

Royal Audit Authority



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COMPLIANCE AUDIT GUIDELINES

JUNE 2021

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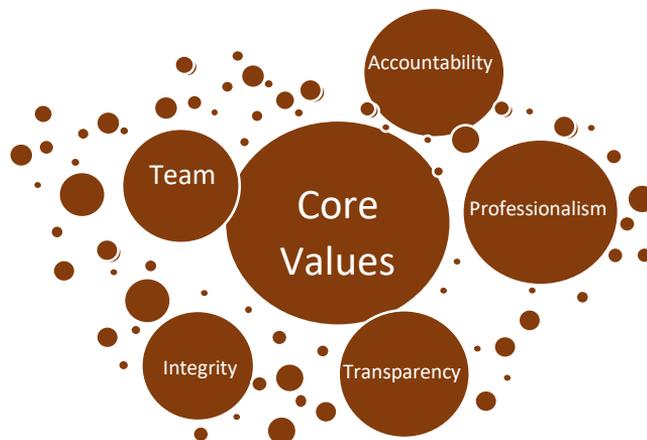
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Vision

“A credible Supreme Audit Institution that promotes value for money and good governance in public operations and contributes towards achieving the societal aspirations of Gross National Happiness”.

Mission

“RAA is an independent constitutional body which contributes to accountability, transparency, and effective service delivery. In the service of Tsa-Wa-Sum (the King, Country and People), we audit without fear, favour, or prejudice and provide timely, reliable, and quality audit services to assist effective decision making in the public sector”.



Foreword

With adoption of ISSAI as the authoritative standard and subsequent signing of schedule of commitments with IDI on 28th April 2016 for ISSAI implementation strategy, the RAA was expected to revise audit methodology for the compliance audit based on the ISSAI Implementation Handbook. Although the RAA has been conducting supplementary audit, there was such no methodology in place for the compliance audit. The RAA completed a draft compliance audit manual in April 2017 and later revised in June 2018 but had keep finalization on hold as the ISSAI Implementation Handbook on compliance was under review.

However, the RAA has finalized the compliance audit guidelines referring the ISSAI Implementation Handbook version 1st April 2019. The intent of the Guidelines is to help auditors or users understand the ISSAI 4000-based methodology by referring to explanations and examples. The interpretations provided represent the compliance audit methodology based on the ISSAI 4000, ISSAI 100 and 400. This guideline will assist the audit in conducting of the compliance audit with much ease which was customized to suit the practice consistent with our own context and environment.

While it is expected to help the RAA in conducting audits of high quality and ensure harmonization of practices through a common frame of reference, it should not restrict auditors in exercising their professional judgement and retaining professional scepticism when approaching and undertaking the audit work.

Lastly, we would like to acknowledge the World Bank for supporting the ISSAIs implementation.

June 2021


(Tashi)
Auditor General

ACRONYMS

| | | |
|---------|---|--|
| CA | : | Compliance Audit |
| CAS | : | Compliance Audit Subcommittee |
| COAD | : | Compliance and Outsourced Audit Division |
| COSO | : | Committee of Sponsoring Organisations |
| INTOSAI | : | International Organisation of Supreme Audit Institutions |
| INCOSAI | : | International Congress of Supreme Audit Institutions |
| IFPP | : | INTOSAI Framework of Professional Pronouncements |
| IDI | : | INTOSAI Development Initiative |
| ISSAI | : | International Standards of Supreme Audit Institution |
| PSC | : | Professional Standards Committee |
| QA | : | Quality Assurance |
| RAA | : | Royal Audit Authority |
| RMNC | : | Risk of Material Non Compliance |
| SAI | : | Supreme Audit Institution |

Acknowledgement

The ISSAIs Compliance Audit Guideline was revised and finalized by the following resource persons based on rich experience and knowledge gained from ISSAIs based audits. We thank our Compliance Audit mentors and resource persons who provided insight and technical expertise in developing this Guideline.

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We thank the following Compliance Audit Mentors for providing regular guidance and comments that greatly helped in improving this Guideline.

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Introduction

- 11 Public sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. As per ISSAI 100 there are mainly three types of public sector auditing: financial, compliance and performance. This Guidelines is intended to serve the purpose of guiding the auditors in conducting compliance audit.
- 12 The definition of the compliance audit builds on this definition with a specific focus on assessing compliance with criteria derived from authorities. Compliance audit is an independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria.
- 13 Before introducing the process of undertaking compliance, this chapter explains the nature, scope and purpose of the Guidelines. It also describes the mandate, definition, objectives, scope and need for compliance audit.

Nature and Scope of the Guideline

- 14 This Guideline has been developed to meet the needs of auditors of the Royal Audit Authority in conducting the compliance audits. It explains in broad terms how compliance audits should be planned, conducted, reported and followed-up. The Guidelines shall apply to all compliance audits undertaken by the RAA.
- 15 However, the guidelines provide only the minimum guidance, and the auditors should not be applied as rigidly prescriptive, and should not restrain themselves from exercising professional judgment and skepticism.
- 16 The use of this Guideline shall be limited to direct reporting engagement relevant to both reasonable and limited assurance. The RAA shall carry out only the direct reporting engagement which is more appropriate in our context. The RAA shall decide whether the engagement should be reasonable or limited assurance engagement.

Purpose of the Guideline

- 17 The purposes of the Guidelines are to:
 - ✦ Ensure consistency in audit approaches;
 - ✦ Provide minimum guidance;
 - ✦ Help achieve high quality of compliance audits in conformity to the ISSAI

requirements; and

- ★ Promote professional competence

Mandate

- 18 The Royal Audit Authority derives its mandate to conduct Compliance Audit from Article 25.1 of the Constitution of the Kingdom of Bhutan states that *“There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources”*.
- 19 Section 68 of the Audit Act 2018 states that, *“the authority shall audit and report on the economy, efficiency and effectiveness in the use of public resources”*.
- 110 Further Section 69 of the Audit Act 2018 states that, *“the authority shall carry out performance, financial, compliance, special audits and any other form of audits that the Auditor General may consider appropriate”*.

Compliance Audit in a Public Sector Context

- 111 In defining what Compliance Auditing is, we need to consider the definition of public sector auditing as the definition of Compliance auditing builds on from it. Public-sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. The definition of compliance audit builds on this definition with a specific focus on assessing compliance with criteria derived from authorities.
- 112 Compliance audit is an independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. As auditors, we assess whether activities, financial transactions, and information are, in all material respect, in compliance with the authorities which govern the audited entity. Auditors in compliance audit look for material deviations or departure from established criteria which could be based on laws and regulations, principles of sound financial management, or propriety.
- 113 As auditors, we need to understand the context of compliance auditing. The concepts and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in

individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent- or at least render more difficult – such breaches.

- 114 Public sector audit is essential for public sector administration, because the management of scarce public funds is placed into public sector officials' care. The usage of these funds is regulated by principles, rules and standards, which all together constitute the authorities. The officials are expected to act in the best interest of the public, by spending the funds for the intended purposes, and in line with the authorities.
- 115 It is the responsibility of public sector bodies and their appointed officials to be *transparent* about their actions and *accountable* to citizens for the funds with which they are entrusted, and to exercise *good governance* over those funds. Whether and how public sector managers fulfil their responsibilities is not a matter of absolute trust. Compliance audit plays an important role in ensuring that the principles of transparency, accountability and good governance are actually met.
- 116 Compliance auditing promotes transparency by providing reliable reports as to whether public funds have been utilized in line with the applicable authorities. It promotes accountability by reporting deviations from and violations of authorities. This information makes it possible to take corrective action, and to hold public officials accountable for their activities. Compliance audit promotes good governance by identifying weaknesses and deviations from laws and regulations and also by assessing the propriety of officials.
- 117 Compliance auditing may be concerned with regularity (adherence to formal criteria such as relevant laws, regulations and agreements) or with propriety (observance of the general principles governing sound financial management and the conduct of public officials). While regularity is the main focus of compliance auditing, propriety may also be pertinent given the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials. Depending on the mandate of the SAI and the nature of laws and regulations in the public sector context of the SAI, the audit scope may therefore include aspects of propriety.

Basic Concept of Compliance Audit

- 118 This section briefly introduces basic concepts of compliance audit and its elements. The auditors would appreciate how compliance audits help in

providing assurance to the intended users.

Definition

- 119 ISSAI 100 defines 'Compliance Audit' as *"focusing on whether a particular subject matter is in compliance with 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. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials"*.
- 120 The Handbook on Compliance Audit defines, *"Compliance audit is an independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. This is done by assessing whether activities, financial transactions and information are in all material respect, in compliance with the authorities which govern the audited entity"*.
- 121 Compliance auditing may be concerned with regularity (*adherence to formal criteria such as relevant laws, regulations and agreements*) or with propriety (*observance of the general principles governing sound financial management and the conduct of public officials*). While regularity is the main focus of compliance auditing, propriety may also be pertinent given the public sector context, in which there are certain expectations about financial management and the conduct of officials.
- 122 Compliance audits are risk-based and carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities that govern the audited entity, thereby, promotes good governance by identifying weaknesses and non-compliance with laws and regulations and also by assessing the propriety of officials.
- 123 Compliance audit can also be combined with a financial and a performance audit. ISSAI 100 states that SAIs may conduct combined audits incorporating financial, performance and/or compliance aspects.
- 124 *Combining financial and compliance audits* enables the auditor to obtain assurances on whether the financial statements are free from material misstatement, and also whether activities, financial transactions and information comply, in all material respects, with the authorities/or laws that govern the audited entity. This in case, the conclusion/opinion on the aspect of compliance should be clearly separated from the opinion on the financial statements. The identified applicable law(s) and regulation(s)

should include all laws and regulations that can influence the outcomes (amounts) of the financial transactions that are (or should be) accounted for in the financial statements.

- 125 *Combining performance and compliance audits*, compliance is seen as one of the aspects of economy, efficiency and effectiveness. In this type of combined audits, auditors should use their professional judgment to decide whether performance or compliance is the primary focus of the audit and then determine the audit scope and criteria accordingly

Subject matter and subject matter information

- 126 *Subject matter* refers to the information, condition or activity that is measured or evaluated against certain criteria. The subject matter of a compliance audit is defined by the scope of the audit. It may be activities, financial transactions or information. *Compliance audit is about evaluating the **subject matter** or **subject matter information** against relevant **criteria**.*

*Compliance audit is about evaluating the **subject matter** or **subject matter information** against relevant **criteria**.*

- 127 *Subject matter information* refers to the outcome of evaluating or measuring the subject matter against those criteria.

| |
|---|
| Example 1: |
| Subject matter: Financial performance and use of appropriated funds of a government entity. Subject matter information: Financial information such as a financial statement. |
| Example 2: |
| Subject matter: Expenditures related to training activities of a government entity. Subject matter information: Financial information and reports on training activities. |

Illustration 1.1: Example of subject matter and subject matter information

Authorities and criteria

- 128 Authorities are relevant acts or resolutions of the legislature or other statutory instruments, directions and guidance issued by the public sector bodies with powers provided for in statute, with which the audited entity is expected to comply. Authorities may include laws, policies, rules, regulations, and other instruments that people/ organizations, for whom the

authorities have been framed, must follow in order to be compliant. These elements are sometimes collectively referred to as legislative authorities or just authorities. This should not be confused with authorities in the sense of bodies or persons exercising power or command such as law enforcement authorities or regulatory authorities.



Figure 1.1: Authorities related to the specific constitutional arrangements of the SAI

129 The *conflicting provisions* refers to varieties of conflicting provisions subject to differing interpretations. In such cases, it is important to consider the hierarchy of the authorities; the higher level of authority will prevail over subordinate authorities, and also it is necessary for the auditors to have sufficient knowledge of the structure and content of the authorities themselves

130 *Criteria* are the benchmarks used to evaluate or measure the subject matter consistently and reasonably. Criteria can be specific or more general, and may be drawn from various sources, including laws, regulations, standards, sound principles and best practices.

Criteria are the benchmarks used to evaluate or measure the subject matter consistently and reasonably.

131 *Authorities* are the sources of criteria. Criteria may be derived from laws, policies, rules, regulations, and other instruments and used in assessing compliance or non-compliance. Two types of criteria are required in compliance standards as per the ISSAI framework: those based on established authorities, and those that capture aspects of propriety.

132 *Propriety* is defined as observance of the general principles governing sound financial management and the conduct of public officials. This requires auditors to ascertain that the audited entity has followed the principles of sound financial management and its officials have acted transparently and equitably in making critical decisions for the entity. Auditors establish their compliance audit scope and audit criteria on the basis of this review.

133 Criteria must be relevant, complete, reliable, neutral, understandable, useful,

comparable, acceptable and available

The three parties

- 134 Compliance auditing is based on a three party relationship, where an auditor aims to obtain sufficient, appropriate audit evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the measurement or evaluation of a subject matter against criteria. In all compliance audits we have:
- 135 A responsible *party* (usually government agency) which gets funds for specified activities.
- 136 The intended *users* (parliament) that allocates fund to government agencies and expects the funds will be used as per relevant authorities and appropriate propriety considerations, and
- 137 *SAIs* that conduct audit on behalf of the parliament and provide assurance as to whether or not fund have been used as per criteria.

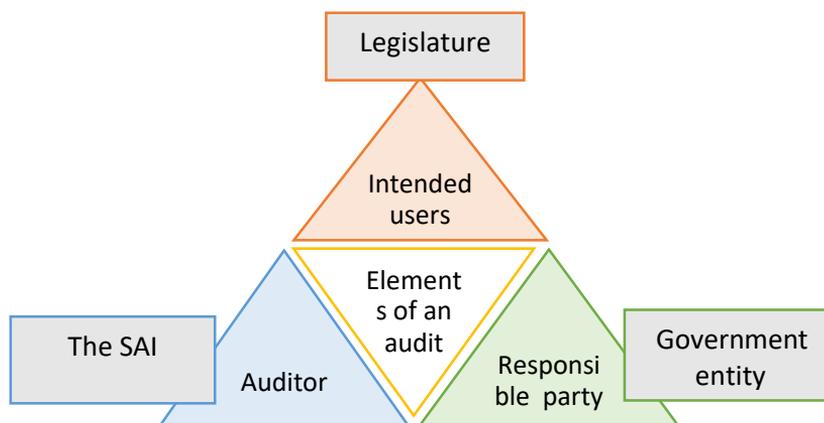


Figure 1.2: The three parties of the Compliance Audit

- 138 The relationship between the three parties in the public sector can be explained by the principal–agent model particularly to explain the role of audit that plays crucial role of balancing the information asymmetry between the principal and agent. SAI reports provide an independent assessment of the activities of agents so they can be held accountable by principals.
- 139 In the case of our example, the Procuring Agency is the responsible party whereas the intended user is the parliament.

Illustration 1.2: *Identifying the subject matter, Responsible party, Subject matter information, Authorities, criteria and users*

The audit aims to review the procurement practices against Procurement Rules and Regulations and the extent to which the procurement practices followed by public procuring agencies comply with the Rules. In this respect, the audit will cover the procurement policy, planning and sourcing stages of the procurement lifecycle. It will encompass an assessment of all procurement activities for one year period from 1st July 2014 – 30th June 2015.

| | |
|-------------------------------|--|
| 1. Subject matter of audit | Procurement |
| 2. Responsible Party | All government agencies |
| 3. Subject matter information | Financial information related to procurement procedures and controls |
| 4. Authorities | Procurement rules and regulations |
| 5. Criteria | |
| 6. User | The Parliament |

Assurance Engagement

- 140 Intended users wish to be confident about the reliability and relevance of information provided to them for decision making. Audits should therefore provide information to the users based on sufficient and appropriate evidence. Thus, auditors need to perform procedures to reduce or manage the risk of reaching inappropriate conclusions and provide credible information to the intended users so that the latter could make informed decision, otherwise these could mislead intended users thus making wrong decisions. For example, the intended user (parliament) authorizes government to procure with the aim of providing basic services. Parliament wants to know that the responsible party (respective government agency) has used the funds allocated to it as per applicable authorities (laws, regulations etc.). The Parliament wants a third party to provide this assurance to them. SAIs all over the world are best placed to provide that assurance based on their work.
- 141 *For example*, in the case of procurement, the RAA can provide assurance that the fund allocated to the procuring agency has been spent as per applicable authorities. 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. In audit, assurance can be either reasonable or limited. Also, reasonable assurance is high but not absolute.
- 142 In compliance auditing there are two levels of assurance: reasonable assurance, conveying that, in the auditor's opinion, the subject matter is or is not in compliance, in all material respects, with the stated criteria; and

limited assurance, conveying that nothing has come to the auditor's attention to cause him/her to believe that the subject matter is not compliant with the criteria

Attestation engagements and direct reporting

- 1.43 Public sector audits can be categorised as two different types of audit engagements: attestation engagements and direct reporting engagements.
- 1.44 In attestation engagements the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion. Attestation engagements can be both reasonable and limited assurance engagements.
- 1.45 In direct reporting engagements it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of measuring the subject matter against the criteria is presented in the audit report in the form of findings, conclusions, recommendations or an opinion. The audit of the subject matter may also provide new information, analysis or insights. The conclusion may also be expressed as a more elaborate answer to specific audit questions.

Introduction

2.1 This chapter will cover SAI level planning of compliance audits and the process of planning the individual audit assignments. It involves policy and risk review of the audit tasks/areas that best reflect risks, the public interest and the potential for the RAA to add value. Planning an individual audit assignment involves collecting and assessing information and making decisions as to the audit scope, approach, timing and resources.

SAI Level Planning

2.2 The RAA shall select significant areas or areas with potential risk of non-compliance on an annual basis and must be included in the Annual Audit Plan. A policy and risk review must be performed to ensure that RAA selects tasks and products that best reflect risks, the public interest, and the potential for the RAA to add value and contribute to accountability framework of the country.

2.3 The topics/areas for compliance may be directed or requested by relevant stakeholders as per Section 90(14) and Section 91 of Audit Act 2018 for which the policy and risk review may not be necessary. In such cases, relevant Division/Teams shall proceed with the planning of the audit.

2.4 The potential audits tasks shall be identified two ways: bottom-up and top-down approach. In the bottom-up approach, Divisions shall propose potential audit tasks which are relevant to the audit priorities established and thus, are linked to the strategy of the SAI. The top-down approach flows from the RAA's Strategic Plan and are reviewed from time to time.

2.5 The proposed audit tasks/topics both from bottom-up and top-down approaches must be screened through pre-established criteria as given in Audit Working Paper **(AWP) 2.1** and ranked in terms of priority. The inclusion of audit tasks/topics shall be endorsed by the top management and included in the Annual Audit Plan.

2.6 In case of topics directed or requested by the relevant authorities/stakeholders, the task shall be assigned to specific individual/group by the Auditor General/Advisory Committee.

2.7 The selection of topics for compliance audits should be supported by working papers that include description of entity/subject matter, assessment of risk, recent audits and potential to add value.

- 2.8 The Division should maintain comprehensive data and information on the entity/subject matter, transparent application of techniques and tools for selection of topics and prioritization.

Pre-engagement Activities

Assessment of ethical threats and safeguards and Code of ethics

- 2.9 The code of ethics is a set of requirements that provide assurance that auditors will follow professional behaviour and work objectively towards achieving their targets.
- 2.10 The auditor should ensure compliance with the assessment of ethical threats and safeguards and code of ethics as stipulated in the Audit Act of Bhutan 2018. The auditor should use **AWP 2.2 (a)** and **AWP 2.2 (b)** for declaration.

Conflict of Interest

- 2.11 The auditor should declare conflict of interest to ensure that the audit is conducted with complete objectivity and independence. **AWP 2.3 (a) and 2.3 (b)** should be used for declaration of conflict of interest.
- 2.12 The audit team including the audit supervisor should be and be seen independent. If there is conflict of interest of any team member, team leader or supervisor, the same should be declared and recorded.
- 2.13 The supervisor should ensure that the auditors with close relatives holding influential position in the audited entity is not engaged for that audit.
- 2.14 If the audit team engages the services of either internal or external expert, the same process of declaration of conflict of interest should be followed.

Competence and Qualification of Auditors

- 2.15 The audit team should collectively have the requisite knowledge of the subject, experience, technical skills and the auditing proficiency necessary to fulfill the requirements of the compliance audit.
- 2.16 The team shall plan audit and engage personnel with appropriate skills and competence to discharge their responsibilities judiciously. The competency of individual auditors should be mapped in the competency matrix provided in **AWP 2.4**.

Appointing a focal person

- 2.17 A focal person should be appointed for every audit. The responsibilities of the focal person are to ensure:

- ★ Audit Event Diary is maintained as per **AWP 2.5**;
- ★ Minutes of every meeting are prepared;
- ★ Communicating with the stakeholders;
- ★ Working papers and evidences (complete documentation) are in safe custody.

Audit Intimation Letter

2.18 The audit intimation letter should be served to the audited entity prior to the commencement of audit planning phase as per **AWP 2.6**.

Audit Engagement Letter

2.19 The audit engagement letter is served to the audited entity to further reinforce the mandate, responsibilities of the RAA, and management of the entity that may have been already defined in various laws, rules and regulations. The engagement letter should be served as per **AWP 2.7** and signed by both parties during the audit entry meeting.

Audit Entry Conference

2.20 The auditors should conduct entry conference with relevant officials of the audited entity mainly to facilitate the following:

- ★ The introduction of the members of the audit team;
- ★ The discussion on audit objectives, scope, time-frame, workspace, audit report and follow-up process;
- ★ The management to designate a competent official (audit focal person) to assist the audit team;
- ★ Information on the audit working procedures; and
- ★ Discussion on any other matter.

2.21 The auditor should prepare and document the minutes of meeting for the entry conference.

Individual Audit level planning

2.22 In general, compliance audit planning has two aspects.

- i. Auditors develop an overall strategy which includes consideration of audit objective, subject matter, scope, criteria, and type of engagement, level of assurance, team composition, quality control and communication.
- ii. Based on that strategy, auditors prepare an audit plan that contains understanding of entity, and internal control, identification and assessment of risk.

2.23 Adequate planning helps to direct appropriate attention to important areas

of the audit, identify potential problems on a timely basis, and properly organize and manage the audit to respond to users' needs efficiently and effectively. It also helps the auditor to properly assign work to the team members and facilitates the direction, supervision, and review of their work. Further, where applicable, it assists in the coordination of work done by auditors and, if required, by experts.

