audit procedures to be performed. During planning auditors should assign the appropriate staff to perform the audit and identify other resources such as subject experts that may be required.

Audit planning should be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the audit.

Activities related to performing the audit

**49. Auditors should perform audit procedures that provide sufficient and appropriate audit evidence to support the audit report.**

The auditor's decisions on the nature, timing and extent of audit procedures will impact on the evidence to be obtained. The types of procedures to be performed are in response to the assessed risks or problem analysis.

Audit evidence is any information used by the auditor to determine whether the subject matter is in accordance with suitable criteria. Evidence may take many forms such as electronic and documentary data about transactions, written and electronic communication with outsiders, observations by the auditor, oral or written testimony of the audited entity. Methods to obtain

audit evidence can include inspection, observation, inquiry, confirmation, recalculation, re-performance, analytical procedures or other research techniques.

Evidence should be sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) i.e. it is relevant, valid and reliable. The auditor's assessment of the evidence should be objective, fair and balanced. Preliminary findings should be communicated and discussed with the audited entity to confirm the validity of the findings.

The auditor has to respect existing requirements of confidentiality.

#### Activities related to evaluating audit evidence, concluding and reporting

##### **50. Auditors should evaluate the audit evidence and draw conclusions.**

After completing the audit procedures the auditor reviews the audit documentation to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, in light of the evidence collected, the auditor reconsiders initial judgements on the assessment of risk and materiality and determines whether additional audit procedures need to be performed.

The auditor evaluates the audit evidence to identify the audit findings. When evaluating the audit evidence and assessing materiality the auditor takes both quantitative and qualitative factors into consideration. Evidence is all the information used by the auditor to determine whether information being audited is in accordance with the established criteria.

Based on the findings the auditor exercises professional judgement to draw a conclusion on the subject matter or subject matter information.

##### **51. Auditors should prepare a report based on the conclusions drawn**

The audit process involves preparing a report to communicate the results of the audit to stakeholders, others responsible for governance and the public. The purpose is also to facilitate follow-up and corrective action. In some SAs including courts of audit this may include issuing legally binding reports or judicial decisions.

The report should be easy to understand and free from vagueness or ambiguity; be complete; include only information which is supported by sufficient and appropriate audit evidence; ensure that findings are put into perspective and context; and be objective and fair.

The form and content of the report will depend on the nature of the audit, the intended users, the applicable standards and legal requirements. The mandate, laws or regulations of the relevant jurisdiction may prescribe the layout or wording of the report. The audit report may take the form of a short form report or a long form report.

*Long form reports* generally describe in detail the audit scope, audit findings and conclusions, including potential consequences and constructive recommendations which enable future remedial actions.

*Short form reports* are more condensed and generally in a more standardised format.

### Attestation engagements

In attestation engagements the audit report may express an opinion on whether the subject matter information is, in all material respects, free from misstatement and/or whether the subject matter is, in all material respects, in accordance with the established criteria. In an attestation engagement the report is generally referred to as the Auditor's Report.

### Direct engagements

In direct engagements the audit report needs to convey the audit objectives and the manner in which they have been addressed in the audit. It includes findings and conclusions on the subject matter and may also include recommendations. Additional information about criteria, methodology and sources of data may also be given and limitations of the scope of the audit should be described.

The audit report needs to explain how the evidence obtained was used, why the conclusions were reached and thus be able to provide the level of confidence in the result of the audit expected by the intended users.

### Opinion

The audit opinion, which should be in a standardised format, may be modified (qualified) or unqualified when either limited or reasonable assurance is provided by the auditor. The modified opinion may either be:

- *Except for (qualified)* – where the auditor disagrees with or is unable to obtain sufficient and appropriate audit evidence about certain items in the subject matter which are, or could be, material but not pervasive.
- *Adverse* – where the auditor having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, individually or in the aggregate, are both material and pervasive.
- *Disclaimed* – where the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive.

Where the opinion is modified the reasons therefore should be put in perspective by clearly explaining, with reference to the applicable criteria, the nature and extent of the modification. Depending on the type of audit, recommendations for corrective action and the contributing deficiencies in internal control may also be included in the report.

### Follow up

SAIs have a role in monitoring actions taken by the responsible party on the matters raised in the SAI's reports. Follow up focuses on whether the audited entity has adequately addressed the matters raised including any wider implications. Insufficient or unsatisfactory action by the audited entity may lead to a further report by the SAI.