



**NATIONAL AUDIT OFFICE OF
MALAWI**

AUDITING STANDARDS

Foreword

I am pleased to issue the Malawi National Audit Office Auditing Standards. The Auditing Standards have been developed under the auspices of the Institutional Cooperation Project between the National Audit Office and the Swedish National Audit Office, and are applicable to all audits that are performed by staff of the National Audit Office. It is my strong belief that the new Auditing Standards will contribute to uniform, effective, efficient and high quality audit work.

All audits undertaken by staff of the National Audit Office shall at all times comply with these Auditing Standards.

These Auditing Standards are general in nature, and are applicable to all audit methodologies (i.e. Financial, Performance, Investigative and Information Technology Audits etc) performed by the National Audit Office. They include general standards as well as standards covering the planning, execution and reporting phases of audits. The Auditing Standards will be complimented by four Audit Manuals which in more detail give guidance on the various audit disciplines. Detailed Audit Manuals will thus be developed for Financial Audit (including Compliance and Investigative Audits), Performance Audit, IT Audit, and Audit of Parastatal Organizations.

The Malawi National Audit Office Auditing Standards are based on, and in full compliance with the Auditing Standards of the International Organization of Supreme Audit Institutions (INTOSAI). The National Audit Office has adapted the INTOSAI Auditing Standards to fit the Malawi environment.

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Auditor General

Lilongwe, 18th October 2005

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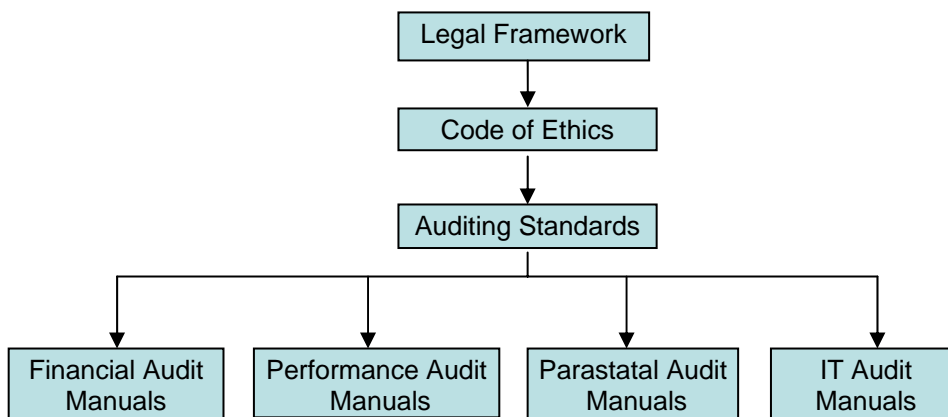
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Chapter 1 Introduction

1.1 Quality Framework for National Audit Office

The development of National Audit Office Auditing Standards is the third step in the process of developing a high quality framework that will guide all the audit work done in the National Audit Office. The development of a written, sound and comprehensive quality framework for the National Audit Office, consisting of a Legal Framework, a Code of Ethics, Auditing Standards and Audit Manuals, shall contribute to improvements in audit quality, uniformity, efficiency and effectiveness.

The framework that is being developed can be viewed as follows:



The legal framework (consisting among other things of The Constitution of the Republic of Malawi and The Public Audit Act) lays down the mandate, duties and rights of the National Audit Office. It constitutes the first element in the National Audit Office Quality Framework.

The National Audit Office Code of Ethics represents the next level with its statement of values and principles guiding the work of the auditor. It makes clear the ethical requirements and expected conduct of auditors in the National Audit Office. This includes requirements regarding integrity, independence, competence etc. One of the principles outlined in the Code of Ethics is the auditor's obligation to adhere to the National Audit Office Auditing Standards.

The National Audit Office Auditing Standards on the next level, contain the general postulates and principles for carrying out all audit work in the National Audit Office. The Auditing Standards are general auditing principles that are applicable to all types of audits performed in the National Audit Office.