2.24 The nature and extent of planning activities will vary according to the complexity of the underlying subject matter and criteria. The following needs to be considered in planning:

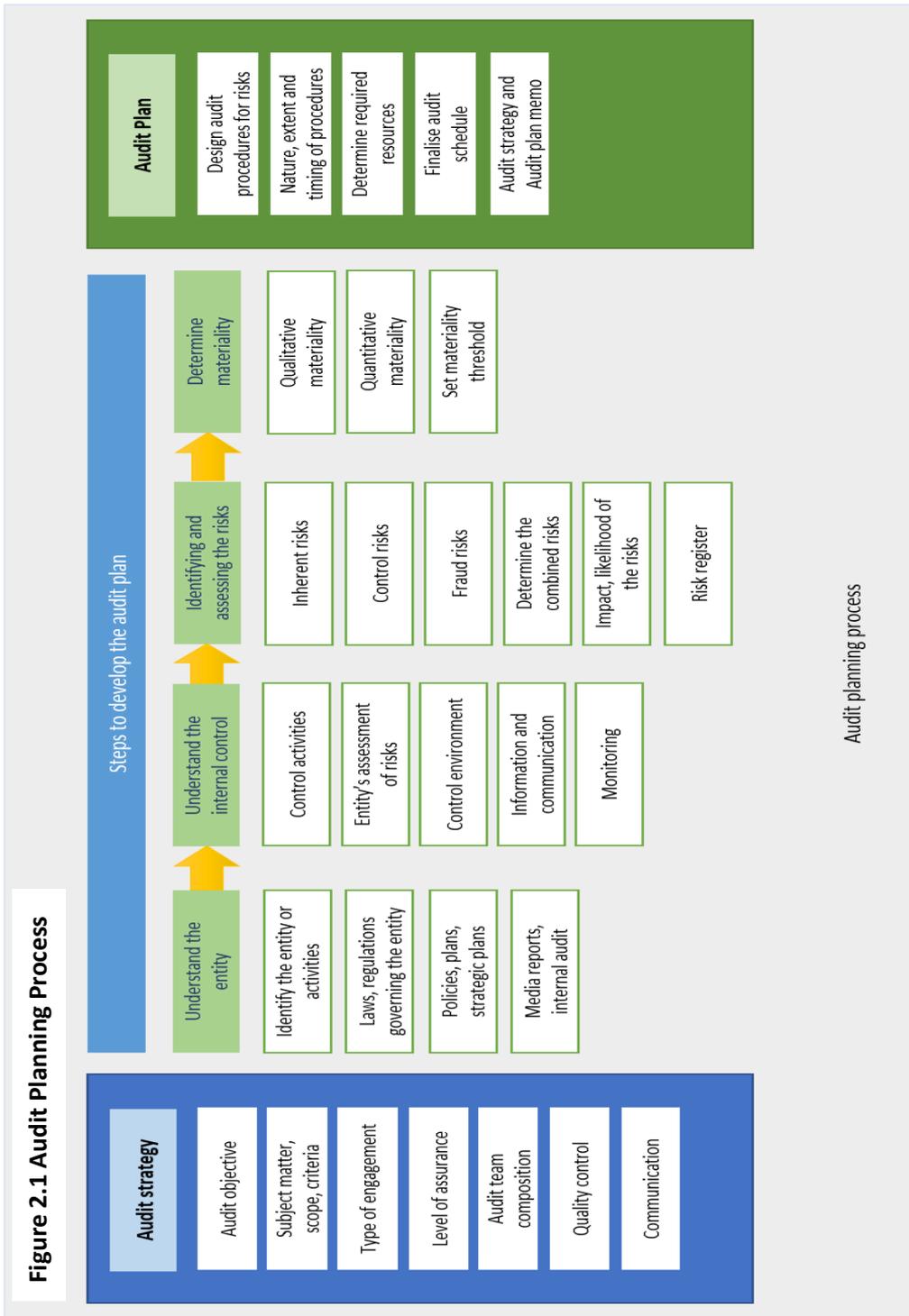
- ★ The characteristics of the audit that define its scope, including the characteristics of the underlying subject matter and the criteria.
- ★ Expected timing and the nature of the communications required.
- ★ Relevance of knowledge gained on other audits performed by the auditor for the responsible party.
- ★ Audit process;
- ★ Auditor's understanding of the responsible party and its environment, including the risks that the subject matter may not be in compliance with the criteria;
- ★ Control environment and internal control of the entity.
- ★ Identification of intended users and their information needs, and consideration of materiality and the components of audit risk:
- ★ The extent to which the risk of fraud is relevant to the audit;
- ★ The nature, timing and extent of resources necessary to perform the audit, such as personnel and expertise requirements, including the nature and extent of experts' involvement;
- ★ The existence of the internal audit function and its coverage.

2.25 Good planning helps to ensure that audit effort is allocated on the basis of risk; potential problems are identified and resolved on a timely basis; and the audit is properly organized and managed in order to be performed in an economic, efficient and effective manner.

2.26 Although concentrated in the planning phase, audit planning takes place not only at this stage, but rather is a continual and iterative process. It is an activity that continues throughout the audit, responding to new circumstances such as unforeseen changes in the auditee's operations or systems, or unexpected results coming to light during the examination phase of the audit.

2.27 It should be recognized that a compliance audit is not a series of mechanical steps to be completed. Most important, professional judgment and

skepticism should be exercised while planning. **Figure 2.1** illustrates the planning process in compliance audit.



Audit Strategy

2.28 The audit strategy is the basis for deciding whether it is possible to execute the audit. The audit strategy describes what to do, and the audit plan describes how to do it. The purpose of the audit strategy is to document/design the overall decisions made by the auditors. It may contain the following:

| | |
|-------------------------------|--|
| Elements of an audit strategy | 1. Characteristics of the compliance audit |
| | 2. The audit objective |
| | 3. Subject matter, scope, criteria |
| | 4. The entities covered by the audit |
| | 5. The type of engagement |
| | 6. The level of assurance to be provided |
| | 7. Composition of the audit team |
| | 8. Quality control mechanisms |
| | 9. Communication |
| | 10. Reporting responsibilities |

2.29 The team shall complete the audit strategy as per the **AWP 2.8**.

Characteristics of compliance audit

2.30 The auditor should take into account the RAA's mandate and the strategic plan when determining the characteristics of an audit. It includes an introductory description about the audit and a background.

Audit Objective

2.31 The auditor should develop audit objective determines what the auditor aims to answer in the audit. The auditors ensure objectivity in formulating the audit objectives, including identifying the criteria. Audit findings depend entirely on the objectives of the audit, and findings are complete to the extent that the objectives of the audit are satisfied. Audit objective should be answerable, and should identify the audit subject matter, the entity or activities under the audit.

Subject matter, scope, criteria

2.32 The auditor should identify the subject matter, scope, and criteria. The auditor should scope the subject matter in such a manner that it is sufficiently covered to conduct a meaningful audit, and to add value for the intended users.

2.33 The subject matter should be identifiable and assessable against suitable

audit criteria. It should be of a nature that enables the auditor to conclude with the required level of assurance.

- 2.34 The auditor should determine audit scope which basically refers to the area, extent and time period covered in the audit of a given subject matter. Scoping involves narrowing the audit subject matter to relatively fewer matters of significance that pertain to the audit objective and that can be audited with the resources available to the audit team. In a multi-entity or thematic compliance audit, the scope includes identifying the entities that will be included in the audit. Clearly defining the audit scope is important in determining the budget, human resources, and time required for the audit; and in determining what the auditor will include in the report.
- 2.35 The statement of scope should be clear about any areas that are related but not included in the audit. The scope of a compliance audit may change while conducting the audit, if the auditors identify material information that makes it necessary to reconsider the scope.

Illustration 2.1: Scoping for compliance audit of a clean drinking water initiative

SAI X included the public health of the country as subject matter in its audit plan of 2018 because the sector had received significant government and donor funding in the past few years. What prompted the audit focus on this area was a decline in key health indicators despite considerable investments. At the same time, there were media reports criticising improper handling of public health issues by the government.

Auditors first thought of covering service delivery mechanisms in the health sector, covering all from primary to the tertiary healthcare institutions. The country had an elaborate legal framework, including constitutional provisions and other policies and procedures to provide healthcare services to all citizens. However, during the audit planning stage, auditors discovered that many indicators were linked to the consumption of unsafe drinking water. These were indicators such as child mortality rate, maternal health, and proportion of under-five children with malnutrition, all of which were declining. Further, the auditors noted that a major part of government and donor funding that ended up in the health sector was used in creating facilities for clean drinking water for the poor and vulnerable people in the country. Thus, the auditors decided to narrow down the audit scope to only the provision of clean drinking water. The auditors' review for the planning process also indicated that appropriate benchmarks/criteria were available for this engagement.

- 2.36 Since the RAA has decided to adopt direct reporting engagement, the auditor should ensure that there are corresponding audit criteria. The auditor should identify criteria against risk identified and document it in the audit planning and finding matrix.
- 2.37 The auditor should derive criteria from relevant rules, regulations, statutory instruments, orders, governmental or ministerial directives,

guidelines and agreed upon terms and conditions for regularity aspects of compliance audits. For propriety aspects, the criteria can be drawn from generally accepted principles, or national/international best practices.

2.38 The case scenario below demonstrates the relationship between the subject matter, scope and criteria.

Illustration 2.2: Identifying the Subject matter, Scope and the criteria

Case The audit aims to review the procurement practices against Procurement Rules and Regulations and the extent to which the procurement practices followed by public procuring agencies comply with the Rules. In this respect, the audit will cover the procurement policy, planning and sourcing stages of the procurement lifecycle. It will encompass an assessment of all procurement activities for one-year period from 1st July 2014 – 30th June 2015

From the above paragraph we can identify the subject matter, scope and the authorities from which audit criteria are taken.

- **Subject matter** The subject matter is the activity, project, process or program auditor decides to examine in the above case can be as follows: The procurement policy and procurement practices of procuring agencies
- **Audit Scope** Audit scope basically explain the coverage and the extent of the audit examinations. In the above case, the audit scope can be as follows.
- The procurement policy, planning and sourcing stages of the procurement lifecycle covering all procurement activities for one-year period from 1st July 2014 – 30th June 2015.
- **Criteria** Audit criteria are the benchmarks used to measure the subject matter. Criteria are taken from authorities (laws and regulation, policies, guidelines etc.). In the above case the criteria will be taken from the following.
 - Guidelines for Government Procurement and Contracting
 - National procurement policies.

The entities covered by audit

2.39 The auditor should identify entities related to the subject matter and ensure adequate coverage in order to reach an audit conclusion.

Types and Level of assurance engagement

2.40 All compliance audits conducted by the RAA shall be direct reporting engagement. The auditor shall decide whether the engagement should be reasonable or limited assurance engagement based on the nature of assignments. In most cases, the auditor decides for a reasonable assurance compliance audit engagement. The auditor should consider the subject matter, and the RAA management decisions.

Composition of the audit team

2.41 The Division shall ensure that the team is composed of adequately skilled resources to conduct the audit. The audit team shall determine if there is a need for external experts for skills that are not available within the team.

Quality control mechanisms

2.42 The Supervisors should ensure regular supervision, review and consultation of audit works throughout the audit as per the quality control process defined in this guideline and AG's Standing Instructions and document adequately.

Communication

2.43 The auditor should determine how to communicate with the auditee and/or those charged with governance throughout the audit process.

Reporting responsibilities

2.44 The auditor shall prepare the audit reports as per the approved templates and identify the responsible parties to whom the reports are to be issued.

Audit Plan

2.45 The auditor should develop an audit plan for the compliance audit. The audit strategy provides essential input to the audit plan by defining audit objectives, scope, subject matter and the criteria. The audit plan may include assessment of risk, assessment of internal control, design audit procedures, timing for performance of audit procedures and potential audit evidences to be collected during the audit as shown under:

| | |
|--------------------------------|--|
| The elements of an audit plan: | An assessment of risk, and |
| | An assessment of internal controls relevant to the audit. |
| | The audit procedures designed as a response to the risks identified. |
| | Nature, timing and extent of planned audit procedures, and |
| | When the audit procedures will be performed. |
| | The potential audit evidence to be collected during the audit. |

Understanding the entity or subject matter

2.46 The objective of understanding the audited entity/subject matter is to identify the risks of non-compliance in the entity that will determine the audit approach.

2.47 If it is a thematic compliance audit (e.g. procurement, gender, sustainable development goals), which covers more than one entity, the auditors obtain an understanding of all entities whose activities fall under the audit scope.

2.48 The auditor may acquire an understanding of the following:

2.49 The auditor should document the understanding of entity/subject matters as per **AWP 2.9**.

| | |
|-------------------------------|--|
| Legal framework | Legal basis for the activity, and relevant parts of the financial regulation, implementing rules and regulations. |
| Organisation and governance | Of the subject matter/activity/audited entity, including operational structure, resources, organisation chart and management arrangements. |
| Business processes/operations | The key policies, objectives and strategies, locations, and types/volume/values of the programmes/functions/projects. |
| Business process analysis | Key business process maps, flowcharts, risks and control matrices, process narratives for an overview of functions/operations of the entity or the subject matter. |
| Business/Operational risks | Related to the entity's objectives and strategies that may result in material non-compliances. |
| Performance measures | Performance indicators, variance analysis to consider whether pressures to achieve performance targets may result in management actions that increase the risk of non-compliances. |

2.50 The auditors should obtain information to understand the entity which is a continuous and cumulative process of gathering and assessing information. Obtaining information and document will be applicable at all stages of the audit. The information and document can be obtained using the document requisition form **AWP 2.10 (a)** and return of document form **AWP 2.10(b)**.

Understanding the internal control system

2.51 Auditor should obtain an understanding of the entity's internal control relevant to the audit and identify the internal controls that are in place to reduce the risk of non-compliance with criteria or material misstatements in the subject matter information.

2.52 Internal control is an integral process - a series of actions that permeate an entity's activities - affected by the entity management and personnel. It is composed of the policies, structures, procedures, processes and tasks that help ensure that management directives are carried out, and help the audited entity to respond appropriately to any risks of non-compliance.

Control Environment
Risk Assessment
Control Activities
Information & Communication
Monitoring

Figure 2.2: Components of internal control system

2.53 The auditor may obtain an understanding of the following five

interconnected components of the internal control system relevant to the audit as in **Figure 2.2**.

2.54 The auditor should document the understanding of the internal control system of the entity with the working paper provided in **AWP 2.11**.

2.55 For a small entity/subject matter, the auditors may ask the following questions to understand their internal control system and document in this format instead of **AWP 2.11**.

| Components of internal control | Questions to ask |
|--------------------------------|--|
| Control activities | <ul style="list-style-type: none"> • How does the entity ensure that it is in compliance with the relevant rules and regulations for its functions? What mechanisms does it have for that? • How does the entity ensure that its existing control mechanisms for complying with the rules and regulations are operating effectively and efficiently? |
| Risk assessment | <ul style="list-style-type: none"> • How does the entity determine that certain control activity(ies) is/are essential to ensure compliance? |
| Information and communication | <ul style="list-style-type: none"> • How does the entity notify its staff responsible for operations that a certain control activity/mechanism is required for compliance? |
| Monitoring | <ul style="list-style-type: none"> • What is/are the process(es) used by the entity, to ensure that the control activity(ies) is/are performed correctly and consistently to ensure compliance? |
| Control environment | <ul style="list-style-type: none"> • What is the attitude of entity management about the control mechanisms? <i>(The control environment is a summary of the other four components.)</i> |

Figure 2.2: Components of internal control

Identification and assessment of Risk

2.56 The auditor should apply the audit risk model in forming a conclusion on the subject matter. By identifying and assessing the entity’s inherent and control risks, the auditor can define the nature and extent of the evidence-gathering procedures required to test compliance with the criteria. The higher the level of risk, the greater the extent of audit work required to lower detection risk sufficiently to achieve the acceptable level of audit risk.

2.57 The risk identification and assessment process for planning a direct reporting engagement may consist of the following four steps as depicted in **Figure 2.3**.

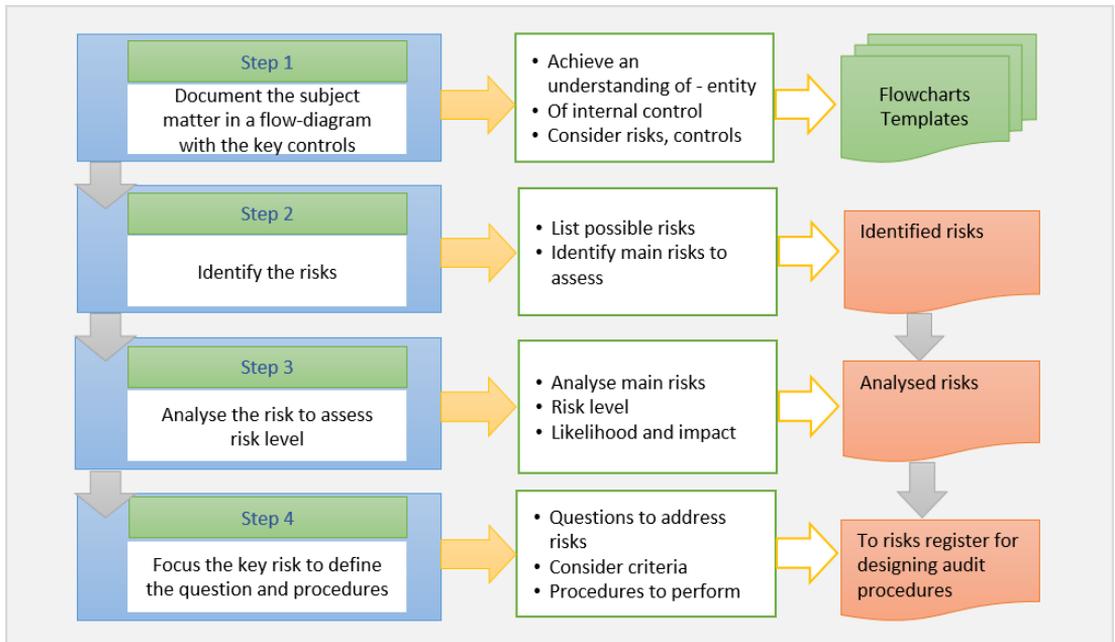


Figure 2.3: Risk identification and assessment process for planning a direct reporting

2.58 Risk assessment guides the auditor to focus on the key issues of the audit, considering the resource and time constraint. The outcomes of the risk identification activities are documented using the ‘understanding the entity’ and ‘understanding the entity’s internal control system’ templates. It includes identifying the inherent risks and control risks, and determining the detection risks. The audit risk model helps the auditors to determine how comprehensive the audit work should be to attain the desired level of assurance for their conclusions on the subject matter.

2.59 Risk assessment activities include, among others, inquiry (with management, key officials, internal audit), inspection (of entity premises, internal documents and records, website and media, previous audits), observation (of entity’s operations being carried out) and analysis (of financial and non-financial information with analytical procedures).

Inherent Risk

2.60 Auditors should estimate the inherent risk based on their understanding of the entity’s activities and its operations. Inherent risk is described as the ‘risk in the absence of controls.’ In audit terms, inherent risk is the risk related to the nature of the activities, operations and management structures - that non-compliances will occur if not prevented or detected and corrected by the internal control.

2.61 The auditor can determine the inherent risks by considering the following:

- ★ Generic risks of the entity or subject matter
- ★ The 'reverse of criteria' risks
- ★ Predicting 'what could go wrong'
- ★ Previous audit results
- ★ Entity's risk assessment process

Control Risk

2.62 Control risk is the risk that the relevant internal controls associated with the inherent risks are inappropriate or do not work properly; and as a result, the entity will fail to prevent material non-compliances or detect and correct them on a timely basis. The auditor assesses the control risk based on the understanding and evaluation of the entity's internal control system.

2.63 Auditors should ask questions regarding controls structured around the five components (i.e., control activities, risk assessment, information and communication, monitoring, control environment) of the internal control system. The auditor's primary consideration is whether, and how, a specific control prevents or detects and corrects a non-compliance.

2.64 In order to determine proper functioning of a control, the auditor should carry out 'walk-through tests' of a small number of transactions (if the subject matter of the audit is budget execution/expenditure), or the operations of the entity under audit. Obtaining an understanding of an entity's controls should not be considered to be a test of their operating effectiveness; such testing is carried out in the execution phase.

2.65 The auditor should consider only those controls that are relevant to the audit objective. It is a matter for the auditor's professional judgment as to whether a control, individually or in combination with others, is relevant to the inherent risks of the subject matter. Furthermore, the auditor determines which controls are to be considered as key. The auditor selects appropriate number of key controls for testing to ensure that all relevant risks are covered.

2.66 There is a direct relationship between the entity objectives, which the entity strives to achieve, and the internal control components, which represent what is needed to achieve the objectives. All components are relevant to each category of entity objectives. When looking at any one category—the effectiveness and efficiency of operations, for instance—all five components of internal control must be present and functioning

effectively to conclude that internal control over the entity operations is effective.

Detection Risk

2.67 Detection risk is under the control of the auditor. It is the risk that the auditor will not be able to detect non-compliance that has not been corrected by the organisation's internal controls. The auditor should perform procedures to reduce the risk of producing incorrect conclusions to an acceptable low level. Reducing audit risk includes:

- ★ Anticipating the possible or known risks of the work envisaged and the consequences thereof,
- ★ Developing procedures to address those risks during the audit and documenting which and how those risks will be addressed.

2.68 The auditor can reduce detection risk by auditing the subject matter in a planned and structured manner, and by identifying the inherent and control risks to the greatest extent possible. In the audit assurance model, 95% confidence is required through substantive procedures or in combination with tests of controls. The assurance level of 95% corresponds to an audit risk of 5%.

2.69 The auditor should design appropriate audit procedures to reduce the detection risks to an appropriately low level; it is recommended to keep the overall audit risk at 5%. Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.

2.70 To enhance the effectiveness of an audit procedure and its application, and to reduce the possibility that the auditor might select an inappropriate audit procedure, or misinterpret the audit results, it is essential to ensure:

- ★ Adequate risk assessment in the planning phase;
- ★ Proper assignment of personnel to the engagement team;
- ★ That the auditor exercises professional skepticism, and
- ★ Supervision and review of the audit work performed.

2.71 In determine and develop audit approach, the auditor should be guided by following table which shows the components of the audit risk and the resulting assurance that can be derived from the control test and substantive procedures.

| Assessed Inherent Risk | Evaluation of entity internal | Assurance from combined risk assessment | Confidence from Inherent and control assurance | Substantive testing to |
|------------------------|-------------------------------|---|--|------------------------|
|------------------------|-------------------------------|---|--|------------------------|

| | control system | | | be carried out |
|------|----------------|------------------------|---|---------------------|
| Low | Adequate | High control assurance | Both inherent assurance and control assurance | Minimum |
| | Not-adequate | No control assurance | Inherent assurance, but no control assurance | Standard |
| High | Adequate | High control assurance | No inherent assurance, but control assurance; Control test can be extended to reduce substantive test | Standard |
| | Not-adequate | No control assurance | No inherent assurance, and no control assurance; Assurance only from substantive test | Maximum and focused |

Consideration of fraud risk

- 2.72 While detecting potential unlawful acts, including fraud, is normally not the main objective of compliance audit, auditors should include fraud risk factors in their risk assessments, and remain alert for indications of unlawful acts, including fraud, in carrying out their work. Any fraud risk identified is by nature a significant risk.
- 2.73 Provided the audit procedures are adequately designed, the auditors may be able to detect an indication of fraud in the process of audit. In such cases, the RAA shall inform the Anti-Corruption (Section 48 (b) of Audit Act 2018.
- 2.74 The audit team can document the identification of the fraud risks with the working paper template provided in **AWP 2.12**.
- 2.75 All risks (inherent, control and fraud risks) should be documented in the risk register **AWP 2.13** for assessment and for purpose of designing audit procedures.
- 2.76 The auditor should assess all risks identified in the previous steps. As part of the risk assessment, the auditor should determine which of the inherent risks identified are, in his/her judgment, risks that require special audit consideration (significant risks), which are derived from business/operational risks that may result in non-compliance. The auditor should evaluate the design of the related controls and determine through testing, whether these controls have been implemented effectively and continuously throughout the period under review.
- 2.77 The assessment of risks, based on the determination of significant risks, is a matter for the auditor's professional judgment. In exercising this judgment, the auditor should consider the inherent risks identified, to

determine whether the nature of the risk, the likely impact of the potential non-compliance (including the possibility that the risk may give rise to multiple instances of non-compliances), and the likelihood of the risk occurring are such that they require special audit consideration.

2.78 The auditor determines a level – high, medium or low – of occurrence (likelihood) and seriousness (impact) for each risk using the risk matrix below. The overall evaluation of the risks is the result of the combination of both elements and should be documented in **AWP 2.14**.

| Likelihood | Impact | | |
|------------|--------|--------|------|
| | Low | Medium | High |
| Low | | | |
| Medium | | | |
| High | | | |

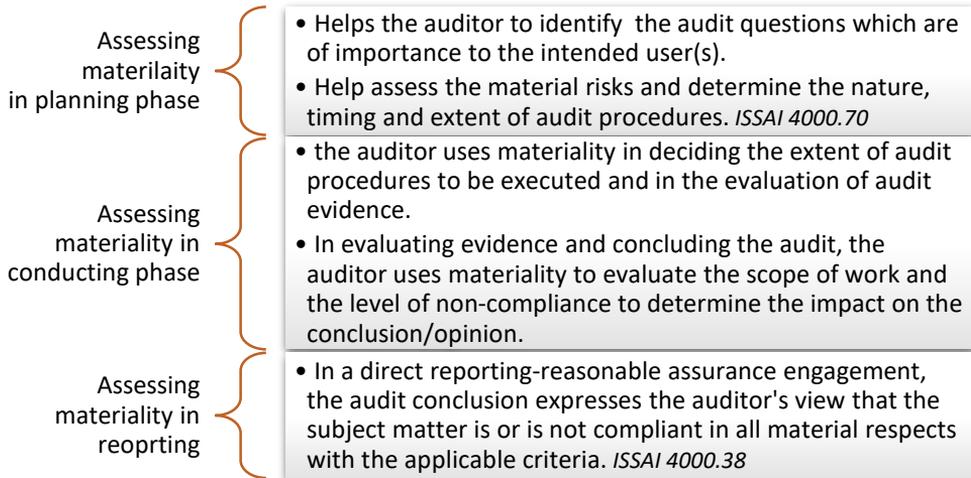
| | | | |
|--------------------------|----------------------------|---|---|
| Overall risk evaluation: | Low Risk can be ignored | Medium Judgement based on characteristic of the risk | High Risk must be followed up by audit |
|--------------------------|----------------------------|---|---|

Illustrations of the risks assessment in planning is provided below

| Risk assessment of the operations of a city council: | |
|--|---|
| Background: | The subject matter of the audit is 'the operations of a city council' responsible for city governance. The council has many functions of its operations, e.g., land management, building management, licensing, revenue collection, tax collection. It also has the budget execution and expenditure aspect of its operations. The auditor scoped the audit on the activities and services of the city council, specifically the land management and building management and how the entity is complying with the criteria in the two functions. |
| Risk assessment: | The auditor identifies the risks - using the process described above – by assessing the inherent and control risks. The risks are identified by analyzing the process flow of each function - building management, land management while understanding the entity and its control environment. The audit team has assessed the risks and documents in the significant risks in the risk register. Only those risks identified were taken to the risk register, and the audit procedures were designed accordingly. While conducting the audit, the team has identified additional risks for both the land and building management. The team documented the new risks and modified the audit plan accordingly. If the subject matter of the audit is the expenditure/budget execution of the council, the auditor can perform the risk assessment considering all operations related to the expenditure. Next example illustrates the risks assessment process for such a case. |

Determining Materiality

2.79 The concept of materiality should be applied by auditors in both the planning and performing the audit, and in evaluating the effect of non-compliance in drawing audit conclusion



2.80 While planning the audit, the auditor should choose the materiality, based on the needs of the intended user(s). Determining materiality is a matter of professional judgment and depends on the auditor's interpretation of the users' needs. The intended user may judge a matter material, if information about it is likely to influence the decision making process of the user.

Quantitative Materiality

2.81 Quantitative materiality is determined by applying a percentage to a chosen benchmark as a starting point. This involves the exercise of professional judgment and reflects, in the auditor's judgment, the measures that user(s) of the information are most likely to consider important. Materiality by value can involve, based on the subject matter, the amounts (monetary amounts) or other quantitative measures such as: the number of citizens or entities involved, the carbon emission levels, time delays in relation to deadlines.

2.82 The auditor can apply the threshold percentage between 0.5% and 5% for quantitative materiality. This choice is a matter of judgment, based on the auditor's assessment of internal control, risk assessment, sensitivity of the subject matter, and needs of the intended users. The auditor can apply a different threshold percentage considering the users' needs. In addition to the threshold percentage, a ceiling may also be set in terms of the absolute amount. Quantitative materiality is mostly used in attestation engagement.

Calculation of overall quantitative materiality

For calculating quantitative materiality, the auditor first needs to identify the appropriate materiality base and the percentage to be applied. The percentage is determined based on the status of risks and controls, sensitivity of the subject matter and user needs. In this example the auditor is using 1.5% considering that the subject matter is relatively sensitive.

| | Sensitivity of the subject matter 0.5% -----> 5% |
|---------------------------------|--|
| Materiality base | Materiality threshold – 1.5% |
| Gross expenditure amount | 345,000,000 |
| Materiality level | $345,000,000 \times 1.5\% = 5,175,000$ |

The quantitative materiality level is 5,175,000. This means that if the value of non-compliance exceeds this limit, it can be considered material and would affect the audit conclusion. Auditors should consider the pervasiveness of the non-compliance.

- 2.83 The level of materiality will influence the amount of audit work the auditor undertakes. The percentage ranges to be used are set by the audit team depending on the materiality basis adopted. The choice of percentage should be based on the risk profile/characteristics of the subject matter being audited, i.e. the level of public and parliamentary interest in them, particularly if the audit report is going to be used as a means of holding the responsible party accountable.
- 2.84 As the risk profiles, sensitivity of the transactions, and the effectiveness of internal controls may be different for different areas of the subject matter, materiality threshold may also be set for different areas of the subject matter. In such a case, the auditor may consider setting materiality thresholds for different areas apart from the overall materiality.

Qualitative Materiality

- 2.85 In some cases, the qualitative factors are more important than the quantitative factors. Public expectations and public interest are examples of qualitative factors that may impact the auditor's determination of materiality.
- 2.86 The relative importance of qualitative factors when considering materiality in a particular audit is a matter of the auditor's professional judgment. The qualitative factors may include:
- ★ The relationship between various parts of the subject matter if non-compliance in one area of the subject matter affects the others.
 - ★ The nature of observed non-compliance with a control when the subject matter information is a statement that the control is effective.
 - ★ Whether non-compliance is the result of an intentional or unintentional act.

- ★ When the subject matter is a government programme or an entity, whether a particular aspect of the programme or entity is significant with regard to the nature, visibility and sensitivity of the programme or entity.
- ★ When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.

The scenario below illustrates the aspects of qualitative materiality

Consideration of qualitative materiality

The terms of a building code require the building inspector to perform a number of annual inspections. The government agency has not performed inspections for the past five years. This non-compliance may be significant due to qualitative aspects such as safety implications. Although no monetary amounts are involved, the non-compliance may be considered material due to the potential consequences it may have on the safety of the building occupants. Moreover, in the event of a disaster, there is also a risk that the non-compliance may result in significant liability claims, which could have material financial implications for the government agency.

- 2.87 Qualitative materiality is determined by the nature and context of the subject matter.
- 2.88 Material by nature is related to inherent characteristics and concerns issues where there may be specific disclosure requirements or high political or public interest. It includes any suspicion of serious mismanagement, fraud, illegality or irregularity or intentional misstatement or misrepresentation of results or information. Materiality by nature may arise due to non-compliance:
- ★ of high officials who raise suspicion involving conflicts of interest.
 - ★ that may suggest fraudulent activity or corruption.
 - ★ in an area where there is a high degree of public interest.
 - ★ where the legislation or regulations make clear that it is a serious offence, regardless of the monetary value.
- 2.89 Material by context concerns items that are material by their circumstance, so that they change the impression given to the users. It includes instances where a minor error or non-compliance may have a significant effect, e.g. misclassification of expenditure as income, so that an actual deficit is reported as a surplus.
- 2.90 The auditor should document assessment of materiality at planning stage with the working paper provided in **AWP 2.15**.

Designing audit procedures to respond to assessed risks

- 2.91 The responses to the assessed risks include designing audit procedures that address the risks. The auditor needs to plan appropriate responses to assessed risks as identified in the risk register.
- 2.92 The nature, timing and extent of the audit procedures to be performed may vary from one audit to the other. Nonetheless, compliance audit procedures in general involve establishing the relevant criteria, i.e. the authorities that govern the entity, and then measuring the relevant subject matter information against those authorities.
- 2.93 The auditor should use the planning matrix **AWP 2.16 (b)** for documenting the responses to the assessed risks.
- 2.94 Audit procedures include substantive procedures and tests of controls. Substantive procedures include both tests of details and analytical procedures. If the auditor intends to rely on the operating effectiveness of control s/he needs to obtain evidence that the controls are operating effectively when determining the nature, timing and extent of substantive procedures. The design and implementation of key controls relevant to the subject matter might be evaluated as adequate. The audit procedures for both test of control and substantive testing can be developed as follows

| | Risk | Controls | Audit procedures to perform |
|--------------------|---|--|--|
| Revenue assessment | <ul style="list-style-type: none"> - Trader has not submitted return - Trader has submitted the return later than the due date - Trader has not paid the penalties | Returns/declarations received are periodically compared to the list of registered taxpayers Penalties are charged to those taxpayers who submitted the returns/declarations late. | <p>Tests of Control: Inspect evidence that the delegated official has reconciled the returns received to the list of taxpayers.</p> <p>Substantive Test: Reconcile the list of taxpayers to the return received and identify taxpayer who did not submit returns / declarations, or submitted returns late. For taxpayers who did not submit returns / declarations identify whether the entity charged correct penalties.</p> |
| Revenue collection | Revenue received is not recorded, or misallocated, recorded at incorrect | Regular independent reconciliations between the assessments, revenue recorded in the ledger and | <p>Tests of controls: For selected periods inspect proof of reconciliations between assessments and receipts.</p> <p>Substantive tests:</p> |

| | | | |
|--|-------------------------------------|--------------------------------|---|
| | amounts or in the incorrect period. | amounts deposited in the bank. | For selected assessments confirm that payments have been recorded: - At the correct amount, - In the correct account, - In the correct period. |
|--|-------------------------------------|--------------------------------|---|

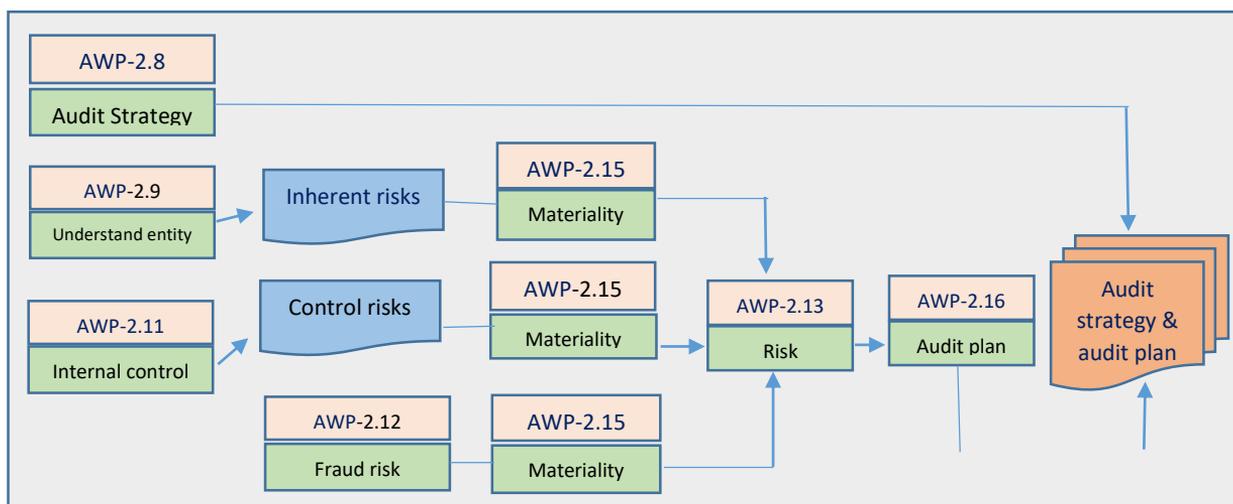
2.95 The audit team should document the audit procedures to perform in the matrix with the working paper template provided in **AWP 2.16**.

Documenting and ensuring quality of audit strategy and audit plan

2.96 The Documenting the audit plan is the final step of the planning process. By this point, the audit team has examined all critical aspects of the audit; team members have reached an understanding on what they will do in the audit (documented in the audit strategy) and how they will do it (documented in the audit plan).

2.97 Planning also involves considerations related to the direction, supervision and review of the audit team and its work. The auditor can prepare both the audit strategy and audit plan together as one document for approval by the SAI management before starting the audit fieldwork.

2.98 All AWP's provided in this chapter will form the basis for the input to the development of the audit plan document. The interlinkages between the AWP's and their output can be shown as below.



2.99 To ensure the quality of the audit plan, it should be reviewed, modified if necessary, and approved by the appropriate official who has supervisory authority over the audit team. All such reviews, and any approvals, should be documented.

AWP 2.1: Audit Topic Selection Criteria

The following table illustrates an example of how scoring is assigned and audit topic prioritised based on few selected criteria:

| CRITERIA | WEIGHTS | Identified alternative audit topics | | | | | | | |
|---------------------------------|------------|-------------------------------------|----------------|---------|----------------|---------|----------------|---------|----------------|
| | | Topic 1 | | Topic 2 | | Topic 3 | | Topic 4 | |
| | | Score | Weighted Score | Score | Weighted Score | Score | Weighted Score | Score | Weighted Score |
| 1. Potential audit impact | 20 | 3 | 60 | 3 | 60 | 2 | 40 | 2 | 40 |
| 2. Materiality | 15 | 3 | 45 | 2 | 30 | 2 | 30 | 2 | 30 |
| 3. Risk to good management | 15 | 3 | 45 | 2 | 30 | 3 | 45 | 3 | 45 |
| 4. Complexity | 10 | 3 | 30 | 3 | 30 | 1 | 10 | 3 | 30 |
| 5. Significance | 10 | 3 | 30 | 1 | 10 | 3 | 30 | 3 | 30 |
| 6. Visibility | 15 | 3 | 45 | 1 | 15 | 2 | 30 | 2 | 30 |
| 7. Coverage | 5 | 3 | 15 | 3 | 15 | 1 | 5 | 2 | 10 |
| 8. Cross-sectoral | 5 | 2 | 10 | 3 | 15 | 2 | 10 | 2 | 10 |
| 9. Auditability | 5 | 2 | 10 | 1 | 5 | 1 | 5 | 1 | 5 |
| AGGREGATE WEIGHTED SCORE | 100 | | 290 | | 210 | | 205 | | 230 |
| RANK | | | 1 | | 3 | | 4 | | 2 |

Comments:

1. Potential audit impact:.....(State here the reasons/justifications for specific score for each topic)
2. Materiality:.....
3. Risks to Good Management:.....
4.

The above assessment indicates Topic 1 as the first priority, Topic 4 as the second priority and Topic 2 as the third priority.

Score: Low = 1, Medium = 2, High = 3

AWP 2.2 (a): Assessment of ethical threats and safeguards

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

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

Name of the Auditor:

Designation:

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

Conclusion

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

(Name of Audit Engagement Supervisor)

Designation:

Division/Unit/Section:

AWP 2.2 (b): Auditor's declaration to comply with Code of Ethics in the conduct of audit

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

| Aspects of Code of Ethics | Declaration I declare that: | Affirmation by audit team member (Yes/No) | Reasons if indicated that he or she cannot comply with code of ethics |
|--|--|---|---|
| Integrity | The audit will be conducted adhering to high standards of behaviour (honesty and candidness). | | |
| | I will conduct myself in a manner that befits public confidence and is above suspicion and reproach. | | |
| | I will observe the form and the spirit of auditing and ethical standards, principles of independence and objectivity. | | |
| | I will maintain irreproachable standards of professional conduct and make decisions with public interest in mind. | | |
| | I will apply absolute honesty in carrying out work and handling the resources of the SAI | | |
| Independence Objectivity and Impartiality | I will behave in a way that increases, or in no way diminishes, my impartiality and independence from the audited entity and other outside interest groups. | | |
| | I will maintain objectivity in dealing and disposing off any audit issues, topics and subject matters. | | |
| | The audit work that I will perform will be according to the ISSAI and not based on ulterior motive or undue influence. The issues that arise will be based on audit evidence gathered and not influenced by any preconceived beliefs or other influence. | | |

| | | | |
|------------------------------|---|--|--|
| | I will maintain objectivity, accuracy and impartiality in expressing opinions based on evidence obtained and assessed in accordance with the ISSAIs. | | |
| Political neutrality | I will maintain political neutrality and not let my personal, political affiliations influence my audit work and my conclusions, opinions reached during the audit influence the quality of the audit work. | | |
| | I will not partake in any political activity that will influence my judgement | | |
| | I will not express my political views during the audit and maintain a behaviour that keeps my appearance and work free from influence. | | |
| Conflicts of interest | I will not provide any professional service or advice to the entity relating to the financial information being audited or related to management responsibilities or power. | | |
| | I will not accept any gifts or gratuities or beyond the value customary to accept. | | |
| | I will avoid any kind of relationships with managers and staff and other related parties that might influence or threaten my ability to act independently. | | |
| | I will not use my status or official position for private gain and will avoid any relationship that involves the risk of corruption. | | |
| | I will not use information obtained during the audit of securing any personal benefit nor divulge information, which would provide unfair or unreasonable advantage to other parties. | | |
| Professional Secrecy | I will not disclose any information that I come across during the course of audit to any third party, unless the law requires me to do so. | | |
| Competence | I will conduct myself in a professional manner and apply ISSAIs in all my work performed during the audit. | | |

AWP 2.3 (a): Declaration of NO Conflict of Interest

I, (Name) have been assigned as team leader/team member in auditing (entity name) for the period covering (period). In accordance with a clause on Conflict of Interest in the SAI's Code of Ethics, I hereby declare that my close relative(s) named below holds an influential position in the (entity). I therefore have a conflict of interest as part of the audit team conducting this audit. In this regard, I wish to withdraw from this audit team.

| No. | Name of relative | Position held in the entity |
|------------|-------------------------|------------------------------------|
| | | |
| | | |
| | | |

Signature:

Name of the audit team member:

Designation:

Date:

Signature:

Supervisor/Head of Department:

Designation:

Date:

AWP 2.3 (b): Declaration of Conflict of Interest

I, (Name) have been assigned as team leader/team member in auditing (entity name) for the period covering (period). In accordance with a clause on Conflict of Interest in the SAI's Code of Ethics, I hereby declare that my close relative(s) named below holds an influential position in the (entity). I therefore have a conflict of interest as part of the audit team conducting this audit. In this regard, I wish to withdraw from this audit team.

| No. | Name of relative | Position held in the entity |
|------------|-------------------------|------------------------------------|
| | | |
| | | |
| | | |

Signature:

Name of the audit team member:

Designation:

Date:

Signature:

Supervisor/Head of Department:

Designation:

Date:

AWP 2.4: Competency Matrix for Audit Team

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

| | | | |
|------------------------------------|------------------|-----------------------------------|------------------|
| Team competency assessed by | Signature | Reviewed & approved by | Signature |
| Name: | | | |
| Designation: | | | |
| Date: | | | |

A. Competency Matrix

| No. | Detail of Audit Team members with designation | Competency aspects (Refer to Table B) | | | |
|-----|---|---|---|--|--|
| | | Required competency in terms of qualifications and experience | Actual qualification and experience of audit team members | Gap between actual and required competencies | Number of years the auditor has been auditing this particular entity or similar entities |
| 1 | Audit supervisor | | | | |
| | <i>Name</i> | | | | |
| 2 | Team Leader | | | | |
| | <i>Name</i> | | | | |
| 3 | Team member | | | | |
| | <i>Name</i> | | | | |
| 4 | Team member | | | | |
| | <i>Name</i> | | | | |
| 5 | Team member | | | | |
| | <i>Name</i> | | | | |

AWP 2.5: Audit Event Dairy

| Sl. No. | Date | Events/Activities/Record of Discussion | Officials Present | Venue | Remarks/Signature |
|---------------------------------|------|--|-------------------|-------|-------------------|
| AUDIT PLAN AND PROGRAMME | | | | | |
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |



རྒྱལ་ཁབ་ལྷན་ཁྲིམས་ཞིབ་དབང་འཛིན།

ROYAL AUDIT AUTHORITY

Bhutan Integrity House

Reporting an Economy, Efficiency & Effectiveness in the use of Public Resources



ཡིག་ཡང་ཡར་ཨེལ་ (སི་ཨེལ་ཨའེ་ཏི་)/༢༠༡༥/༡༩༦༡

སྤྱི་ཚེས་

༡༤/༠༥/༢༠༡༥

བཀོད་ཀྱི་ལྷན་ཁྲིམས་འཛིན་མདོ་ཚེན་མཚོག་ལྷ།
 འབྲུག་གོང་འཕེལ་དངུལ་ཁང་།
 ཐིམ་ཕུག་།

ལྷན་ཁྲིམས་འཛིན་གྱི་ལྷན་ཁྲིམས་བཅའ་ཁྲིམས་༢༠༠༤་ཅན་མའི་ དགོངས་དོན་དང་འབྲེལ་ འབྲུག་མཁའ་འགྲུལ་
 ལས་འཛིན་ཚད་ཀྱི་ལྷན་ཁྲིམས་ལོ་༠༡/༠༡/༢༠༡༥ ལས་༢༡/༡༢/༢༠༡༥ ལུང་གི་ཡིག་ཚུ་ལུ་ ཞིབ་དབང་
 འབད་ནིའི་དོན་ལས་ ལྷན་ཁྲིམས་སྤྱི་ལྷན་འོག་མ་འཆི་མེད་དོ་རྗེ་ གི་སྤྱིར་བཏང་གོ་འདེན་ཐོག་ལུ་དང་སི་ཨེལ་
 ཨའེ་ཏི་ཞིབ་རོགས་ལྷན་ཁྲིམས་ལོངས་ཀྱི་འོག་ལུ་ རྟེན་མ་འཇམ་དཔལ་དབྱེད་ས་ གི་འཕུལ་ལྷུང་འགོ་འདེན་
 ཐོག་ལུ་ ལྷན་ཁྲིམས་འགོ་འདེན་འཐབ་ནི་ཨིན་མ་ལས་ འོག་ལུ་བཀོད་དེ་ཡོད་མི་ལྷན་ཁྲིམས་ཚུ་ སྤྱི་ཚེས་
 ༡༤/༠༥/༢༠༡༥ ལས་ ༢༠/༠༤/༢༠༡༥ ལུང་ (སྤྱི་ཚེས་༡༤/༠༥/༢༠༡༥ ལས་༢༡/༠༥/༢༠༡༥ ལུང་ལྷན་ཁྲིམས་
 འགོ་འདེན་འཐབ་ནིའི་དོན་ལས་ འཆར་གཞིའི་དུས་ལུན་དང་ དེ་ལས་ སྤྱི་ཚེས་ ༢༢/༠༥/༢༠༡༥ ལས་སྤྱི་ཚེས་
 ༢༠/༠༤/༢༠༡༥ ལུང་ ལྷན་ ལྷན་ཁྲིམས་ཀྱི་ལུ་འབད་ནི་གི་ དུས་ཚོད་ཨིན།) ཀྱི་རིང་ལུ་ ལྷན་ཁྲིམས་འབད་ནིའི་དོན་
 ལས་ བཏང་ཡོད་ཟེར་ལུ་ཞི་ཨིན།

- | | | |
|--------------------------|------------------|------------------------------|
| ༡ ལྷན་ཁྲིམས་འགོ་འཁྲིད་ས་ | ཨེལ་འགྲུལ་ལུ་ | ལྷན་ཁྲིམས་འགོ་དཔོན་གོང་མ། |
| ༢ ལྷན་ཁྲིམས་འཐབ་མི་ | འཇམ་དཔལ་དོ་རྗེ། | ཞིབ་རོགས་ལྷན་ཁྲིམས་འགོ་དཔོན། |
| ༣ ལྷན་ཁྲིམས་འཐབ་མི་ | འཕྲིན་ལས་དོ་རྗེ། | ཞིབ་རོགས་ལྷན་ཁྲིམས་འགོ་དཔོན། |
- ལྷན་ཁྲིམས་ཀྱི་ལུ་འགོ་བཙུགས་ཞིན་མ་ལས་ མཇུག་མ་བསྟུ་ལུ་ ལྷན་ཁྲིམས་ལུ་ནང་ འབྲེལ་བ་ཡོད་
 མི་ དབང་ཚད་ཅན་གྱི་ འགོ་དཔོན་དང་ལས་རོགས་ལུ་ག་རང་ཨིན་རུང་ཕྱག་ལུ་གཞན་གྱི་དོན་ལུ་

ཕར་ཚུར་བྱོན་ཏེ་མ་བཟུགས་པར་ ཕྱིས་ཁྲུངས་ཚུ་ ལེགས་ཤོམ་སྤེལ་བཀའ་ཏེ་ མཉམ་འབྲེལ་མཛད་གནང་
 ཟེར་ལྷ་ནི་དང་འབྲེལ་ ཕྱིས་ཞིབ་པ་ཚུ་ལུ་ དགོས་མཁོ་དང་བསྟུན་པའི་ ཡིག་ཆས་དང་ ལཱ་འབད་སའི་
 ས་སྒོ་ཚུ་ཡང་ བྱ་སྤྲེལ་བའེ་ཏོག་ཏོ་སྤེལ་བཟོ་སྟེ་ བཀྱིན་སྐྱེད་ས་གནང་ཟེར་ལྷ་ནི་ཨིན། དེ་ལས་ ཕྱིས་ཞིབ་
 པའི་བྲན་བསྐྱེལ་སྤུལ་ཏེ་ཡོད་མི་ཕྱིས་ཚུ་དངས་འཕྲོས་འཕྲོས་ བཟོ་ནིའི་དོན་ལུ་ ཕྱིས་ཞིབ་གིས་བཟླ་ཞིབ་
 བྲན་བསྐྱེལ་(Memo) ཚུ་སྤུལ་ཏེ་ དེ་ཚུའི་བཀའ་ལན་གནང་མ་དང་ འཕྲི་འགན་ཚུ་

(Accountability) ག་ལུ་ཕོག་པ་ཨིན་རུང་ ཁ་གསལ་ཟུར་སྐྱགས་གྲིས་ཤོག་ལྟར་མི་ངོ་རང་སའི་
 མཚན་ཁ་གསལ་དང་ མི་ཁྲུངས་ངོ་སྟོན་ལག་འབྲེལ་ཨང་ དེ་ལས་ ཞི་གཡོག་ངོ་རྟངས་བཅས་ཕྱིས་ཞིབ་
 མཚུག་བསྐྱེལ་བའི་ཞལ་འཛོམས་སྐབས་ ཕྱིས་ཞིབ་པ་ཚུ་ལུ་གནང་དགོས་ཨིན་ཟེར་ལྷ་ནི་ཨིན།
 དེ་ཚུ་གོ་ར་ཕྱིས་ཞིབ་སྟུན་ལུ་འདི་བྲན་བའེན་དང་ དངས་གསལ་གྱི་ཐོག་ལས་སྤུལ་ནིའི་ལམ་ལུགས་
 ཨིན་མ་ལས་ གོང་ལུ་ལྷ་མིའི་གནད་དོན་ཚུ་སྐྱགས་ཁར་བསྐྱེལ་ས་ཏེ་ མཉམ་འབྲེལ་དང་ཆ་རོགས་ཚུ་ ག་
 དེ་བྲག་བྲག་མཛད་འདི་བཀྱིན་སྐྱེད་ས་གནང་ཟེར་ལྷ་ནི་ཨིན།

()

ཞིབ་རོགས་ཕྱིས་ཞིབ་ཡོངས་ཁྱབ་ངོ་ཚབ་

འདུལ་

- ༡ བདག་སྐྱོང་དང་དདུལ་ཕྱིས་འགོ་དཔོན། འབྲུག་གོང་འཕེལ་དདུལ་ཁང། ཐིམ་ཕུག།
- ༢ གཙུ་འཛིན་ལུ། བསྐྱར་ཞིབ་སྟེ་ཚན། རྒྱལ་གཞུང་ཕྱིས་ཞིབ་དབང་འཛིན། ཐིམ་ཕུག།
- ༣ འཆར་གཞི་འགོ་དཔོན་ འཆར་ཞིབ་སྟེ་ཚན་ རྒྱལ་གཞུང་ཕྱིས་ཞིབ་དབང་འཛིན། ཐིམ་ཕུག།
- ༤ སྟེ་ཚན་འགོ་འབྲིད་པ་ལུ།
- ༥ ཡིག་ཚང་གི་འདུ།
- ༦ ཉེན་སྲུང་ཡིག་སྟོན།

AWP 2.7: LETTER OF ENGAGEMENT



རྒྱལ་གཞུང་ཕྱི་མ་ཞིབ་དབང་འཛིན།

ROYAL AUDIT AUTHORITY

Bhutan Integrity House

Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



RAA/CFID/2018/....

Date:

The Chief Executive Officer
Bhutan Development Bank Limited
Head office
Thimphu

Sir,

The Accounts & Operations of the Bhutan Development Bank Limited are subject to audit by the Royal Audit Authority of Bhutan as required under Section 39(g) of the Audit Act of Bhutan 2006. This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of our audit.

Objective and scope of Audit

The scope of audit will be confined to the review of compliance, regularity and propriety aspects of the corporation's operations in line with the Companies Act of Kingdom of Bhutan 2000 and other relevant rules and regulations. The objective of the audit is to express an opinion on the compliance to the applicable rules.

Responsibilities of the Auditors

The RAA will conduct audit in accordance with the International Standard on Supreme Audit Institution (ISSAI). Those standards require that auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether a given subject matter is in compliance with applicable authorities identified as criteria. An audit involves performing procedures to obtain audit evidence about the subject matter and subject matter information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material non-compliances, whether due to fraud or error. An audit also includes evaluating the appropriateness of policies used and the reasonableness of rules, regulations and guidelines made by management, as well as evaluating the overall presentation of the aspects of compliance. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material non-compliances may not be detected, even though the audit is properly planned and

performed in accordance with ISSAI. In making risk assessments, the auditors consider internal control relevant to the project's compliance environment in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The auditors shall issue their findings in the form of audit observations from time to time during the course of audit requiring additional information, proper explanation and appropriate action from the management.

Responsibilities of the management

The audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledge and understand that they have responsibility:

- i. For such internal control as management determines is necessary to enable the application of related rules, regulation and guidelines governing the agency that are free from material non-compliance, whether due to fraud or error;

To provide us with:

- Access to all information, documentation and other matters relevant to the audit;
- Additional information that we may request from management for the purpose of the audit;
- Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence; and
- Responses to audit observations issued during the course of audit within one month from completion of audit.

Audit Entry Conference

The Audit Entry Conference shall be conducted at the commencement of audit. Amongst others, the contents of the engagement letter will be discussed in the Entry Conference.

Management Representations

As a part of our audit process, we will request for a written confirmation concerning representations made to us in connection with the audit.

Disclosure of fraud and corruption

If the management is aware of fraud and corruption that took place in the entity, they should disclose to the auditors during the audit entry conference or in the course of

audit. It is the responsibility of the management to institute adequate system of internal controls to prevent and detect fraud and corruption.

Custody and control of documents

The responsibility for custody and control of documents shall rest with the management. The auditor shall not remove documents from the office premises without management's consent. At the end of the audit, the auditors shall handover all the documents to the management.

Audit Exit Meeting

An Audit Exit Meeting will be conducted within one month on completion of field audit. During the exit meeting, the audit findings along with management's responses will be discussed and finalized.

Reporting

On completion of audit, the RAA will be issuing the reports, the Main Audit Report. The main audit report shall contain unresolved audit observations requiring further course of action, the decision of which will be arrived in the audit exit meeting and it will also contain audit observations that will be resolved in the audit exit meeting based on further justifications and documents produced to the audit and the compliances assured by the management.

Agreement of terms

Please sign and return a copy of this letter to indicate your understanding of, and agreement with, the arrangements for our audit of Bhutan Development Bank Limited including our respective responsibilities.

Yours sincerely,

Assistant Auditor General
Compliance and Outsourced Audit Division
Royal Audit Authority

Chief Executive Officer
Bhutan Development Bank Limited
Thimphu

AWP 2.8: Audit Strategy

| | |
|--------------|--|
| Entity Name | |
| Audit Period | |

| Audit Strategy Matrix Prepared by | Signature | Reviewed & | Signature |
|-----------------------------------|-----------|------------|-----------|
| Name: | | | |
| Designation: | | | |
| Date: | | | |

| No. | 1 | 2 | 3 |
|-----|--|-------------|----------|
| | Elements of the audit strategy | Description | Comments |
| 1 | Characteristics of the audit | | |
| 2 | The audit objective | | |
| 3 | Subject matter, scope, and criteria of the audit. | | |
| 4 | The entities covered by the audit | | |
| 5 | The type of engagement | | |
| 6 | The level of assurance to be provided | | |
| 7 | Composition of the audit team | | |
| 8 | Quality control mechanisms for the audit | | |
| 9 | Communication with the auditee and/or those charged with governance. | | |
| 10 | Reporting responsibilities | | |
| | Other significant matters, if any | | |

Process guide to complete the temple for Audit Strategy:

| | |
|--------------------------------------|---|
| Objective of completing the template | The objective of this working paper template is to prepare an overall audit strategy detailing the elements of the strategy, and see how each item will impact planning and conducting the audit, and also at the reporting phase of the audit. |
| ISSAI requirement | ISSAI 4000.137 |
| Guide | <p>Column 2 Describe based on the decisions made on each element of the strategy mentioned in column 1.</p> <p>Column 3 Provide comments, if the auditor thinks the strategic elements will have any impact in planning, conducting phase of the audit</p> |
| Conclusion | The audit team leader and supervisor need to conclude that adequate consideration have been given to all significant areas affecting the audit, and an appropriate strategy put in place to deal with the matters that were likely to affect planning and performing the audit. Audit strategy working paper document should be updated continuously. |
| Evidence from preparer and reviewer | The table indicating the name of a person who prepared and documented the material and the reviewer's name need to be completed at the end. |

AWP 2.9: Understanding of entity/subject matters

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

| Questions | Description |
|--|-------------|
| Legal framework of the entity | |
| 1. The authorising legislation for the entity and the activities authorised by the legislation. | |
| 2. The regulations issued under authorising legislation and their affect the entity's operations. | |
| 3. How does the entity comply with the legal framework? | |
| 4. Is there any provision in regulation, regarding the rules and regulations for financial management? | |
| The entity's objectives and strategies | |
| 5. The entity's objectives. | |
| 6. The key policies and strategies to achieve the objectives. | |
| The entity's organisation and governance | |
| 7. The entity's governance structures. | |
| 8. The operational structure, organisation chart and management arrangements. | |
| 9. The financial, human resources, and others resources. | |
| The entity's business processes and operations | |
| 10. What is the nature of the entity's operations? The core functions of the entity. | |
| 11. How the significant audit areas relate to the entity's operations. | |
| 12. The types of the programmes, or functions, or projects managed by the entity | |
| 13. The process narratives for an overview of the functions/operations of the entity or the subject matter. | |
| 14. The key business process maps, flowcharts of the operations | |
| 15. The operational risks related to the entity's objectives and strategies that may result in material non-compliances. | |
| The entity's financial management systems | |

Process guide to complete the template for understanding the entity and its environment:

| | |
|--|--|
| <p>Overall objective of completing the template</p> | <p>The objective of this audit working paper template is to establish and document understanding of the entity and its environment relevant to an audit. ISSAI 4000.131 requires the auditor to assess the risk of non-compliance through understanding the entity and its environment. [Note: The template could be adapted to the subject matters, e.g., for a programme, a particular operation of an entity, a contract, for procurement.]</p> |
| <p>ISSAI requirement</p> | <p>ISSAI 4000.131</p> |
| <p>Guidance</p> | <p>In order to assess the risk of non-compliance in the operations of the entity and in its financial activities, the auditor needs to understand the entity and its environment. Based on list provided in the template above, the auditor can gather a general understanding of the entity, taking into account both internal and external factors. It is critical for auditor to understand the core business of the entity. While documenting the understanding of the entity and its environment, the auditor needs to bear in mind the risk related to the entity (business risks or entity risk) that may occur during the course of its operations, and that may result in material non-compliance in the entity. Consider the list of source documents provided in the table below as a possible source for finding and documenting the information required.</p> |
| <p>Conclusion</p> | <p>The team should ensure that this documentation is linked to assessing the risk of material non-compliance (inherent risks) and assessing the control environment.</p> |
| <p>Evidence from preparer and reviewer</p> | <p>The table indicating the name of a person who prepared and documented the material and the reviewer's name need to be completed at the end.</p> |

Potential sources of documents to understand the entity:

| No. | Documents |
|-----|--|
| 1 | Mandate and roles and responsibilities of the organization |
| 2 | Draft financial statements |
| 3 | Approved budget of the government, projects and NGOs |
| 4 | Plan documents |
| 5 | List of major activities carried out during the period to be audited |
| 6 | Project organization |
| 7 | Accounts of grants and borrowings |
| 8 | Project documents |
| 9 | List of laws, rules and regulations that are relevant and applicable |
| 10 | Loans and grant agreements |
| 11 | Consolidated Budget Fund Accounts |
| 12 | Other sources of funding of the entity |
| 13 | List of major agencies incurring expenditure |
| 14 | Minutes of review meeting |
| 15 | Important correspondence files |
| 16 | Standard financial reporting requirement |
| 17 | Fund flow procedures including re-imburement and repayments |
| 18 | Past audit reports and internal audit reports |
| 19 | List of bank accounts and statements |
| 20 | Financial rules and regulations |
| 21 | Procurement rules |

AWP 2.10 (a): Document requisition form



རྒྱལ་ཁབ་ལྷན་ཁྲིམས་ཞིབ་དབང་འཛིན།

ROYAL AUDIT AUTHORITY

Bhutan Integrity House

Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



From :

To :

Date :

Kindly arrange to provide the following vouchers, Documents and files for the financial year

| Sl. No. | Documents Details | Remarks |
|---------|-------------------|---------|
| | | |
| | | |
| | | |
| | | |
| | | |

Received by:

**Name, Designation & Signature
Signature**

Submitted by:

**Name, Designation &
Signature**

AWP 2.10 (b): Document return form



རྒྱལ་ཁབ་ལྷན་ཚུལ་ཞིབ་དཔང་འཛིན།

ROYAL AUDIT AUTHORITY

Bhutan Integrity House

Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



From :

To :

Date :

We are returning the following vouchers, documents and files obtained from you during the audit.

| Sl. No. | Documents Details | Remarks |
|---------|-------------------|---------|
| | | |
| | | |
| | | |
| | | |
| | | |

Received by:
Name, Designation & Signature

Submitted by:
Name, Designation & Signature

AWP 2.11: Understanding the internal controls and control environment

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

[Note: The fundamental concepts of the internal control framework are formulated as 17 principles associated with the five components of the framework. The questions below are based on these principles which are relevant to all entities and need to be present, functioning, and operating together in an integrated manner to have an effective system of internal control]

| Questions on the internal control components | Description |
|--|-------------|
| Control environment: | |
| 1. How does the entity ensures its commitment to integrity and ethical values? | |
| 2. What mechanisms/body exist to assume the oversight responsibilities for the entity management's design, implementation and conduct of internal control? | |
| 3. How does the entity's organisational structure and assignment of authority and responsibility contribute to maintaining an appropriate control environment? | |
| 4. How do the entity's Human Resources policies and procedures demonstrates commitment to have the competence and the required level of skills and expertise? | |
| 5. How does the organisation enforce accountability on the overall conduct, and hold individuals accountable for their internal control responsibilities? | |
| Risk assessment: | |
| 6. Does the entity have a risks assessment process and consider the significant risks to the achievement of its objectives? | |
| 7. How does the management use the risk assessment process to effectively identify, analyse and respond to the risks of non-compliances? | |
| 8. How does the entity management consider the potential for fraud in assessing the risks to the achievement of its objectives? | |
| 9. How does the management identify and analyse the changes that could significantly impact the internal control system, and the management override of internal controls? | |

| | |
|--|--|
| Control activities: | |
| 10. How does the entity select and develop control activities that contribute to the mitigation of risks to the achievement of its objectives? | |
| 11. Does the entity ensure that the general control activities are designed effectively and operating as intended to address the risks over use of technology? | |
| 12. How does the entity - through its policies that establish what is expected, and procedures that put the policies into action - ensure the selection, development and deployment of appropriate control activities in significant risk areas? | |
| Information and communication: | |
| 13. How does the entity obtain or generate and use relevant, quality information to support the functioning of internal control? | |
| 14. How does the entity internally communicate information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control? | |
| 15. How does the entity communicate with external parties regarding matters affecting the functioning of internal control? | |
| Monitoring: | |
| 16. How does the entity select, develop, and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning? | |
| 17. How does the entity evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including the senior management and the governing body, as appropriate? | |

Process guide to complete the template for understanding the internal control:

| | | |
|---|--|---|
| Objective of completing the template | This template provides an understanding of the five interrelated components of an entity's internal control system. The auditor's role within this system focuses on the internal controls over the entity's operations, financial reporting and the processes in place. | |
| ISSAI reference | ISSAI 4000.134 | |
| Guide | Control environment | The control environment is the set of standards, processes and structures that provide the basis for carrying out internal control across the organisation. The senior management establish the tone at the top regarding the importance of internal control and expected standards of conduct. |
| | Risk assessment | Risk assessment involves a dynamic and iterative process for identifying and analysing risks to achieving the entity's objectives, forming a basis for determining how risks should be managed. |
| | Control activities | Control activities are the actions established by policies and procedures to help ensure that management directives to mitigate risks related to the achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes, and throughout the technology environment. |
| | Information and communication | Information is necessary for the entity to carry out internal control responsibilities in support of achievement of its objectives. Communication occurs both internally and externally, and provides the organisation with the information needed to carry out day-to-day controls. Communication enables personnel to understand internal control responsibilities and their importance to the achievement of objectives. |
| | Monitoring activities | Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, is present and functioning. Findings are evaluated and deficiencies are communicated in a timely manner, with serious matters reported to senior management and to the board. |
| Conclusion | The audit team concludes on the significant areas of the control environment under evaluation. | |
| Evidence from preparer and reviewer | The team, the reviewer - usually the audit supervisor, should sign off this document to ensure that the work done by the team has been reviewed and documented. | |

AWP 2.12: Assessment of fraud risks

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

[Note: Following checklist does not include all questions that may be needed to assess fraud risks in a given organisation. It might require the follow-up questions that depend on the answers to previous questions. Accordingly, auditors may use this as a start to create their own tools and to brainstorm to identify the fraud risks that could apply to the entity or subject matter]

| Questions | Description |
|---|-------------|
| 1. Does the entity have a fraud governance structure in place that assigns responsibilities for fraud investigations? | |
| 2. Does the entity have a fraud policy in place? | |
| 3. Has the entity identified laws and regulations relating to fraud in jurisdictions where it operates? | |
| 4. Does the entity's fraud management programme include coordination with, if exists, its internal audit function? | |
| 5. Does the entity have a fraud hotline? | |
| 6. Has responsibility for fraud detection, prevention, response, and awareness been assigned within the entity? | |
| 7. Does entity management promote fraud awareness and training within the organisation? | |
| 8. What processes have been put in place for identifying and responding to the risks of fraud in the entity. | |
| 9. Are periodic fraud awareness and training programs provided to all employees? | |
| 10. Are any automated tools available to those responsible for preventing, detecting, and investigating fraud? | |
| 11. Has the entity management identified the types of potential fraud risks in its areas of responsibility? | |
| 12. Has entity management incorporated appropriate controls to prevent, detect, and investigate fraud? | |
| 13. Does entity management have the appropriate skill sets in place to perform fraud investigations? | |
| 14. Does entity management periodically assess the effectiveness and efficiency of fraud controls? | |
| 15. Are fraud investigation work papers and supporting documents appropriately secured and retained? | |