The fourth level contains detailed guidance material. These Audit Manuals give practical guidance to the auditor on how the Auditing Standards are to be implemented in the performance of Financial, Performance, Parastatal and IT Auditing respectively.

1.2 Introduction to Auditing Standards

The National Audit Office Auditing Standards have been developed to provide a framework for the procedures and practices that are to be followed in the conduct of an audit. They also provide minimum guidance for the auditor that helps determine the extent of auditing steps and procedures that shall be applied in the course of the audit. They are complemented by more detailed Audit Manuals in the fields of Financial Audit, Performance Audit, Parastatal Audit and IT Audit.

The National Audit Office's Auditing Standards consist of four parts:

- General Standards
- Field Standards
- Reporting Standards
- Other Auditing Standards

The Auditing Standards are applicable to both financial audits and performance audits.

In these Auditing Standards, Financial Auditing has been defined as follows:

- a) examination and evaluation of financial and other records to secure sufficient and reliable evidence to enable expression of opinions on financial statements of accountable entities;
- b) attestation of financial accountability of the Malawi government as a whole;
- c) audit of financial systems (including IT systems) and transactions including an evaluation of compliance with applicable laws, statutes and regulations;
- d) audit of internal control systems and evaluation of the effectiveness of the internal audit functions;
- e) audit of the probity and propriety of administrative decisions taken within the audited entity;
- f) investigative audit; and
- g) reporting on any other issues arising from or relating to the audit that the National Audit Office considers should be disclosed

In these Auditing Standards, the disciplines of Compliance, Investigative, IT and Parastatal Audits can be seen to fall within the scope of Financial Auditing. Depending on the nature of the audit in question however, these disciplines may also fall under the definition of Performance Auditing.

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

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

- b) audit of the efficient utilization of human, financial and other resources, including examinations of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified weaknesses; and
- c) audit of the effectiveness of performance in relation to the achievement of the audited entity, and audit of the actual impact of activities compared with the planned impact

In the National Audit Office Auditing Standards, the actual standards are marked in **bold**, while the explanation to the standards are written in normal text. Please note however, that both the actual standards, and the explanation to the standards, are applicable to the auditor's work.

Chapter 2 General Standards

These standards deal with the general principles of auditing applicable to the National Audit Office. The general auditing standards describe the general requirements and qualifications applicable to the individual auditor and the National Audit Office as a whole. They can be seen as preconditions for carrying out the audit work in an effective and efficient manner.

General Auditing Standard 1 – Recruitment of Auditors

The National Audit Office should recruit auditors with suitable qualifications.

The National Audit Office should adopt policies and procedures to recruit members of staff with qualifications that match the various tasks mandated to the Office. Bearing in mind the different types of audits that the National Audit Office is expected to carry out, this means that staff with different qualifications and backgrounds should be recruited. Audit staff at the National Audit Office should possess suitable academic qualifications and be equipped with appropriate training and experience.

General Auditing Standard 2 – Training of Auditors

The National Audit Office should develop and train staff to enable them to perform their tasks effectively and efficiently.

The National Audit Office should take the necessary steps to provide for continuous professional development of its staff, including provision of in-house training and encouragement and support to attend external courses.

The National Audit Office should develop and maintain policies and procedures for the training and professional development of staff (such as the National Audit Office Training Strategy). Training opportunities offered should cover among other things the audit techniques and methodologies applicable to the range of audits undertaken in the National Audit Office.

Staff at the National Audit Office should have a good understanding of the Malawi Government environment, including such aspects as the role of the legislature and the legal and institutional arrangements governing the operations of the executive. In addition, all audit staff must possess good knowledge of the Legal Framework covering the National Audit Office, the Code of Ethics, Auditing Standards and Audit Manuals applicable to their field of work, as well as Office policies, procedures and practices.

General Auditing Standard 3 – Auditing Standards and Manuals

The National Audit Office should develop and adopt a complete set of Auditing Standards and more detailed Audit Manuals covering all audit work performed.