Process guide to complete the template for assessment of fraud risks at the audit planning stage:

| | |
|---|--|
| Objective of completing the template | The objective of this template is to have information regarding fraud risk as part of overall understanding the entity and control environment. |
| ISSAI requirement | ISSAI 4000.58 |
| Guide | <p>The fraud risk assessment team identifies potential fraudulent schemes using brainstorming, management interviews, analytical procedures, and review of prior frauds. During this process, the fraud risk assessment team reviews the organisation’s activities, schemes relevant to the industry, geography, and programmes, always considering the basic characteristics of fraud (pressure/ incentive, opportunity, and rationalization), asking:</p> <ul style="list-style-type: none"> • Where are the opportunities for fraud? • What is the level of pressure management is under that would lead it to override internal controls? • Are there any consequences if management fails to reach goals? <p>Specific fraud areas should be identified without consideration of existing or effectiveness of internal controls. The evaluation considers whether the fraud could be committed by an individual alone or requires collusion among employees or external persons.</p> <p>The auditor may consider the following factors while prioritising fraud risks:</p> <ul style="list-style-type: none"> • Monetary impact; • Impact to the organisation’s reputation; • Potential criminal/civil actions including potential; • Regulatory noncompliance; • Integrity and security over data; • Loss of assets; • Location and size of operations/units; • Entity culture; • Management/employee turnover; • Liquidity of entity assets; • Volume and/or size of transactions; and • Outsourcing. |
| Conclusion | The audit team concludes on the potential fraud risks to be documented in the risks register. |
| Evidence from preparer and reviewer | The team, the reviewer - usually the audit supervisor, sign off this document to ensure that the work done by the team has been reviewed and documented. |

AWP 2.13: Risk register

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

| | 1 | 2 | 3 |
|-----|---|--|-----------------------------------|
| No. | Risk identified (inherent/ /control/fraud risks) | Link to the area under the subject matter | Assessment (High, low, medium) |
| 1. | .. | | |
| 2. | .. | | |
| | | | |
| | | | |
| | | | |
| | | | |

Process guide to complete the template for risk register

| | |
|---|---|
| Objective of completing the template | <p>The objective of this working paper template is to record the risks of non-compliance identified while completing the risk assessment process. ISSAI requires the auditor to assess the risks of material non-compliance through understanding the entity and its environment.</p> |
| ISSAI requirement | <p>ISSAI 4000.52</p> |
| Guide | <p>Overall Recording of risks in the risk register should take place simultaneously while determining the inherent, control and fraud risks. During the audit, this risk register can be updated based on new risks identified, without having to go through the whole process again. Risks from the register are elaborated in the planning matrix with the audit procedures to be performed.</p> <p>Column 1 In this column, the auditor records the risks identified in different areas. While recording these risks, the auditor gets the input from the inherent risks, control risks and fraud risks identified.</p> <p>Column 2 The auditor records the relevant areas of the subject matter where the risks are linked.</p> <p>Column 3 The risks identified and recorded in the risk register are assessed considering the impact and likelihood and the auditor’s conclusion on the risk is recorded.</p> |
| Evidence from preparer and reviewer | <p>The table indicating the names of a person who prepared this risk register and the reviewer needs to be completed at the end. The preparer, who could be a team leader or one of the team members, needs to sign off accordingly.</p> <p>The reviewer, usually the audit supervisor. should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p> |

AWP 2.14: Risk Matrix

| Likelihood | Impact | | |
|------------|--------|--------|------|
| | Low | Medium | High |
| Low | | | |
| Medium | | | |
| High | | | |

Overall risk evaluation:

| Low | Medium | High |
|---------------------|---|-----------------------------------|
| Risk can be ignored | Judgement based on characteristic of the risk | Risk must be followed up by audit |

AWP 2.15: Setting materiality at the planning stage

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|-----------|--------------------|-------------------|--------------------|----------------------------|
| Benchmark | Threshold | Materiality % used | Population amount | Materiality amount | Revised materiality amount |
| Payment amount | 1 to 5% | x% | Xxxx | xxxx | xxxx |
| Revision | 1 to x% | x% | Xxxx | xxxx | xxxx |
| Setting quantitative materiality (if subject matter includes transactions, financial information) | | | | | |
| Justification for benchmark used (how the total amount is derived) | | | | | |
| | | | | | |
| Justification for percentage used | | | | | |
| | | | | | |
| Reason for revised materiality | | | | | |
| | | | | | |
| Setting qualitative materiality | | | | | |
| Materiality by nature | | | | | |
| | | | | | |
| Materiality by context | | | | | |
| | | | | | |

Process guide for to complete the template for setting materiality at the planning stage:

| | |
|----------------------------------|---|
| Objective of the template | The objective of completing this working paper template is to determine materiality for planning and performing the audit, and this is carried out as a part of the overall audit strategy. The materiality determined at the planning stage can be revised as the audit progresses. |
| ISSAI requirement | ISSAI 4000.92 |
| Guide | <p>The purpose of materiality is to identify the audit questions, based on the risks assessment, and ensure that any non-compliance below the materiality level will not affect the conclusion and will not affect the purpose for which the reports are used by users.</p> <hr/> <p>Column 1 Select an appropriate benchmark in determining the planning materiality for the subject matter under consideration. While choosing this benchmark, the auditor needs to consider whether this item is critical to the users.</p> <hr/> <p>Column 2 Determine the threshold of materiality. The threshold will depend on the SAI’s policy, and it could be, for example, between 0.5% to 2% or 1% to 5%. This may also depend on the type of benchmark chosen from the overall subject matter of the audit.</p> <hr/> <p>Column 3 From the given threshold, select a percentage to be applied to the total population value to arrive at the materiality amount. The auditor applies a percentage of the materiality considering the sensitivity of items. The percentage to be applied may be decided as follows: Very sensitive: 1%, Sensitive: 2.5%, Not sensitive: 5%</p> <hr/> <p>Column 4 Record the total population amount of the chosen benchmark derived from the subject matter.</p> <hr/> <p>Column 5 Derive the materiality amount by applying the chosen percentage (from Column 3) to the total population amount (Column 4). This is the planning materiality amount for subject matter, if it is a transaction or financial information.</p> <hr/> <p>Column 6 To arrive at a revised value, repeat the same process as above. Using professional judgment, the auditor may also simply state the revised materiality amount without having to apply the revised percentage to the total population.</p> |
| | <p>Recording descriptions related to determining materiality:</p> <ol style="list-style-type: none"> Under row 1, record the description for using the chosen benchmark, how the total amount is derived and used as a benchmark. Under row 2, record the justification, primarily it is dependent on sensitivity. It may also depend on the nature of the entity and also the financial discipline. |

| | |
|---|---|
| | <p>3. Under row 3, record the reason for revising the materiality, to keep track of why the materiality amount was revised, and why there was a need to revise the materiality.</p> <p>Under qualitative materiality:</p> <ol style="list-style-type: none"> 1. Under row 1, record the consideration of materiality by nature that needs to be considered throughout the audit. This particular aspect is very important in public sector auditing. 2. Under row 2, record the consideration of materiality by context that needs to be considered throughout the audit. This is sometimes minor non-compliance but may have a significant effect. |
| <p>Evidence from preparer and reviewer</p> | <p>The reviewer, usually the audit supervisor, should sign off this document to ensure that it has been reviewed.</p> |

AWP 2.16 (a): Audit plan

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

[Note: The audit plan has the following parts: Part A: Assessment of risk and internal control; Part B: Audit Planning Matrix covering the risks; Part C: Audit schedule covering who and when the audit procedures will be performed. SAI team can combine the Audit strategy and Audit plan in one continuous document for approval by the SAI management]

| PART A: Assessment of risks and internal control |
|---|
| 1. Assessment of risks |
| |
| 2. Assessment of internal control |
| |
| 3. Result of risk assessment - risk register |
| |
| 4. Materiality assessment |
| |

AWP 2.16 (b): Audit Planning Matrix

| SN | 1 | 2 | 3 | 4 | 5 | 6 |
|----|------------------|---------------------------------------|----------|-------------------------------|---------------------------------|-----------------------------|
| | Audit Objectives | Risks Identified (from risk register) | Criteria | Required evidence/information | Sources of evidence/information | Audit procedures to perform |
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
| .. | | | | | | |
| .. | | | | | | |

AWP 2.16 (c): Audit schedule

| Audit stages | Planned date | Achieved date | Comments |
|-----------------------------|--------------|---------------|----------|
| Audit plan | | | |
| Prepared | | | |
| Reviewed | | | |
| Approved by management | | | |
| Audit execution: Field work | | | |
| Start | | | |
| Completion | | | |
| Audit reporting | | | |
| Draft report prepared | | | |
| Reviewed | | | |
| Approved by management | | | |
| Audit report issued | | | |

Process guide to completing the template for audit plan:

| | | | | | | | | | | | | | | | | | | | |
|----------------------------------|--|---------------------|---|--------------------------------|--|----------------------------------|---|-------------|---|------------------|--|----------|---|-------------------|--|---------------------|---|-----------------------------|---|
| Objective of the template | This working paper creates the basis for the audit strategy and audit plan document that the audit team will submit to the management for approval. | | | | | | | | | | | | | | | | | | |
| ISSAI references | ISSAI 4000.137, ISSAI 4000.140, ISSAI 4000.149 | | | | | | | | | | | | | | | | | | |
| Guide | <p>Part A: Assessment of risks and internal control</p> <table border="0"> <tr> <td data-bbox="403 409 564 542">Assessment of risks</td> <td data-bbox="577 409 1229 542">The risk assessment process followed. Mention the overall information from the understanding of the entity and the fraud risk identified. These should come from the completed working paper templates.</td> </tr> <tr> <td data-bbox="403 548 564 647">Assessment of internal Control</td> <td data-bbox="577 548 1229 647">Write the assessment of overall control risk, based on the results of the understanding of the subject matter and initial assessment of control risks.</td> </tr> <tr> <td data-bbox="403 653 564 780">Result of risk assessment result</td> <td data-bbox="577 653 1229 780">Document the risk assessment results and the assurance required in order to give reasonable assurance on the subject matter. The risks are listed in the risk register.</td> </tr> <tr> <td data-bbox="403 786 564 904">Materiality</td> <td data-bbox="577 786 1229 904">Describe both quantitative and qualitative aspects of materiality, as applicable, considering the exhibit on materiality.</td> </tr> </table> <p>Part B: Audit Planning Matrix</p> <table border="0"> <tr> <td data-bbox="403 990 564 1056">Risks identified</td> <td data-bbox="577 990 1229 1056">From Exhibit 5.6 on the risk register list all risks of material non-compliance in this column as the audit questions.</td> </tr> <tr> <td data-bbox="403 1062 564 1190">Criteria</td> <td data-bbox="577 1062 1229 1190">In audit strategy all applicable criteria are identified for the subject matter. Here the specific criteria that the entity should comply with the risk in column 1 have to be mentioned.</td> </tr> <tr> <td data-bbox="403 1195 564 1294">Required evidence</td> <td data-bbox="577 1195 1229 1294">What evidence or information does the auditor need to answer the audit question regarding the risk of non-compliance against criteria?</td> </tr> <tr> <td data-bbox="403 1300 564 1370">Sources of evidence</td> <td data-bbox="577 1300 1229 1370">Where is the evidence or information available? Write a list of possible sources of evidence for the audit.</td> </tr> <tr> <td data-bbox="403 1376 564 1532">Audit procedures to perform</td> <td data-bbox="577 1376 1229 1532">Write what audit procedures the team plans to confirm whether the condition is in compliance with the criteria to answer the question. For example: make inquiries with staff and document discussions, review policies and note non-compliance, for further discussions with client.</td> </tr> </table> <p>Part C: Audit schedule</p> <p>Detail the dates planned for the audit. When the audit is going on, there may be changes so the 'achieved date' part will have filled in later, and comments added based on the progress of the audit.</p> | Assessment of risks | The risk assessment process followed. Mention the overall information from the understanding of the entity and the fraud risk identified. These should come from the completed working paper templates. | Assessment of internal Control | Write the assessment of overall control risk, based on the results of the understanding of the subject matter and initial assessment of control risks. | Result of risk assessment result | Document the risk assessment results and the assurance required in order to give reasonable assurance on the subject matter. The risks are listed in the risk register. | Materiality | Describe both quantitative and qualitative aspects of materiality, as applicable, considering the exhibit on materiality. | Risks identified | From Exhibit 5.6 on the risk register list all risks of material non-compliance in this column as the audit questions. | Criteria | In audit strategy all applicable criteria are identified for the subject matter. Here the specific criteria that the entity should comply with the risk in column 1 have to be mentioned. | Required evidence | What evidence or information does the auditor need to answer the audit question regarding the risk of non-compliance against criteria? | Sources of evidence | Where is the evidence or information available? Write a list of possible sources of evidence for the audit. | Audit procedures to perform | Write what audit procedures the team plans to confirm whether the condition is in compliance with the criteria to answer the question. For example: make inquiries with staff and document discussions, review policies and note non-compliance, for further discussions with client. |
| Assessment of risks | The risk assessment process followed. Mention the overall information from the understanding of the entity and the fraud risk identified. These should come from the completed working paper templates. | | | | | | | | | | | | | | | | | | |
| Assessment of internal Control | Write the assessment of overall control risk, based on the results of the understanding of the subject matter and initial assessment of control risks. | | | | | | | | | | | | | | | | | | |
| Result of risk assessment result | Document the risk assessment results and the assurance required in order to give reasonable assurance on the subject matter. The risks are listed in the risk register. | | | | | | | | | | | | | | | | | | |
| Materiality | Describe both quantitative and qualitative aspects of materiality, as applicable, considering the exhibit on materiality. | | | | | | | | | | | | | | | | | | |
| Risks identified | From Exhibit 5.6 on the risk register list all risks of material non-compliance in this column as the audit questions. | | | | | | | | | | | | | | | | | | |
| Criteria | In audit strategy all applicable criteria are identified for the subject matter. Here the specific criteria that the entity should comply with the risk in column 1 have to be mentioned. | | | | | | | | | | | | | | | | | | |
| Required evidence | What evidence or information does the auditor need to answer the audit question regarding the risk of non-compliance against criteria? | | | | | | | | | | | | | | | | | | |
| Sources of evidence | Where is the evidence or information available? Write a list of possible sources of evidence for the audit. | | | | | | | | | | | | | | | | | | |
| Audit procedures to perform | Write what audit procedures the team plans to confirm whether the condition is in compliance with the criteria to answer the question. For example: make inquiries with staff and document discussions, review policies and note non-compliance, for further discussions with client. | | | | | | | | | | | | | | | | | | |

Introduction

3.1 In the audit field-work phase, the auditors should perform the audit procedures on the risks identified in the audit plan. In this phase, the auditors should select samples, if required, from the subject matter, perform the audit procedures to gather evidence, and evaluate the audit evidence.

Audit Evidence

3.2 Auditors should design and apply appropriate audit procedures to obtain sufficient and appropriate audit evidence in order to form a conclusion or opinion as to whether a subject matter complies, in all material respects, with the established criteria.

3.3 To cover the audit scope, the auditor has to decide whether the audit evidence is sufficient and appropriate to provide the basis of a conclusion or an opinion. Sufficiency and appropriateness are interrelated. The auditor exercises professional judgment and skepticism in considering the quantity (sufficiency) and quality (appropriateness) of evidence while determining the nature, timing and extent of the audit procedures to be performed.

3.4 The auditor will often need to combine and compare evidences from different sources in order to meet the requirements for sufficiency and appropriateness of audit evidence. The nature and sources of necessary audit evidence are determined by the following:



Sufficiency of audit evidence: Quantity

3.5 Sufficiency is a measure of the quantity of evidence needed to support the audit findings and conclusions. In assessing the sufficiency of evidence, the auditor needs to determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.

3.6 The quantity of the audit evidence needed is related to the nature of the audit task. For example, to form a conclusion in a reasonable assurance engagement, the auditor needs to obtain more evidence than in a limited

assurance engagement. Also, a wider audit scope normally requires more audit evidence than a narrower scope.

- 3.7 The quantity of evidence needed is also affected by the audit risk - the greater the risk, the more evidence is likely to be required, and on the quality of such evidence - the higher the quality, the less evidence may be required. However, merely obtaining more evidence does not compensate for poor quality.
- 3.8 What constitutes the evidence as sufficient and appropriate is the auditor's professional judgment, and it is influenced by the following:

| | |
|--|--|
| Auditors judgment on the evidence is based on the: | Significance of a potential non-compliance |
| | Likelihood of non-compliance having a material effect on the subject matter |
| | Effectiveness of the responses by the entity to address risk of non-compliance |
| | Experience from previous audits with similar non-compliances |
| | Results of the audit procedures performed |
| | Source and reliability of the available information |
| | Persuasiveness of the evidence |
| | Understanding of the responsible party and its environment |

Appropriateness of audit evidence: Quality

- 3.9 Appropriateness is a measure of the quality of the audit evidence. It includes relevance, validity and reliability as explained in the figure below:

Relevance

- The extent to which evidence has a logical relationship with, and importance to the issue being addressed.
- Evidence help to answer the audit objective.
- Evidence apply to the period under review.

Validity

- The extent to which the evidence is a meaningful, or a reasonable basis for measuring what is being evaluated.
- Evidence represents what it is purported to represent.

Reliability

- The extent to which the audit evidence has been gathered and produced following a transparent method.
- Evidence fulfils the requirements for credibility.
- The reliability of evidence is affected by its source (internal or external), type (physical, documentary, oral or analytical) and the circumstances.

Other considerations on audit evidence

3.10 Auditors should adequately document the audit evidence in the working papers. Such documentation includes the work performed, findings and conclusions, and the rationale for major decisions. Information that is not

| | |
|----------------------------------|--|
| Corroborating the evidence | Obtaining evidence from different sources or of a different nature may either corroborate other evidence or indicate that an individual item of evidence is not reliable. |
| Performing additional procedures | In cases where evidence obtained from one source is inconsistent with that obtained from another, the auditor needs to determine what additional procedures are needed to resolve the inconsistency. |
| Use of confidential evidence | If documents produced by management are classified as confidential, the auditor or his/her superior at the appropriate level will discuss how this confidential information might best be used. |
| Evidence on fraud | Information and documentation relating to cases of discovered or suspected fraud should be handled with particular care. |

pertinent to work done or conclusions reached should not be included. Auditors also consider:

Evidence gathering procedures

- 3.11 Test of controls involves testing the controls that management has put in place to reduce the risk of non-compliance or the risk that the subject matter information is materially misstated. For most subject matters, testing key controls is an effective way to collect audit evidence.
- 3.12 The auditor performs tests of controls to confirm the preliminary assessment of those key controls upon which auditors intends to rely. The objective of tests of controls is to evaluate whether those key controls operated effectively and continuously during the period under review.
- 3.13 If the tests of controls confirm that the controls have operated continuously and effectively throughout the period under review, then reliance can be placed on these controls and minimum substantive testing can be performed. When these controls are found not to have operated continuously and effectively throughout the period under review, the auditor should reassess the audit approach, and increase the extent of substantive testing to be performed.
- 3.14 The techniques that are generally used to test key controls are observation and enquiry, inspection and re-calculation, or a combination thereof. The

auditor can document testing operating effectiveness of controls using the **AWP 3.1**.

- 3.15 Substantive procedures include Tests of details and Analytical procedures.
- 3.16 Tests of details involve testing detailed transactions or activities against the audit criteria. In most direct reporting engagements, auditors conduct substantive testing. This is because at the planning stage while identifying the risks, auditors have determined that there are very limited or non-existent internal controls in the entity. Depending on how well the entity has managed the subject matter, the auditors may decide not to separately test and evaluate internal controls but rather look into relevant controls along with substantive testing.
- 3.17 In performing substantive tests of details, the substantive procedures are designed during the planning phase to be responsive to the related risk assessment; their purpose is to obtain audit evidence to detect non-compliance. However, irrespective of the assessed risk and level of reliance, the auditor should design and perform substantive procedures (tests of details) for each material area. Substantive testing typically includes:

| Substantive test | Areas |
|------------------------------------|--|
| Computation | <ul style="list-style-type: none"> • Re-performance of calculations regarding claims, grants, etc. |
| Analysis (excl. analytical review) | <ul style="list-style-type: none"> • Analysis of findings of work by internal and other auditors Analysis of legal basis, legal and budgetary commitments, eligibility, tendering procedures |
| Re-performance | <ul style="list-style-type: none"> • Re-performance of already inspected/audited transactions |
| Inspection | <ul style="list-style-type: none"> • Physical assets • Contracts • Claims • Ex-ante and ex-post control reports • Audit reports (internal and external) • Monitoring reports • Supporting documents, e.g. invoices, public procurement documents, cost-benefit analysis, photos, records of beneficiaries |
| Inquiry and confirmation | <ul style="list-style-type: none"> • Inquiry of auditee management and staff • Circularisation of bank balances • Circularisation of receivables |
| Observation | <ul style="list-style-type: none"> • On-the-spot checks |

- 3.18 The auditor can document the substantive testing procedures using the **AWP 3.2**.
- 3.19 Analytical procedures involve acquiring information from various sources in order to determine what is expected; comparing the actual situation with that expectation; investigating the reasons for any discrepancies arising; and evaluating the results. It can be used both as part of the risk analysis and when collecting audit evidence. Audit evidence can be collected either by comparing data, investigating fluctuations, or identifying relationships that appear inconsistent with what was expected based on either historical data or the auditor's past experience. Regression analysis techniques or other mathematical methods may assist public sector auditors in comparing actual to expected results.
- 3.20 In a limited assurance engagement, analytical procedures and inspections are normally enough to form a conclusion with limited assurance, while a conclusion with reasonable assurance must be formed on the basis of a combination of the audit techniques.
- 3.21 Analytical procedures may, only in certain circumstances, assist the auditor in evaluating compliance. For example, where allowances under a grants scheme are subject to a maximum value and the number of recipients is known, the auditor may use analytical procedures to establish whether the permitted maximum has been breached. These techniques or combinations thereof may be used for tests of controls or substantive procedures.

Performing audit procedures for revenue audit

The official at the local government administration has the responsibility for collecting land taxes. The total amount of land tax collectible is based on the total areas of the applicable land category, i.e. commercial, residential, or other types; and the applicable rate of land tax. Different tax rates apply to different categories of land.