In addition to developing and implementing the Auditing Standards and Audit Manuals, all audit staff should receive adequate training in how to use them. Care should be taken to review and update the Auditing Standards and Manuals from time to time to adjust them to changes in the environment and developments in the field of auditing.

General Auditing Standard 4 – Independence

The National Audit Office and the auditors must be independent.

The Public Audit Act stipulates that the National Audit Office shall report to the National Assembly through the Speaker of the National Assembly, and is not obliged either to perform or to refrain from performing audits requested by the government administration. The National Audit Office shall however, in line with the Public Audit Act, conduct audits, reviews and investigations of issues referred to it by the Public Accounts Committee.

It is at the National Audit Office's own discretion to plan, carry out and report on audits within its legal mandate and to choose the appropriate audit methodology to use in its work.

The National Audit Office should carry out its mandate freely and impartially and without undue interference or political pressure. In this respect, the Constitution of the Republic of Malawi specifies that the National Audit Office shall not be subject to the direction or control of any other person or authority, and that no person may inhibit the Auditor General in the conduct of his or her duties.

The National Audit Office should be financially independent in line with the INTOSAI Lima Declaration of 1977 and the Public Audit Act. The Lima Declaration is applicable to all Supreme Audit Institutions throughout the world and is held to be the Magna Carta of government auditing. The chief aim of the declaration is to call for independent government auditing and hereunder the financial independence of Supreme Audit Institutions. It states in Section 7 that the Supreme Audit Institutions shall be provided with the financial means necessary to enable them to successfully accomplish their tasks, and that they shall be entitled to use the funds allotted to them as they see fit. Similarly, the Public Audit Act stipulates that the National Assembly shall appropriate sufficient funds on a timely basis to enable the effective and efficient operations of the National Audit Office.

The Public Audit Act assigns the National Audit Office unlimited access to all books, records, reports and other documentation relating to accounts under scrutiny.

General Auditing Standard 5 – Conflict of Interest

The National Audit Office should avoid conflicts of interest between the auditor and the audited entity.

The National Audit Office performs its role by carrying out audits of the accountable entities and reporting on the audit results. To fulfill this role, the National Audit Office needs to maintain its independence, impartiality and objectivity. The application and enforcement of a Code of Ethics and these General Auditing Standards, together with compliance with the Malawi Public Service Regulations, assist in satisfying these requirements.

General Auditing Standard 6 – Competence

The National Audit Office and its auditors must possess the required competence

The National Audit Office needs to command the range of skills and experience necessary for the effective discharge of the audit mandate. The individual auditors must possess adequate qualifications, skills and experience and have access to a full range of audit methodologies as well as all other tools and aids needed to carry out an efficient and effective audit. All aspects of the audit work should be carried out by auditors who possess competence and experience that meets the needs required by the scope and complexity of the audit assignment.

General Auditing Standard 7 – Due Care and Objectivity

The National Audit Office and the auditors must exercise due care and objectivity when performing audits. This embraces due care and objectivity in specifying, gathering and evaluating audit evidence and in reporting findings, conclusions and recommendations.

The National Audit Office must be, and be perceived to be, objective and impartial in its audits and show due care in all its audit work. It must be fair in its evaluations and in its reporting of the outcomes and results of audits.

All conclusions reached, and reports and recommendations submitted should be based on the collected audit evidence.

Information about an audited entity acquired in the course of the auditor's work must not be used for purposes outside the scope of the audit. It is essential that the National Audit Office maintains confidentiality regarding audit matters in line with the requirements in the Code of Ethics.

When the National Audit Office uses other auditors to do work on its behalf, adequate procedures must be applied to assure that the auditors have exercised due care, that they have

complied with the National Audit Office Auditing Standards and Audit Manuals, and that the work conducted is of acceptable quality.

The following standards refer to the Annual Plan that the National Audit Office as a whole shall develop to carry out its mandate effectively and efficiently and in a well-coordinated manner.