The auditor uses analytical procedure to confirm the accuracy and completeness of total land taxes collected by calculating the expected land tax revenue (multiplying the areas of different categories of applicable land with the respective rate of land tax). The auditor compares the calculated expected amount with the actual collections by the local administration to establish if the difference remains within the tolerable amount.

| | |
|--------------------------------------|--|
| Step in analytical procedure | Case analysis from planning |
| Identify the revenue element to test | The revenue element is the land taxes collected by the local administration, and the audit test is to check the completeness. (Given the relationship between the areas of applicable land, tax rate, and the total amount collected, assurance can be taken through substantive analytical procedure for the area). |

| | | | | |
|---|--|----------------------|---------------------------|------------------------|
| Developing an expectation on the revenue | Type of Land | Area of Land (sq. m) | Land Tax rate(\$)/(sq. m) | Land Tax Expected (\$) |
| | Commercial | 20,000 | 450 | 9 000 000 |
| | Residential | 50,000 | 150 | 7 500 000 |
| | Other | 10,000 | 100 | 100 000 |
| | Total Expected Amount | | | 16 100,000 |
| Determine the threshold/ tolerable difference | Auditor determines that amounts within 10% deviation of actual tax collected will be accepted. (Tolerable difference is the amount of difference that the auditor considers acceptable and which will not invalidate the result of the analytical procedure). | | | |
| Identify significant difference | Actual tax collected by the local administration: \$ 14 000,000 Expected amount: \$ 16 100,000 Difference: \$ 2100 000 less collected than the expected amount | | | |
| Analyse the difference | Difference of \$ 2100 000 is more than the threshold or tolerable difference of \$ 1400 000, (which is the 10% of actual tax collected) The auditor requests the local administration management to provide reasons for the differences. | | | |
| Evaluation and conclusion | <p>The auditor's evaluation may result in two scenarios:</p> <p>a. The management is able to provide reasons with corroborative evidence for the in lower than expected amount of tax collected (e.g. exemptions have been granted on a number of lands, business startups received tax breaks, as a result less tax received). When the auditor considers this new information, the variation is within the threshold. conclusion: the auditor obtains assurance from the substantive analytical procedure performed.</p> <p>b. The management is unable to provide satisfactory explanation for the difference of \$ 2100 000, and no other information is available to the auditor to determine the reason of the difference. Conclusion: The auditor cannot have assurance from the substantive analytical procedure performed. The auditor will consider other means for obtaining assurance for the audit area (e.g. substantive test of details).</p> | | | |

Evidence gathering techniques

- 3.22 Evidence may be obtained by carrying out a variety of techniques. The auditor should make a judgment as to which method (or combination thereof) for obtaining audit evidence will be suitably reliable, and should balance the reliability of evidence against the cost of obtaining it.
- 3.23 Observation involves looking at a process or procedure being performed by others. Observation provides audit evidence of the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. In performing

compliance audit this may, for example, include looking at how a bid tendering process is carried out or observing how benefit payments are processed in practice.

- 3.24 Inspection involves examining books, records or documents, whether internal or external, either in paper form, electronic form or a physical examination. The auditor considers the reliability of any documents inspected and remains conscious of the risk of fraud and the possibility that documents inspected may not be authentic. In performing a compliance audit, inspection may, for example, include the review of case files/relevant documents to determine if recipients of benefits met eligibility requirements, or examining an asset such as a bridge or a building to determine if it meets the applicable building specifications.
- 3.25 Inquiry involves seeking information from relevant persons, both within and outside the audited entity. Depending on the subject matter and the scope, interviews and questionnaires alone will in most cases not be sufficient and appropriate evidence. Other relevant evidence gathering methods to be considered are, e.g., written documentation from the audited entity. Inquiry is generally used extensively throughout an audit and complements other audit procedures. For example, when observing processes being performed, such as the benefits payment process within a country/state, inquiries could be made of officers as to how relevant legislation, including changes and updates, is identified and interpreted.
- 3.26 External confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party. Hence, the auditor is obtaining feedback directly from beneficiaries or third parties who are not beneficiaries that they have received the grants or other funds that the audited entity asserts have been paid out, or confirming that funds have been used for the particular purpose set out in the terms of a grant or funding agreement.
- 3.27 Re-performance involves independently carrying out the same procedures already performed by the audited entity, controls that were originally performed as part of the entity's internal control. Re-performance may be done manually or by computer-assisted audit techniques. Where highly technical matters are involved, external experts may be needed.
- 3.28 Re-calculation consists of checking the mathematical accuracy of documents or records. Re-calculation may be performed manually or electronically. For example, re-calculation may include re-computation of

taxation deductions on audited body staff payroll to confirm the correct amounts payable in taxes.

Sampling

- 3.29 Audit sampling is defined as the application of audit procedures to less than 100 percent of items within a population of audit relevance. When designing an audit sample, the auditor should consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.
- 3.30 A sample may be quantitative or qualitative, depending on the audit scope and the need for information to analyse the subject matter from several angles.
- 3.31 Quantitative sampling is used when the auditor seeks to draw conclusions about the whole population by testing a sample of items selected from it. In quantitative sampling, the sample risk must be reduced to an acceptable low level. However, the technical approach to quantitative sampling may require statistical techniques. If the audit team does not have the skills to apply them, an expert statistician may be required.
- 3.32 Qualitative sampling is a selective procedure conducted as a deliberate and systematic process to identify the factors of variation in the subject matter. The auditor might sample on the basis of characteristics of individuals, groups, activities, processes or the audited entity as a whole. Qualitative sampling always requires careful assessment and sufficient knowledge of the subject matter.
- 3.33 When the auditor selects cases for in-depth study, it usually results in relatively small samples that can answer more explorative questions and provide new information, analyses and insight into the subject matter. It may be appropriate to use risk-based sampling instead of a statistical approach when selecting items for testing, for instance when addressing a specific significant risk.

Selecting samples for testing

- 3.34 The choice of a particular method is a matter of auditor's professional judgment based on risk assessment, materiality, audit efficiency and cost. But the method chosen should be effective in meeting the purpose of the audit procedure.
- 3.35 Selecting all items is appropriate when the number of items is small but of high value, when the risk is high, or when Computer-Assisted Audit

Techniques (CAATs) allow all items to be tested efficiently. It is more common for substantive testing (tests of details) than for tests of controls.

- 3.36 The auditor selects certain items from a population because of specific characteristics they possess. These are typically high-value or high-risk items (e.g. relatively high or low amounts) or items that represent a large proportion of the subject matter. It is useful for tests of controls and substantive testing, and also to gain an understanding of the entity or to confirm the auditor's risk assessment. While it is an efficient method of gathering audit evidence, it is not comparable to audit sampling, and so the results cannot be projected to the entire population. However, it may play a role as part of an audit approach that provides reasonable assurance without using audit sampling methods.
- 3.37 The sampling method to be used in selecting the sample should match the characteristics of the population. The audit team should decide the most appropriate method of selecting the samples. The auditor can determine the suitable sampling method by using the decision tree in **Figure 3.1**.

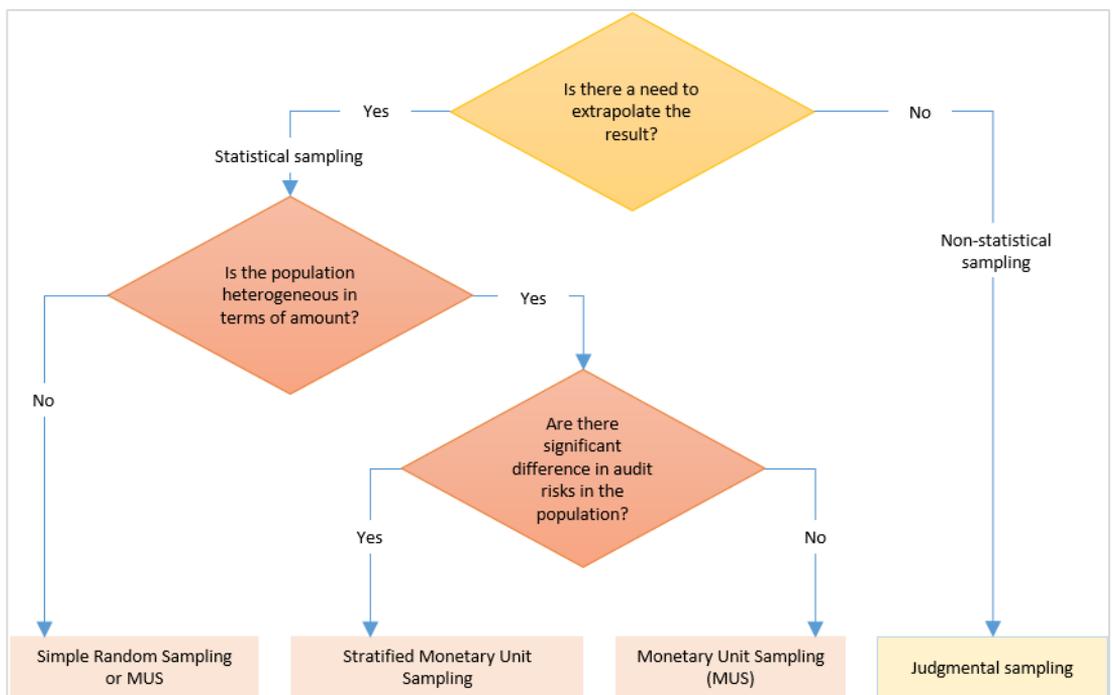


Figure 3.1: Decision tree – determining the appropriate sample selection method

Judgmental sampling (Risk-based sampling).

- 3.38 Involves selecting items from a population in accordance with pre-determined and documented criteria based on the auditor's judgment.

Judgmental or risk-based sampling cannot be used if the objective of the sample is to extrapolate the results. When reporting results, auditors should take care to ensure that readers are not misled into thinking that the results are representative of the population.

Simple random sampling

- 3.39 The main characteristic of simple random sampling is that all transactions or sampling units have the same chance of being selected for testing. A high-value transaction is no more likely to be selected than one of low value. While the method is the most straightforward to apply, its use for tests of detail is generally restricted to situations where the sampling units making up an area of the subject matter are fairly homogeneous.
- 3.40 Systematic sampling is a method of statistical sampling in which every item has an equal chance of selection. The practical implementation of systematic sampling method uses a random starting point and then an average sampling interval (ASI) for progression through the expenditure. For example, if the auditor wishes to select 100 items from a population of 20,000 items, the uniform interval is every 200th item. The auditor selects the first item within the first interval and selects every 200th item. The first item is selected randomly.

Monetary unit sampling (MUS)

- 3.41 Monetary unit sampling is a statistical sampling method in which a high-value transaction is more likely to appear in the sample than one of lower value. The chance of a transaction being selected is in direct proportion to its size. Any transaction above the average sampling interval will certainly be selected. Monetary unit sampling is more widely used than the simple random sampling because it is usually more efficient, as the margins of uncertainty in the estimates of error are generally narrower. However, the calculations involved in extracting a monetary unit sample can be cumbersome and the method is practical if it can be automated. Also, statistically this method is only valid for populations with low error rates.

Stratified MUS

- 3.42 Stratified monetary unit sampling divides the population into several sub-groups (strata). The strata have to be pre-defined according to different characteristics within the population e.g. according to risk. The auditor should use professional judgment when determining these characteristics including his/her knowledge of the population subject to audit. In each

stratum, a number of items are selected with MUS. The number of items to be selected can be different in every stratum.

- 3.43 For the particular type of engagement and subject matter, using any of these methods, the auditor selects the samples to perform the audit procedures on the risks identified to gather sufficient and appropriate audit evidence. The audit team needs to decide on the tolerable rate of non-compliance and the expected non-compliance rate in the population.

Evaluating audit evidence and forming conclusion

- 3.44 The auditor shall compare the obtained audit evidence with the stated audit criteria to form audit findings for the audit conclusion(s). For a balanced and objective view, the evaluation process entails considering all evidence provided in relation to the audit findings. By evaluating the scope of work performed, the auditor determines whether (s)he is able to draw a conclusion. If the scope of work is insufficient, the auditor might consider performing further procedures, or modifying the opinion or conclusion due to a scope limitation.
- 3.45 The evidence gathering process continues until the auditor is confident that sufficient and appropriate evidence exists to support the agreed level of assurance that will support the auditor's conclusion or opinion. The auditor maintains professional scepticism throughout the audit to reduce the risks of:
- Overlooking unusual circumstances.
 - Over-generalising when drawing conclusions from observations.
 - Using inappropriate assumptions in determining the nature, timing and extent of procedures and evaluating the results thereof.
- 3.46 In assessment of the evidence gathered, the auditor exercises professional scepticism by questioning the inconsistent evidence and the reliability of documents and responses to inquiries. Also, the auditor considers the sufficiency and appropriateness of evidence obtained in light of the circumstances.
- 3.47 The auditor should not disregard past experience with the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the

auditor of the need to maintain professional scepticism during the audit. It is also equally important to consider:

- The nature, timing, and extent of procedures used to obtain evidence.
- Whether sufficient appropriate evidence has been obtained, and
- Whether more needs to be done to achieve the objectives of relevant auditing standards.
- The appropriate conclusions to draw based on the evidence obtained.

3.48 In the direct reporting engagement, auditors plan audit procedures to gather evidence on the risks identified at the planning phase. The audit strategy and audit plan document includes the audit planning matrix **AWP 2.16 (b)** which lists all risks for the audit testing by applying various audit procedures. Once the auditor performs the audit procedures for the identified risks, based on the information and analysis of those, the auditor formulates audit findings.

Audit finding/observation

3.49 An audit finding describes the compliance deviation, based on the information gathered during fieldwork, between the existing situation and the criteria. The common elements of a finding are: criteria (authorities to comply with), condition (what is the situation found vis-a-vis the criteria), cause (why there is a deviation from the criteria) and effect (what are the consequences of the non-compliance).

3.50 The findings and information obtained during the audit, the conclusions and recommendations can be recorded in the findings matrix. The findings matrix is a useful tool to facilitate the assessment of the findings, whether they are based on sufficient appropriate evidence, as well as, to prepare a coherent audit report.

3.51 The narrative of the findings originates from the substantive tests of details (or the procedures performed) for all risks identified as in **AWP 3.3**.

3.52 The auditor determines the causes of the non-compliance and its effect. The effect of non-compliance may be monetary or other losses to the entity and it can also point to the party responsible for the non-compliance. While identifying the cause is important, it is more important to determine the root cause of a particular non-compliance.

3.53 The auditor can make appropriate and implementable recommendations based on the root cause identified. If the root cause cannot be identified, a

recommendation will not address the core problem, and the entity will fail to rectify the particular non-compliance. Identifying the root cause requires the auditor to focus on the underlying cause of the non-compliance, and not on the surface level cause or the obvious cause.

Root cause analysis

Root cause is identified with the use of appropriate root cause analysis tools, e.g. brainstorming, fishbone diagram, flow charting, or answering the ‘five whys’. The ‘five whys’ tool is the simplest root cause analysis tool. It uses a question-asking method to explore the cause-and-effect relationship underlying the problem. Essentially, the auditor keeps asking ‘why’ until a meaningful conclusion is reached. Generally, a minimum of five questions should be asked, although additional questions are sometimes required if the real cause is yet to be identified. An illustrative example is provided below:

| | | |
|-----------------------------|---|--|
| A finding on non-compliance | Entity’s fleet of vehicles did not meet the set availability target: the entity failed to comply with the criteria to provide the required service with the delivery of vehicles. | |
| Obvious cause | Because the entity did not have enough vehicles. | |
| Recommendation | Aimed at symptom or obvious cause: The entity should ensure that the fleet of the vehicles meets the availability target. | |
| Identifying the root cause | of the non-compliance for vehicle service using the ‘five whys’ tool: | |
| | Why 1 | The vehicles were often not available due to mechanical problems |
| | Why 2 | Not enough technicians are on site to fix the mechanical repairs |
| | Why 3 | Too few technicians have completed training in recent years |
| | Why 4 | Not enough instructors are available to provide required training |
| | Why 5 | Many instructors retired in the same year, in the absence of any succession plan or recruitment strategy |
| Recommendation | Aimed at the root cause: The entity should establish a succession plan and recruitment strategy to support the vehicle maintenance activities. | |

Considering materiality

3.54 While completing the findings matrices for the risks identified, the auditor determines if the non-compliances are material or not. Here the auditor applies the concept of materiality for value and nature or context. In evaluating evidence and concluding the audit, the auditor uses materiality

to evaluate the level of non-compliance to determine the impact on the conclusion/opinion.

- 3.55 If the non-compliance can be quantified, the quantitative materiality determined at the planning stage can be applied. If the non-compliance is non-monetary but qualitative, the materiality threshold identified at the planning stage can be applied. The auditor applies professional judgment to determine if non-compliance is material or not by considering:

| | |
|--------------------------------|---|
| The amount involved | This can be a monetary amount or other measures such as number of people involved, delays in days or time, etc. |
| The visibility and sensitivity | of the subject matter under audit, and effects and consequences of non-compliance |
| Expectations | of the legislative body, the general public, or other stakeholders and end users of the audit report |
| Nature and significance | of the authorities governing the subject matter |

- 3.56 The auditor can document the findings on the identified risks using the working paper template provided in **AWP 3.3**. Below is an illustrative example of a findings matrix.

Finding Matrix

| Risk | Audit criteria | Condition/ Evidence | Cause and effect | Conclusion | Recommendation |
|---|---|--|--|--|---|
| Entity may not have provision of adequate fire security arrangement in the completed buildings. | As per clause 1.1.20xx of the 20xx-Fire Safety "All new buildings should be provided with at least one fire extinguisher on each floor" | The audit team checked and verified the approved building drawings. Also team compared the implementations of the requirement during a physical verification to selected sites from 20/7/20xx to 22/7/20xx in conformity with the clause 1.1.20xx. The team found that in majority of the buildings fire safety equipment were not in place as required by the clause. | Cause: The city authority didn't enforce the requirement prior to the approval of application of the building drawings and designs. Also, the clause didn't include any provision for penalty for not having a fire extinguisher, the city authority couldn't impose penalty for such cases. Effect: Due to this the completed buildings are vulnerable to risk of fire and | The entity didn't comply with the requirements to have one fire extinguisher at least in each floor of the building as per 1.1.20xx of the 20xx-Fire Safety. | The management should put in place proper controls to ensure that the provisions of the clause are strictly complied with in future approvals, besides enforcing the penalty rule against the non-compliances in line with the amended 1.1.20xx of the 20xx-Fire Safety |

Forming overall conclusion on the subject matter

- 3.57 Based on the audit findings, and the materiality, the auditor shall draw a conclusion whether the subject matter is, in all material respects, in compliance with the applicable criteria. The auditor forms the overall conclusion, or audit opinion, in evaluating all relevant evidence in relation to the identified materiality. Based on the materiality, the auditor evaluates whether the audit findings are material enough to conclude on the subject matter.
- 3.58 In evaluating audit results of subject matters with non-monetary compliance attributes, the qualitative materiality threshold (tolerable level of non-compliance) set at the planning stage is to be used. A threshold can also be set for each individual area of the subject matter as well as for the subject matter as a whole. A materiality threshold for each area of the subject matter, apart from the overall materiality threshold may be helpful in evaluating the sample results and forming a conclusion.

Example

If the subject matter is the procurement practice of the Ministry of Infrastructure:

- Overall threshold (tolerable level of noncompliance) could be set at 4%
- Threshold for individual areas of the subject matter may be set as:
- Procurement Planning - 3%, Sourcing - 5%, Contract management - 4%

- 3.59 The threshold for individual areas has to be set after considering the risks involved in each area, the status of controls, and the past compliance record of the entity in these areas.
- 3.60 Forming a conclusion with the results of test of controls is a process common to either attestations engagements or direct reporting engagement. It is the usual audit process followed to arrive at audit conclusion when test of controls and statistical sampling is used for subject matters that are value driven and the non-compliances can be quantified. If statistical sampling is applied in a direct reporting engagement, the subject

matter is value driven, and the non-compliances are quantifiable, the same process can be followed to form the conclusion.

- 3.61 In forming the overall conclusion, the auditor has to calculate the actual non-compliance rate. First, the auditor determines the instances of non-compliance observed in the tests.

Example

If the total sample size tested was 40 and the instances of non-compliance identified were 5, then the actual non-compliance rate would be $(5/40) \times 100 = 12.50\%$. If judgmental sampling was used, the auditor may directly compare this non-compliance rate with the tolerable level of non-compliance (threshold) set for the subject matter. If the non-compliance rate exceeds the threshold, the auditor may conclude that the subject matter is not in compliance with the established criteria.

- 3.62 However, it may be possible that instances of non-compliance identified are from one particular area of the subject matter and not spread across the entire subject matter. In other words, the non-compliance is not pervasive. In that case, the auditor has to modify the conclusion in such a way that this is clearly communicated.
- 3.63 For subject matters where the non-compliance can be quantified, the value of non-compliance after extrapolation, as shown in examples above, is to be compared against the qualitative materiality level set to form the opinion or audit conclusion. The auditors also need to consider the pervasiveness of the non-compliances and may modify the conclusion or opinion depending of the circumstances.
- 3.64 The auditor should document the Audit Completion Report as suggested in **AWP 3.4**.

Audit Exit Meeting

- 3.65 The auditor should conduct audit exit meeting to discuss the preliminary audit findings and the management's response and agreed with the management. It also reduces the risks of misunderstanding between the management and the auditor on issues reflected in the final audit report.
- 3.66 The auditor and the management should maintain the minutes of the exit meeting detailing the discussions on audit findings and the decisions arrived on each discussion points as per the **AWP 3.5**. The minutes should then be dated and signed by representatives of the audit team and the

management. The minutes of the audit exit meeting also become audit evidence, which is used as the basis to finalise the audit report.

AWP 3.1: Testing operating effectiveness of controls

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

Step 1: Link from planning to risk, control activities, test procedures

| 1 | 2 | 3 | 4 | 5 | 6 |
|--------------------------|------------|----------------|-------------------------------|--------------------------------------|----------|
| Control reference number | Risk | Risk reference | Control activity for the risk | Control testing procedures performed | Comments |
| Link to... | Link to... | | | Link to... | |
| | | | | | |

Step 2: Test of control procedures performed

| 1 | 2 | 3 | | | | | 4 |
|--------|----------------------|-----------------------|--------|--------|--------|--------|------------|
| Sample | Sample Reference no. | Item tested in sample | | | | | Conclusion |
| | | Item 1 | Item 2 | Item 3 | Item 4 | Item 5 | |
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |

Overall conclusion on control testing

Process guide to complete the template for testing operating effectiveness of controls:

| | | | | | | | | | | | |
|----------------------------------|--|-----------------|---|-----------------|---|-----------------|--|-----------------|--|-----------------|---|
| Objective of the template | The objective of this working paper template is to document the control testing procedures performed by the auditor. Test objective is linked to identified risks; the audit procedure is performed on the samples selected. | | | | | | | | | | |
| ISSAI | ISSAI 4000.144-149 | | | | | | | | | | |
| Guide | <p>Step 1: Link the risks from the planning document that were considered for testing, and record in the field provided above. Against this, trace the risks, control activities, control testing procedures identified from the planning document.</p> <p>Step 2: Select samples to be tested for one control activity at a time. First record the control reference number and risk reference number, to confirm which control was tested. Record this in the field provided in the template, and then record the details of samples in the given table.</p> <p>Step 1: Link from planning to risk, control activities, test procedures</p> <table border="1" data-bbox="333 668 1188 1414"> <tr> <td data-bbox="340 668 534 868"> Column 1 </td> <td data-bbox="541 668 1181 868"> In this column, trace the control activity reference number from the Log of Control Activity or from the RMNC (risk of material non-compliance)/risk register table completed at the planning stage of the audit. Column 1 records the control reference number and thus provides a status of controls being tested. </td> </tr> <tr> <td data-bbox="340 872 534 976"> Column 2 </td> <td data-bbox="541 872 1181 976"> Trace risks identified in the RMNC/risk register table and record them in this column. First trace the risks assessed as significant. </td> </tr> <tr> <td data-bbox="340 980 534 1106"> Column 3 </td> <td data-bbox="541 980 1181 1106"> It is optional whether to trace the name of the risk or the risk reference in this documentation. The risk reference number can be traced from the RMNC/risk register table and recorded in this column. </td> </tr> <tr> <td data-bbox="340 1110 534 1281"> Column 4 </td> <td data-bbox="541 1110 1181 1281"> Trace the name of the control activity from RMNC/risk register table and record it in this column. It should correspond to the control activity reference number recorded in column 1 and also the risks traced from the RMNC/risk register. </td> </tr> <tr> <td data-bbox="340 1285 534 1414"> Column 5 </td> <td data-bbox="541 1285 1181 1414"> In this column, add a comment on control testing procedures designed at the planning stage from the RMNC/risk register table. This is the work that needs to be performed by the auditor. </td> </tr> </table> | Column 1 | In this column, trace the control activity reference number from the Log of Control Activity or from the RMNC (risk of material non-compliance)/risk register table completed at the planning stage of the audit. Column 1 records the control reference number and thus provides a status of controls being tested. | Column 2 | Trace risks identified in the RMNC/risk register table and record them in this column. First trace the risks assessed as significant. | Column 3 | It is optional whether to trace the name of the risk or the risk reference in this documentation. The risk reference number can be traced from the RMNC/risk register table and recorded in this column. | Column 4 | Trace the name of the control activity from RMNC/risk register table and record it in this column. It should correspond to the control activity reference number recorded in column 1 and also the risks traced from the RMNC/risk register. | Column 5 | In this column, add a comment on control testing procedures designed at the planning stage from the RMNC/risk register table. This is the work that needs to be performed by the auditor. |
| Column 1 | In this column, trace the control activity reference number from the Log of Control Activity or from the RMNC (risk of material non-compliance)/risk register table completed at the planning stage of the audit. Column 1 records the control reference number and thus provides a status of controls being tested. | | | | | | | | | | |
| Column 2 | Trace risks identified in the RMNC/risk register table and record them in this column. First trace the risks assessed as significant. | | | | | | | | | | |
| Column 3 | It is optional whether to trace the name of the risk or the risk reference in this documentation. The risk reference number can be traced from the RMNC/risk register table and recorded in this column. | | | | | | | | | | |
| Column 4 | Trace the name of the control activity from RMNC/risk register table and record it in this column. It should correspond to the control activity reference number recorded in column 1 and also the risks traced from the RMNC/risk register. | | | | | | | | | | |
| Column 5 | In this column, add a comment on control testing procedures designed at the planning stage from the RMNC/risk register table. This is the work that needs to be performed by the auditor. | | | | | | | | | | |
| | <p>Step 2: Test of control procedures performed</p> <table border="1" data-bbox="333 1452 1188 1715"> <tr> <td data-bbox="340 1452 534 1525"> Column 1 </td> <td data-bbox="541 1452 1181 1525"> In this column, record the sample numbers. This indicates how many samples were tested. </td> </tr> <tr> <td data-bbox="340 1528 534 1633"> Column 2 </td> <td data-bbox="541 1528 1181 1633"> Document sample reference no. in this column. Typically, it could be payment voucher or receipt voucher no. and date, or similar in nature. </td> </tr> <tr> <td data-bbox="340 1637 534 1715"> Column 3 </td> <td data-bbox="541 1637 1181 1715"> In this column, record the details of items tested in that particular sample against the control. Items to be tested in a particular sample will be determined by the control </td> </tr> </table> | Column 1 | In this column, record the sample numbers. This indicates how many samples were tested. | Column 2 | Document sample reference no. in this column. Typically, it could be payment voucher or receipt voucher no. and date, or similar in nature. | Column 3 | In this column, record the details of items tested in that particular sample against the control. Items to be tested in a particular sample will be determined by the control | | | | |
| Column 1 | In this column, record the sample numbers. This indicates how many samples were tested. | | | | | | | | | | |
| Column 2 | Document sample reference no. in this column. Typically, it could be payment voucher or receipt voucher no. and date, or similar in nature. | | | | | | | | | | |
| Column 3 | In this column, record the details of items tested in that particular sample against the control. Items to be tested in a particular sample will be determined by the control | | | | | | | | | | |

| | |
|--|--|
| | <p>testing procedures designed at the planning stage, and by the test objective.</p> <p>Column 4 Arrive at a conclusion on every sample tested, and record it in this column. This will form the basis to arrive at an overall conclusion.</p> |
| Conclusion on control testing | <p>Based on controls identified against each risk tested, conclude as to whether the controls put in place are operating effectively. To do so, first record the basis for conclusion, and then conclude with either of the following statements.</p> <ol style="list-style-type: none"> 1. The controls were operating effectively. 2. The controls were not operating effectively. <p>This conclusion should then be traced back to the RMNC/risk register table under the column specified as 'Conclusion of control testing procedure' and recorded as either 'Effective' or 'Not Effective' against each control testing procedure.</p> |
| Evidence from preparer & reviewer | <p>The Table indicating the names of a person who prepared and completed this working paper and the reviewer needs to be completed at the end. The preparer could be a team leader or one of the team members who could then sign off accordingly. The reviewer, usually the audit supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p> |

AWP 3.2: Performing substantive audit procedures

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

Step 1: Link from planning to risk and substantive audit procedures

| 1 | 2 | 3 | 4 |
|------------|----------------|--|----------|
| Risk | Risk reference | Substantive audit procedures performed | Comments |
| Link to... | | Link to... | |
| | | | |
| | | | |

Step 2: Substantive audit procedures performed

| 1 | 2 | 3 | | | | | 4 |
|--------|----------------------|-----------------------|--------|--------|--------|--------|------------|
| Sample | Sample Reference no. | Item tested in sample | | | | | Conclusion |
| | | Item 1 | Item 2 | Item 3 | Item 4 | Item 5 | |
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |

Overall conclusion on the substantive audit procedures

Completing the template for substantive audit procedures: Suggested process guide

| | |
|---------------------------|--|
| Objective of the template | The objective of this audit working paper template is to document the substantive audit procedures performed by the auditor in the execution phase of the audit to ensure that the work performed by the auditor is documented accordingly. Test objective is linked to identified risk; the audit procedure is performed on the samples selected. |
| ISSAI | ISSAI 4000.144-149 |
| Guide | <p>Step 1: Link the risks from the planning document that were considered for testing, and record in the field provided above. Against this, link the risks and the substantive audit procedures identified from the planning document.</p> <p>Step 2: Select samples for testing. Usually the samples selected for substantive testing are larger than for control testing. Therefore, the auditor needs to first record risk reference number, so that it is quite clear as which risk will be addressed by performing substantive audit procedure. The particulars or items to be tested in the given sample would depend on the test objective, and what needs to be tested should be drawn from the substantive audit procedures.</p> <p>Step 1: Link to risk and substantive audit procedures from planning</p> <p>After recording the risks to be tested, proceed to complete the table having four elements. The auditor should first focus on significant risk, and design and perform substantive audit procedures that are responsive to such risks.</p> <p>Column 1 Link risks identified from the RMNC/risk register table and record in this column. First link the risks assessed as significant.</p> <p>Column 2 The risk reference number can be linked from the RMNC/risk register table and recorded in this column for ease of reference while documenting substantive audit procedures performed.</p> <p>Column 3 In this column, link the substantive audit procedures designed at the planning stage from the RMNC/risk register table. This is the work that needs to be performed by the auditor.</p> <p>Column 4 Add a comment here on the process and the outcome. The purpose is to ensure that the test objective is maintained consistently to arrive at an appropriate conclusion based on substantive audit procedures performed.</p> |
| | <p>Step 2: Substantive audit procedures performed</p> <p>Document the substantive audit procedures performed that are responsive to assessed risks of material non-compliance. Link risk reference and record in the given field.</p> <p>Column 1 In this column, record the sample numbers. This indicates how many samples were tested.</p> <p>Column 2 Document sample reference no. in this column. Typically, it could be a payment voucher or receipt voucher no. and date.</p> <p>Column 3 In this column, record the particulars or items tested in that particular sample. Items to be tested in a particular sample will be determined by the substantive audit procedures designed and the test objectives determined in the planning stage.</p> |

| | |
|--|---|
| | <p>Column 4 In this column record the conclusion arrived at on every sample tested. This will form the basis to arrive at an overall conclusion.</p> |
| <p>Conclusion on substantive audit procedures</p> | <p>To arrive at an overall conclusion, first establish the basis of the conclusion. This can be derived by summarizing the conclusion for each sample under column 4.</p> <p>The overall conclusion should then be linked back to the specific risks in the risk register so that auditors will know which risks have actually resulted in non-compliances. From that constructive recommendations can be suggested. Any exceptions observed while performing the substantive audit procedures on each sample selected for testing should be linked to the observation list in the completion and review stage of the audit to deal appropriately with the management and to evaluate the impact on the objective and subject matter.</p> |
| <p>Evidence from preparer and reviewer</p> | <p>The Table indicating the names of a person who prepared and completed this working paper and the reviewer needs to be completed at the end. The preparer could be a team leader or one of the team members who could then sign off accordingly.</p> <p>The reviewer, usually the audit supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly.</p> |

AWP 3.3: Audit Findings Matrix

| | |
|---------------------|--|
| Entity Name | |
| Audit Period | |

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

| 1 | 2 | 3 | 4 | 5 | 6 |
|---------------------|----------|--------------------|------------------|------------|----------------|
| Audit risk/question | Criteria | Condition/evidence | Cause and effect | Conclusion | Recommendation |
| | | | | | |

Completing the template for audit finding matrix: Suggested process guide

| | | | | | | | | | | | | | |
|----------------------------------|--|-----------------|---|-----------------|--|-----------------|--|-----------------|--|-----------------|---|-----------------|---|
| Objective of the template | <p>The objective of completing this working paper template is to facilitate preparing the audit findings in a systematic manner. The auditor needs to fill this template for each risk. Based on the information gathered in the template, the auditor will prepare the individual narrative finding (team can follow SAI's finding format). For the claims made by the auditor in the narratives in the template, it should be supported by the required documentation with references (evidences). This will facilitate the quality review process during the audit and quality assurance after the audit.</p> | | | | | | | | | | | | |
| ISSAI | <p>ISSAI 4000.179</p> | | | | | | | | | | | | |
| Guide | <table border="1"> <tr> <td data-bbox="330 559 471 719"> <p>Column 1</p> </td> <td data-bbox="471 559 1155 719"> <p>Risks identified at the planning phase, which has reference to the risk register. For each risk in the register, an audit planning matrix is completed, and based on the audit procedures performed for the risks, this table is completed separately for each risk.</p> </td> </tr> <tr> <td data-bbox="330 719 471 833"> <p>Column 2</p> </td> <td data-bbox="471 719 1155 833"> <p>Authorities, rules or regulations governing the particular entity/events/situation used to determine the answer to the risk, that is, whether it is compliant or not.</p> </td> </tr> <tr> <td data-bbox="330 833 471 1163"> <p>Column 3</p> </td> <td data-bbox="471 833 1155 1163"> <p>Condition refers to the existing situation, identified and documented during the audit. What the auditor found in the audit, the existing situation in the entity, whether it deviates from set criteria, results of the collection of evidence using different methods/techniques/procedures. The evidence is linked to the criteria. The auditor analyses the difference between the criteria (what should be) and the condition (what is there), by assessing the evidence of the condition found against the criteria. Often there are several items of evidence that form a finding.</p> </td> </tr> <tr> <td data-bbox="330 1163 471 1601"> <p>Column 4</p> </td> <td data-bbox="471 1163 1155 1601"> <p>Cause is the reason for the difference between the condition and the criterion. If there is non-compliance, what is the cause? It could be ignorance of the rules in force or overriding of a management decision. The cause (or the root cause) will be the basis for the recommendations. To reliably identify the causes of the existing situation, the auditor may require to use appropriate data analysis methodologies. Effect is the consequence of the difference between condition and criterion, i.e. the non-compliance. The effect indicates the seriousness of the situation encountered and determines the intensity of corrective action. What is the effect or consequence of the non-compliance or deviation with regard to loss or other damage to the entity?</p> </td> </tr> <tr> <td data-bbox="330 1601 471 1667"> <p>Column 5</p> </td> <td data-bbox="471 1601 1155 1667"> <p>Based on the analysis, whether the risk under audit is or is not compliant with the respective criteria.</p> </td> </tr> <tr> <td data-bbox="330 1667 471 1700"> <p>Column 6</p> </td> <td data-bbox="471 1667 1155 1700"> <p>Recommendations should come from the root cause of the</p> </td> </tr> </table> | <p>Column 1</p> | <p>Risks identified at the planning phase, which has reference to the risk register. For each risk in the register, an audit planning matrix is completed, and based on the audit procedures performed for the risks, this table is completed separately for each risk.</p> | <p>Column 2</p> | <p>Authorities, rules or regulations governing the particular entity/events/situation used to determine the answer to the risk, that is, whether it is compliant or not.</p> | <p>Column 3</p> | <p>Condition refers to the existing situation, identified and documented during the audit. What the auditor found in the audit, the existing situation in the entity, whether it deviates from set criteria, results of the collection of evidence using different methods/techniques/procedures. The evidence is linked to the criteria. The auditor analyses the difference between the criteria (what should be) and the condition (what is there), by assessing the evidence of the condition found against the criteria. Often there are several items of evidence that form a finding.</p> | <p>Column 4</p> | <p>Cause is the reason for the difference between the condition and the criterion. If there is non-compliance, what is the cause? It could be ignorance of the rules in force or overriding of a management decision. The cause (or the root cause) will be the basis for the recommendations. To reliably identify the causes of the existing situation, the auditor may require to use appropriate data analysis methodologies. Effect is the consequence of the difference between condition and criterion, i.e. the non-compliance. The effect indicates the seriousness of the situation encountered and determines the intensity of corrective action. What is the effect or consequence of the non-compliance or deviation with regard to loss or other damage to the entity?</p> | <p>Column 5</p> | <p>Based on the analysis, whether the risk under audit is or is not compliant with the respective criteria.</p> | <p>Column 6</p> | <p>Recommendations should come from the root cause of the</p> |
| <p>Column 1</p> | <p>Risks identified at the planning phase, which has reference to the risk register. For each risk in the register, an audit planning matrix is completed, and based on the audit procedures performed for the risks, this table is completed separately for each risk.</p> | | | | | | | | | | | | |
| <p>Column 2</p> | <p>Authorities, rules or regulations governing the particular entity/events/situation used to determine the answer to the risk, that is, whether it is compliant or not.</p> | | | | | | | | | | | | |
| <p>Column 3</p> | <p>Condition refers to the existing situation, identified and documented during the audit. What the auditor found in the audit, the existing situation in the entity, whether it deviates from set criteria, results of the collection of evidence using different methods/techniques/procedures. The evidence is linked to the criteria. The auditor analyses the difference between the criteria (what should be) and the condition (what is there), by assessing the evidence of the condition found against the criteria. Often there are several items of evidence that form a finding.</p> | | | | | | | | | | | | |
| <p>Column 4</p> | <p>Cause is the reason for the difference between the condition and the criterion. If there is non-compliance, what is the cause? It could be ignorance of the rules in force or overriding of a management decision. The cause (or the root cause) will be the basis for the recommendations. To reliably identify the causes of the existing situation, the auditor may require to use appropriate data analysis methodologies. Effect is the consequence of the difference between condition and criterion, i.e. the non-compliance. The effect indicates the seriousness of the situation encountered and determines the intensity of corrective action. What is the effect or consequence of the non-compliance or deviation with regard to loss or other damage to the entity?</p> | | | | | | | | | | | | |
| <p>Column 5</p> | <p>Based on the analysis, whether the risk under audit is or is not compliant with the respective criteria.</p> | | | | | | | | | | | | |
| <p>Column 6</p> | <p>Recommendations should come from the root cause of the</p> | | | | | | | | | | | | |

| | |
|---|--|
| | <p>non-compliance determined. It may be that not all findings have recommendations. When suggesting a recommendation, it is good practice to discuss with the entity the logic and probability of its implementation. This will enhance the recommendation's prospects for implementation.</p> |
| | <p>Documentation: All columns will have statements, which are based on the auditor's professional judgment. All these statements need to be substantiated with sufficient and appropriate evidence and required documentation. The decisions made by the auditor, application of professional judgment, and the decision-making process needs to be documented. The work performed, and analysis made of the data or information gathered to formulate a conclusion also need to be documented appropriately.</p> |
| <p>Evidence from preparer and reviewer</p> | <p>The Table indicating the names of a person who completed the template and who reviewed it is completed at the end. It is usually the team leader who would sign off as part of quality control. The reviewer, usually the audit supervisor, should sign off this document to ensure that it has been reviewed.</p> |

AWP 3.4: Audit Completion Report

Date:

| Name of the Agency | Audit Type (Certification, Financial and others) | Period Covered | Planned/ Ad-hoc (Eg. 2011-12, 2012-13 or Adhoc) | Intimation No. & Date of Issue | Actual Start Date | Actual Completion Date | Remarks |
|--------------------|--|----------------|---|--------------------------------|-------------------|------------------------|---------|
| | | | | | | | |
| | | | | | | | |

Name and Sign of Team Leader:

Name and sign of AAG

Note: *This completion form is to be filled and signed by Team Leader and Division Chief and sent to ppaard@bhutanaudit.gov.bt*

AWP 3.5: Sample Template for Audit Exit Meeting

MINUTES OF AUDIT EXIT MEETING

Name of Agency :

Period of audit :

Venue :

Opening Remarks

Observation No.1

Deliberations:

Decisions:

Introduction

- 4.1 This chapter covers the reporting and follow-up phases of the compliance audit process. It describes the principles of reporting, the structure, and the form and content of the reports for a direct reporting engagement.
- 4.2 The RAA should provide information to the intended users through its audit reports, on whether the audited entities have followed the parliamentary decisions, laws, legislative acts, policies, established codes and agreed-upon terms. For this, the auditor should have performed the audit procedures to reduce the audit risk and to ensure that the conclusion or opinion provided in the report is appropriate in the circumstances of the audit. This assurance in effect forms the basis for the compliance audit report.
- 4.3 The auditor should begin the reporting with drafting of the preliminary findings/observations. The RAA management should approve the preliminary observations after which the team completes the contradiction procedures with the audited entity. The auditor should finalize the report for management approval and the report should be issued and submitted to the respective users according to the mandate of the RAA.

Principles of reporting

- 4.4 To ensure that the report is produced in accordance with the standards of quality and is relevant for all its users, it should conform to the five principles of reporting. The auditor shall prepare an audit report based on

| | |
|---------------------------|--|
| Objectivity | requires the auditor to apply professional judgment and scepticism to ensure that the report is factually correct and that findings and conclusions are presented in a relevant, fair and balanced manner. |
| Completeness | requires the auditor to consider all relevant audit findings before issuing the report. The relationship between audit objectives, findings and conclusions needs to be completely and clearly stated. |
| Timeliness | requires the auditor to prepare the report in due time when the findings are applicable and relevant for the intended users. |
| Accuracy and consultation | require the auditor to check the accuracy of facts with the audited entity, and to ensure that the findings portray a correct and logical picture. |
| Contradiction | requires that the auditor incorporate responses from the responsible party as appropriate and give answers to and assessments of the responses. |

Illustration 4.1: Principles of reporting

the principles of completeness, objectivity, timeliness, accuracy and contradiction.

- 4.5 The key to a good report is effective communication, with clear and objective findings and conclusions on the audit objectives. It allows the reader to understand what was done, why and how; and provides practical recommendations, without impairing the objectivity of the auditor.

Elements of a compliance audit report

- 4.6 Considering the types of engagement and the degree of assurance provided, compliance audit reports can mainly be for a reasonable assurance - direct reporting engagement or attestation engagement. The structure and content of these two types are described below.
- 4.7 The elements of the audit report for a direct reporting engagement are as given below and as suggested in **Appendix 4-A**.

| Direct reporting engagement |
|--|
| 1. Title. |
| 2. Identification of the auditing standards. |
| 3. Executive summary (as appropriate). |
| 4. Description of the subject matter and the scope (extent and limits of the audit). |
| 5. Audit criteria. |
| 6. Explanation and reasoning for the methods used. |
| 7. Findings. |
| 8. Conclusion(s) based on answers to specific audit questions or opinion. |
| 9. Replies from the audited entity (as appropriate). |
| 10. Recommendations (as appropriate). |

- 4.8 The auditor should use the report format of compliance audit as provided in **AWP 4.1**.

Reporting suspected fraud and unlawful acts

- 4.9 In conducting compliance audits, if the auditor comes across instances of non-compliance, which may be indicative of unlawful acts or fraud, s/he shall exercise due professional care and caution and perform limited audit procedures to gather evidences and communicate those instances to the management to be dealt as per the Audit Act 2018.

Ensuring the quality of the audit report

- 4.10 Ensuring the quality of the audit report by considering the principles of reporting is essential for the auditor. All findings and conclusions must be

supported by adequate, reliable audit evidence in the audit working papers. Reported audit issues need to be properly analysed and concluded. Viewpoints on significant issues of auditees expressed in the course of the audit on matters raised by auditors should be mentioned and discussed in the report. Any material conflicting evidence should be acknowledged in the report, together with an explanation of why it was rejected or otherwise not reflected in the report conclusions. The standards of materiality and significance will depend on the nature of the audit and the type of report or other output.