General Auditing Standard 8 - Annual National Audit Office Plan

The National Audit Office should develop an Annual Plan for each financial year. The Annual Plan should cover all planned audit and non-audit activities (such as training and support staff activities). It should point out the priorities set for that year, and be detailed enough to create a basis for the planning of individual assignments.

General Auditing Standard 9 – Annual National Audit Office Plan

The Annual Plan should be reviewed periodically to assess progress and to incorporate changes.

The National Audit Office plans at two levels, at the office level and at the individual assignment level. At the office level, both audit and non-audit activities are incorporated in the Annual Plan.

The Annual Plan will outline the planned assignments and budgets for each section of the National Audit Office for the forthcoming financial year. It will be made available to all members of staff, and staff will be expected to have a good understanding of the plan.

The Annual Plan will be revised as necessary during the course of the financial year as a consequence of changes in both internal and external conditions. Once amended, the plan shall again be circulated to members of staff for their information.

Chapter 3 Field Standards

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

The field standards establish the framework for conducting and managing audit work. They are related to the general auditing standards, which sets out the general requirements and preconditions for undertaking the tasks covered in the field standards. They also relate to the reporting standards, which cover the communication aspects of auditing, as the results from audits carried out in accordance with the field standards constitute the source for the content of the audit opinion or report.

3.1 Audit Assignment Planning

These field standards deal with individual audit assignment planning.

Field Standard 1 – Audit Assignment Planning

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

“*Planning*” refers to the development of a general strategy and detailed approach for the expected nature, timing, and extent of the work that is to be carried out. Auditors plan their work in order to conduct the audits in an economic, efficient, effective, well coordinated and timely manner.

Sound planning is also an effective tool in allocating scarce resources (financial and human resources), to ensure adequate focus on high risk and material audit areas and to identify potential problems.

The Audit Plan is the document in which the auditor describes the planned strategy and approach for an audit based on the their established knowledge of the business and conducted risk and materiality assessments.

Field Standard 2 - Development of an Audit Plan

The auditor should develop an audit plan for each audit assignment.

Field Standard 3 – Development of an Audit Plan

The audit plan should be an effective and efficient management tool.

An audit plan should be developed for each audit assignment, and should be in compliance with the guidelines on audit plan development in the Audit Manuals.

The Annual Plan for the National Audit Office should be considered when developing the individual audit assignment plan to ensure consistency between the two planning documents.

The audit plan should be sufficiently detailed to ensure that it constitutes a useful management tool for the individual audit assignment.

In connection with Financial Audits, the plan is complemented by an Audit Programme that specifies in detail the objectives of the audit and the tests that are to be performed.

The reasons for any significant deviations from the audit plan should be documented in working papers.

3.1.1 Knowledge of the Entity

The first step in the planning process is to collect information about the audited entity to assess risk and determine materiality levels.

Field Standard 4 – Knowledge of the Entity

The auditor should obtain sufficient knowledge of the entity to enable him/her to identify and understand the organization, events, transactions and practices that may have a significant effect on the audit results.

The information gathered may cover information on organizational and geographical structures, the environment it operates in and the nature of the entity's operations, internal control systems, internal audit function etc.

The auditor's knowledge of the entity should include general knowledge of the economy and environment within which it operates, and more detailed knowledge of the operations of the entity.

Obtaining the required knowledge of the entity is a continuous and cumulative process that involves gathering and assessing information from various sources and relating the resulting knowledge to the planning of the audit and audit evidence collected in the course of the audit.

The auditor can use a number of tools, described in more detail in the various Audit Manuals, to systematically collect and document the auditor's knowledge of the entity.

The auditor should, in the process of obtaining the necessary knowledge of the entity, update and re-evaluate information gathered previously, including audit documentation from previous years and information in the permanent files.

3.1.2 Internal Control Systems

Field Standard 5 – Internal Control Systems

The auditor should obtain, assess and document an understanding of the accounting and internal control system sufficient to plan the extent and scope of the audit and to develop an effective audit approach.