4.11 The draft report prepared by the team should be carefully reviewed for adequacy by the team leader /supervisors. The team should respond appropriately to any comments by this reviewer. This review, any comments by the reviewer, and actions taken in response should be documented and retained in the audit working papers.

4.12 After the draft report is reviewed internally, it should be provided to the auditee, for review and comment within a specified timeframe. Comments received from an auditee should be carefully considered by the auditor. Factual disagreements should be resolved, possibly necessitating additional audit work. The audit report should be adjusted, if appropriate, in response to the auditee comments.

Communicating the report

4.13 The auditors shall maintain effective communication with the audited entity throughout the audit process. The audited entities shall be provided with an opportunity to comment on the audit findings, conclusions and recommendations within one month of issue of draft report or preliminary audit findings.

4.14 The audit team shall hold an audit exit meeting after receipt of responses to discuss on audit findings, conclusion and recommendations. The agency shall also submit signed accountability statement indicating names of officials responsible to resolve the issues and initiate actions based on audit recommendations.

4.15 The deliberations and decisions of the audit exit meeting should be minuted and signed by all parties which shall be documented in the audit working papers.

4.16 The final compliance audit report shall be sent to audited entities. The signed copies of reports shall be published and submitted to relevant authorities as per Section 114 and 117 of the Audit Act 2018.

- 4.17 RAA shall assist Public Accounts Committee by debriefing and providing relevant information regarding reported audit findings. In addition to prior communication, it is vital that representatives of RAA should attend the PAC hearings where audit reports are discussed. The RAA shall also make presentation of audit reports to PAC as and when required.
- 4.18 RAA shall ensure proper communication with media in relation to the audit report. The following aspects are to be considered:
- Responding to media enquiries
 - Developing news releases
 - Organizing and managing media events
- 4.19 The RAA shall also ensure communication of audit reports with other stakeholders such as citizens, academic community, Civil Society Organizations etc. and adopt appropriate communication strategies such as television and radio interviews, articles, leaflets, social media and use of RAA's website

Follow Up

- 4.20 The primary objective of audit is to improve public sector performance and accountability through the implementation of recommendations. The effective and timely implementation of recommendations will be facilitated by a follow-up process. A follow-up is a process through which the RAA monitors the implementation of audit recommendations by the audited entity.
- 4.21 The main objectives of follow-up are to:
- increase the effectiveness of audit reports - the prime reason for following up audit reports is to ascertain whether the recommendations have been implemented and to report on the progress of corrective actions taken by the audited entity;
 - provide information on implementation of audit recommendations to the Parliament;
 - evaluate the RAA's performance - provide feedback for self-assessment of the opinion, conclusion and recommendation of the audit (Such self-assessment support quality improvement and contribute to better knowledge); and

- remind the audited entity to initiate corrective actions and demonstrate improvements.

4.22 The follow up of compliance audit reports shall be conducted as per the Follow Up Guidelines 2019.



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Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources

AWP 4.1: Sample format of Compliance audit report

AIN:

**COMPLIANCE AUDIT REPORT
OF
AGENCY NAME**

PERIOD: 01/01/2017 TO 31/12/2019

MONTH YEAR

"Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder"

- His Majesty the King Jigme Khiesar Namgyel Wangchuck

P.O. Box: 191, Kawajangsa, Thimphu: Bhutan. Tel: 322111 / 322833, Fax: 323491

Website: www.bhutanaudit.gov.bt | Email: info@bhutanaudit.gov.bt



རྒྱལ་ཁབ་ལྷན་ཁྲིམ་ཞིབ་དབང་འཛིན།

ROYAL AUDIT AUTHORITY

Bhutan Integrity House

Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



RAA(AR-)CFID/2018/

Dated:

ADDRESS

Subject: Compliance Audit Report on the AGENCY NAME AND YEAR OF AUDIT

Dasho/Sir,

Enclosed herewith please find the compliance audit report on the for the period The audit was conducted as required under the Audit Act of Bhutan 2006, and in accordance with International Standards of Supreme Audit Institutions (ISSAIs).

Audit Findings and Recommendations

The compliance audit of selected subject matters of therevealed certain cases of non-compliances which are reported under the Audit Findings and Recommendations. As would be transpired from the report, there are issues of serious nature contained in this report requiring appropriate attention and intervention. Pertinent issues of non-compliances include:

-

-

The RAA has reviewed the responses furnished by the management and appropriately incorporated in the report. The RAA would appreciate receiving an Management Action Plan Report within three months from the date of issue of this report.

The RAA acknowledges the kind co-operation and assistance extended to the audit team by the officials of which facilitated the timely completion of the audit.

Yours sincerely,

Deputy Auditor General

Copy to:

1. The....., Thimphu
2. The AAG, FUCD, RAA, Thimphu

TITLE SHEET

- 1 Title : Compliance Audit Report of
....., Thimphu
- 2 Head of the Agency : , Designation
(CID No.)
- 3 Finance Personnel : , Designation
(CID No.)
- 4 Period Audited : 00.00.0000 – 00.00.0000
- 5 Schedule of Audit : Planning : 00/00/0000 to 00/00/0000
Execution : 00/00/0000 to 00/00/0000
Reporting : 00/00/0000
- 6 Composition of teams : 1. , Designation
(EID No.)
2. , Designation
(EID No.)
3. , Designation
(EID No.)
- 7 Supervising Officer : , Designation
(EID No.)
- 8 Overall Supervising Officer : , Designation
(EID No.)
- 9 Intimation Letter No : RAA/COAD/...../..... dt.
00/00/0000
- 10 Focal Person : , Designation
- 11 Date of Exit Conference : 00.00.0000

Glossary of Abbreviations and Acronyms

| | | |
|---------|---|----------------------------|
| AAG | : | Assistant Auditor General |
| ATR | : | Action Taken Report |
| CID No. | : | Citizenship Identity |
| DAG | : | Deputy Auditor General |
| EID No. | : | Employment Identity Number |
| PPD | : | Policy Planning Division |
| RAA | : | Royal Audit Authority |
| RGoB | : | Royal Government of Bhutan |

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EXECUTIVE SUMMARY

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PART I: INTRODUCTION

Brief description on

- Legal framework—.
- General organisation and governance of the activity/audited entity, including operational structure, resources and management arrangements.
- Business processes—
- Business risks
- Performance measures—

1.1 Audit Mandate

The Royal Audit Authority derives its mandate to conduct Compliance Audit from Section 38(a) of the Audit Act of Bhutan 2006 which specifically states that RAA shall, “*carry out financial, propriety, compliance, special audits and any other form of audits that the Auditor General may consider significant and necessary*”.

1.2 Level of Assurance

1.3 Objective of the audit

The objective of the audit is:

To ascertain whether the

The sub-objectives are:

- i) To ascertain whether
- ii) To ascertain whether

1.4 Subject matter & Scope

1.5 Audit Criteria

1.6 Audit Methodology

PART-II: AUDIT FINDINGS

The Royal Audit Authority while reviewing the records, internal controls and operations of noted cases of non-compliances of rules, regulations and guidelines as discussed below:

- 1.
- 2.
- 3.

PART-III: CONCLUSION

.....
.....
.....

The RAA concludes that the subject matter is or is not compliant in all material respects with the applicable criteria.

PART IV: RECOMMENDATIONS

Based on the issues pointed out under Part II, the RAA has provided recommendations aimed at improving the compliances. The recommendations are as discussed below:

4.1

4.2

PART V: ACHIEVEMENTS

The write-up on achievements should be limited to a maximum of 2 pages

Appendix 4-A

Elements for direct reporting engagement

| | |
|--|---|
| Title. | The title of the report briefly mentions the audit subject matter in a way that can be clearly understood by readers. |
| Identification of the auditing standards applied and level of assurance. | <p>In its audit reports the SAI declares which standards it follows when conducting audit. Also, in the audit report, the SAI should make reference to the auditing standards it followed in conducting the particular audit.</p> <p>A direct reporting engagement report differs from an attestation engagement report in the requirement regarding conveying assurance.</p> <p>In direct reporting engagements the auditor might not give an explicit statement of assurance on the subject matter but must provide the users with the necessary degree of confidence by explicitly explaining how the findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the combinations of findings and criteria result in a certain overall conclusion or recommendation.</p> <p>In an attestation engagement report, opinions and conclusions should explicitly convey the level of assurance.</p> |
| Description of the subject matter and the scope. | Subject matter is described in the audit report. The introduction of the report sets out the audit scope in the form of a clear statement of the focus, extent and limits of the audit in terms of the subject matter's compliance with the criteria. It also includes the time period covered by the audit. |
| Audit criteria. | <p>The criteria against which the subject matter is assessed should be identified in the auditor's report. The criteria may be included in the report itself, or the report may make reference to the criteria if they are contained in an assertion from management or otherwise available from a readily accessible and reliable source.</p> <p>In cases where the criteria applied in the audit are not readily identifiable, or have had to be derived from relevant sources, the criteria are clearly stated in the relevant section of the auditor's report. In cases where the criteria are conflicting, the conflict is explained.</p> |
| Explanation and reasoning for the methods used. | <p>The report should include a clear statement on the procedures performed to gather evidence in answering the audit questions. This will enable a user to read and follow the report and have confidence that the conclusions made are correct.</p> <p>It is important to write the methodological summary in an objective way that allows intended users to understand the work done as the basis for the auditor's conclusion. However, the summary should not be so brief as to make it difficult to understand the work of the</p> |

| | |
|---|--|
| | <p>auditors, especially how the auditors arrived at the conclusion or opinion.</p> |
| <p>Conclusion(s) or opinion based on answers to specific audit questions.</p> | <p>The conclusion or opinion is expressed as an answer to specific audit questions. The nature of the wording may be influenced by the mandate of the SAI and the legal framework under which the audit is conducted.</p> <p>In a direct reporting engagement, the auditor provides assurance by measuring the subject matter against the criteria, and forms a conclusion. The audit conclusion expresses the auditor's view that the subject matter is or is not compliant in all material respects with the applicable criteria. The conclusion is expressed in the form of findings, answers to specific audit questions, recommendations or an opinion.</p> |
| <p>Replies from the audited entity (as appropriate).</p> | <p>Incorporating the responses on the findings from the audited entity is part of the principle of contradiction. It involves agreeing on the facts with the audited entity to help ensure that findings are complete, accurate and fairly presented. It also involves, as appropriate, incorporating the audited entity's response to the matters raised, whether verbatim or in summary.</p> <p>Timely clearing of the findings creates the basis for a sound report, and reduces the time it takes to agree on the final report with the audited entity. The team sends the draft report, with the SAI approval, to the audited entity for comment. During the conducting phase of the audit, the team already have discussed the individual findings with the entity. With this the entity was up to date on the progress of the audit.</p> <p>The medium used to present the findings to the audited entity can be based on the SAI's regular forms, e.g. a management letter or draft findings. The auditee is required to respond to the draft report. Once the team receive comments from the entity, the auditor analyses the response, ensures that valid issues raised by the auditee are taken into account while finalising the report.</p> <p>Based on the SAI's legal framework, the auditor may publish the report with the comments in full, or in a summary or an edited version, or not include the comments.</p> |

| | |
|---------------------------|---|
| <p>Executive summary.</p> | <p>The executive summary of the work performed and methods used helps the intended users understand the auditor's conclusion. Hence, the executive summary needs to give a reader a brief explanation of how the audit was performed.</p> <p>The executive summary includes a paragraph on the background of the entity, where the main topic has come from, and its importance. It also includes the objective, the audit questions, the audit approach, and describes the key audit findings and conclusions in a summary</p> |
|---------------------------|---|

| | |
|-------------------------|--|
| | <p>form, easy to read and understand. From this, the reader gets an overview of the critical issues of the topic. The executive summary includes the main recommendations of the audit and a statement that confirms that the audited entity had the opportunity to comment on the report. The executive summary typically ranges from two to three pages but can be shorter, depending on the particular audit.</p> |
| <p>Findings.</p> | <p>The findings section includes the auditor's description of the gathered evidence compared with the criteria. The finding is structured in such way that assists the reader to follow from the audit question or risk - with the logical analysis on the risk, based on the evidence - to the conclusion on the question. The auditor uses the completed audit finding matrices as working papers (explained in chapter six) to draft the findings. If there are significant amount of information to support the audit findings, the auditor may include those information in the appendices.</p> |
| <p>Recommendations.</p> | <p>The report includes, as appropriate, recommendations designed to result in improvements. While such recommendations may be constructive for the audited entity, they should not be so detailed that the auditor's objectivity may be impaired in future audits. If the auditor makes a specific recommendation and the responsible party does not implement that but considers another option, the auditor may in subsequent audits be tempted to judge this as non-compliance. In such instances, the key is to determine whether recommendations leave room for the entity to use whatever mechanism it considers suitable in the circumstances to achieve compliance.</p> <p>It is a good practice to discuss the recommendations with the entity. The auditor might assume that suggested recommendation is useful for the entity, but during the discussion, the entity can clarify on the practicality of implementing the recommendation, or explain the difficulties of doing so. Based on the discussion, the auditor can modify and finalise the recommendations.</p> |

Introduction

5.1 Proper documentation throughout an audit - from the planning to the reporting stages - forms the basis of a high-quality audit, which will have the desired credibility among the users. At the engagement level, the SAI establishes the quality control measures which the audit teams are required to follow to ensure the quality of the audit. The QA review aims to ascertain whether the SAI's quality control system, embedded in the audit process, indeed operates effectively and efficiently.

Audit documentation

5.2 Auditor shall prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached. The auditor shall prepare the audit documentation in a timely manner, keep it up to date throughout the audit, and complete the documentation of the evidence supporting the audit findings before the audit report is issued. It broadly includes the following:

An explanation of the subject matter of the audit.

A risk assessment, audit strategy and plan, and related documents.

The methods applied and the scope and time period covered by the audit.

The nature, the time and extent of the audit procedures performed.

The results of the audit procedures performed, and the audit evidence obtained.

Evaluation of the evidence forming findings, conclusions, and recommendations.

Judgments made in the audit process, and the reasoning behind them.

Communication with and feedback from the audited entity.

Supervisory reviews and other quality control safeguards undertaken.

5.3 Documentation needs to be sufficient to demonstrate how the auditor defined the audit objective, subject matter, the criteria and the scope, as well as the reasons why a specific method of analysis was chosen.

5.4 Specifically related to the audit planning stage, the documentation kept by the auditor needs to contain:

- a) The information needed to understand the entity being audited and its environment which enable the assessment of the risk.
- b) The assessment of the materiality of the subject matter.

- c) The identification of possible sources of evidence.
- d) Time schedule, register of desk review and interviews, minutes of meeting, and the audit planning matrix

5.5 The auditor needs to adopt appropriate procedures to maintain the confidentiality and safe custody of the audit documentation, and retain it for a period sufficient to meet the needs of the legal, regulatory, administrative and professional requirements of record retention and to enable the conduct of audit follow-up activities.

5.6 Documenting the key decisions made is important to demonstrate the independence and impartiality of the auditor in his/her analysis. The existence of sensitive issues demands the documentation of the relevant facts considered by the auditor in choosing a particular course of action or in taking a certain decision. In this way, the actions and decisions are explained and transparent.

5.7 Proper documentation contributes to the quality of an audit besides assisting the audit supervisor and the reviewer to provide their comments.

5.8 Auditors shall document the audit procedures performed, evidence obtained, and conclusions reached with respect to compliance audit criteria used in the audit. Auditors will develop/maintain documents that will clearly show that the work was in fact performed. In determining the nature and extent of the documentation for a compliance audit, auditors may consider the:

| | |
|-------------|---|
| Nature | of the auditing procedures performed; |
| Risks | of material non-compliance, and auditors' response to the assessed risks; |
| Extent | to which professional judgment was applied (in making decisions); |
| Materiality | of the evidence obtained against criteria. |

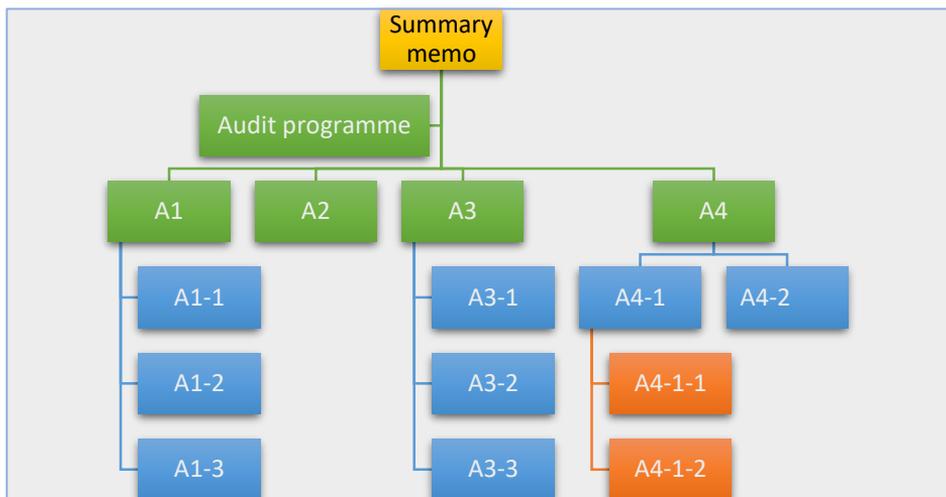
5.9 Auditors shall maintain working papers of procedures being performed, and conclusions reached for each audit question/audit risk. The working paper should be maintained as per the following format.

| Example: working paper format | |
|-------------------------------|--|
| Source | Student files maintained in the Student Financial Aid Office by Ms. XYZ. Tested fall semester 2004 students. |
| Purpose | To determine whether students receiving university financial aid are eligible; to satisfy programme step 2 at the programme goals. |
| Procedure | Sampled 72 files out of a population of 13,500 files. Examined each file to determine whether the proper paperwork was in the file and |

| | |
|------------|--|
| | the student met the university’s eligibility requirements. The attributes tested are as follows: |
| Results | Out of all attributes tested on 72 files, we noted only one error. The student did not add signature in one of the pages of the financial aid application. |
| Conclusion | Students receiving financial aid are eligible. The one error noted is not significant and we will not take it to the report. |

5.10 The references to these working papers should be made in audit finding matrix. For clarity, it is suggested that numbering of working papers are done in alphabetical series (For example “A1” series for first sub-objective, A1-1 for first audit question/audit risk under first sub-objective, for “A2” series for second sub-objective and so on...)

5.11 All documentation should be the property of RAA and retained for the period specified in laws, regulations, professional standards and guidelines. The auditors should document working papers as per **AWP 5.1**.

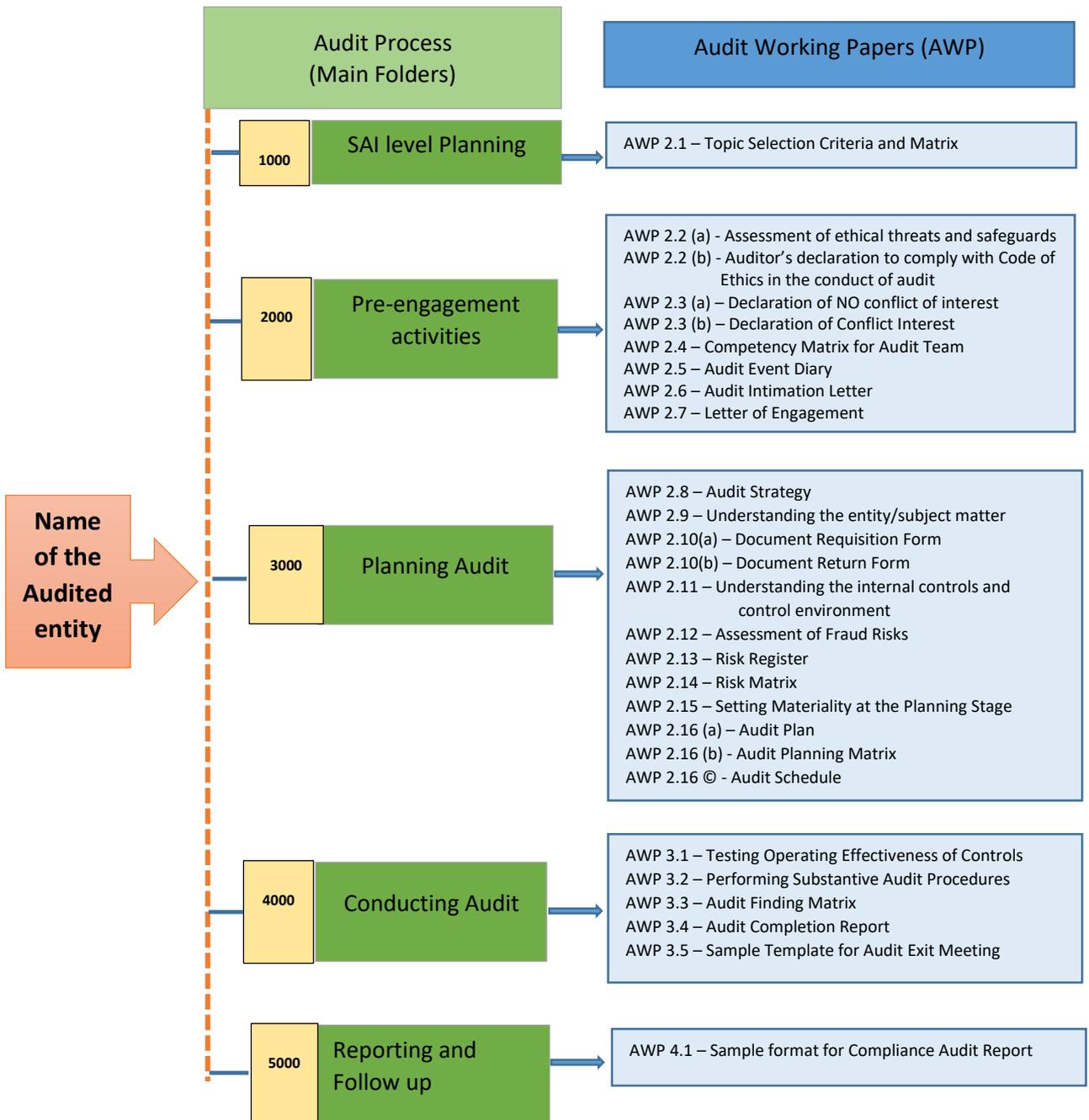


5.12 The auditors shall comply with code of conduct, ethics and secrecy to observe at all times the confidentiality of information contained in audit documentation, unless specific authority has been given by the entity to disclose such information, or there is a legal or professional duty to do so.

Assuring quality of compliance audit

5.13 The quality assurance reviews shall be conducted by the RQAD which as per the Handbook on Quality Assurance Review.

AWP 5.1: AUDIT DOCUMENTATION





REPORTING ON ECONOMY, EFFICIENCY & EFFECTIVENESS IN THE USE OF PUBLIC RESOURCE