Field Standard 6 – Internal Control Systems

The auditor should test any relevant internal controls on which he/she decides to place reliance.

“*Internal controls*” refer to all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management’s objective of ensuring the orderly and efficient conduct of its operations, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud, irregularities and errors, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

By acquiring a comprehensive understanding of the working of the accounting and internal control systems, the auditor will have a better opportunity of performing an effective audit, by focusing on high risk areas and designing audit tests to address these areas.

Auditors can use a number of forms and questionnaires to document the internal controls. These are described in the various Audit Manuals.

Internal control devices that the auditor decides to rely on, must always be tested to control its effectiveness and reliability.

Field Standard 7 – Internal Control Systems

The auditor should make management of the audited entity aware of, as soon as practical and at an appropriate level of responsibility, material weaknesses in the design or operations of the accounting and internal control systems that have come to the attention of the auditor.

It is the responsibility of the audited entity to develop adequate internal control systems and procedures, and to ensure that the controls are functioning so as to ensure compliance with all relevant laws and regulations. It is however the duty of the auditor to report on any material weaknesses identified in the internal control system, and where appropriate, make recommendations for improvements. Such findings should be reported orally to management once discovered, and should also form part of the written audit report.

3.1.3 Risk Assessment

Field Standard 8 – Risk Assessment

Risk assessments should be performed for all audit work conducted by the National Audit Office to ensure that the audit is economical, efficient and effective.

Field Standard 9 – Risk Assessment

The auditor should exercise professional judgment in assessing the audit risk and carry out the necessary audit tests to reduce risk to an acceptable level.

Field Standard 10 – Risk Assessment

The auditor should document the understanding and assessments of all the components of audit risk in working papers.

“*Risk Assessment*” refers to the systematic analysis of the various aspects of the audited entity’s operations, internal control systems and environment, in order to identify potential risk areas. Risk assessments, and the results thereof, should be the most important determinant in choosing which audit areas that should be prioritized within an entity.

Risk assessments should be carried out at both section and individual assignment level.

“*Audit Risk*” is the probability that the auditor, unknowingly and unwillingly, expresses an inappropriate audit opinion on financial statements and general financial management. Audit risk consists of three components: inherent risk, control risk and detection risk.

Inherent and control risk differs from detection risk in that they are determined within the audited entity and the environment it operates in. Detection risk on the other hand, is determined by the auditor and is dependent on the extent and timing of the auditor’s procedures. It is through the auditor’s control of detection risk that the auditor can seek to secure an acceptably low audit risk.

The exercise of professional judgment is essential in making risk assessments. Having to make realistic and objective risk assessments, without clearly defined decision rules, places high demands on the auditor’s ability to assess and analyze the available information.

The practical procedures concerning how risk assessments are to be performed, are covered in detail in the Audit Manuals.

3.1.4 *Audit Materiality*

Field Standard 11 – Audit Materiality

The auditor should regard errors and deficiencies in financial statements or other information as material if it is likely that the users of the information would have drawn other conclusions or made other decisions if they had been aware of the errors or irregularities.

Field Standard 12 – Audit Materiality

When planning the audit, the auditor should assess materiality in order to determine the level of acceptable errors in financial statements or other information without the users being affected.

“*Assessment of Materiality*” refers to the establishment of criteria for what is considered to be a material error. Materiality is often measured in monetary value, but does not have to be so. Irregularities and non-compliance with laws and regulations could for instance render a matter material even if the amounts involved were “non-material” (irregularities will typically always be seen as material whatever their monetary value).

The auditor should specify the criteria for materiality on the basis of his/her professional judgment and with due regard for factors that affect financial statements and other information in a way that will have an impact on the decisions and conclusions of the users of the information.

When determining materiality levels, the auditor should consider the following factors:

- The size (monetary value) of an account or an item in an account
- Omission of information in documents submitted to the National Assembly that form the basis for making decisions
- Failure to submit information or the submission of incorrect information to decision making authorities regarding for instance the appropriation of funds
- Expenditure of funds on activities that are not included in the remit of the audited entity
- Breaches of any law, regulation or statutes applicable to the audited entity or the decisions and intentions of the National Assembly

3.1.5 *Audit Programme*

Field Standard 13 – Audit Programme

The auditor should develop and document a detailed audit programme for each audit assignment. The audit programme should incorporate the audit objective, information on the timing and organization of the audit and the tests that are to be carried out.

The audit programme is a detailed description of the procedures that are to be followed in the implementation and execution of the audit plan. It serves as a set of instructions to the auditor, and as a measure to control and record the efficient and effective execution of the audit work. The audit programme should also always contain the objective of the audit, and the planned audit tests for each audit area.

In preparing the audit programme, the auditor will consider the risk and materiality assessments and the required level of assurance to be provided by substantive tests. The auditor will also consider the timing of tests of controls and substantive tests, and the need for involvement and assistance from the audited entity, and if appropriate, other auditors and experts.

The audit programme should be revised as necessary during the audit. Planning is continuous throughout the assignment due to changes in conditions, the appearance of new information and unexpected audit results. The reasons for significant changes to the audit programme should be recorded in working papers.

3.2 Audit Execution

The following field standards focus on the execution phase of an audit. The execution phase refers to the actual carrying out of the planned audit procedures in order to reach audit conclusions based on collected and documented audit evidence. Some of the standards regarding audit execution may also be applicable to the planning and reporting phases.

3.2.1 Audit Evidence

Field Standard 14 – Audit Evidence

Using a combination of tests of control and substantive tests, the auditor should obtain competent, relevant and reasonable audit evidence to draw and support conclusions regarding the entity, programme, activity or function being audited.

Field Standard 15 – Audit Evidence

When certifying accounts, the auditor should always conduct substantive tests.

Field Standard 16 – Audit Evidence

If the auditor is unable to obtain competent, relevant and reasonable audit evidence, a qualified opinion, adverse opinion or a disclaimer of opinion should be expressed.

Field Standard 17 – Audit Evidence

When designing audit procedures, the auditor should determine appropriate methods for selecting items for testing (sampling) so as to gather evidence to meet the objectives of the test.

Audit findings, conclusions and recommendations should always be based on audit evidence.

The audit evidence on which the auditor bases conclusions must be competent, relevant and reasonable.

Competent: information that is quantitatively sufficient and appropriate to achieve the audit results, and qualitatively impartial so as to inspire confidence and reliability.

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

Reasonable: information that is economical in the sense that the cost (financial and time wise) is commensurate with the result that the auditor is trying to achieve.

Audit evidence should be obtained from an appropriate mix of tests of control and substantive tests. In some cases, evidence may be obtained entirely from substantive testing.

Auditors should have a sound understanding of techniques and procedures, such as inspections, observations, enquiries and confirmations, to collect audit evidence, and procedures for selecting items for testing.

3.2.2 *Audit Documentation*

Field Standard 18 – Documentation

The auditor should, in working papers, document all audit evidence that is used to support audit conclusions, opinions and recommendations. Documentation in working papers is also evidence that the audit has been carried out in accordance with the National Audit Office Auditing Standards and Audit Manuals.

Field Standard 19 – Documentation

The scope and content of the working papers should be adequate and detailed enough to allow the reader to understand the audit evidence that is used to support audit conclusions.

Field Standard 20 – Documentation

Routines should be in place to ensure that all documentation is stored securely and is retained for a period sufficient to meet the needs of the National Audit Office and in accordance with legal and professional requirements governing record retention.

“*Documentation*” encompasses all the auditor’s working papers and all other source material assembled and collected during the audit. Documentation may be stored on a variety of media such as paper, film, electronic or other media.

“*Working papers*” refer to documentation of the planning of the audit work, the performance of audit procedures (execution), and the conclusions drawn on the basis of the audit evidence.

Typical examples of working papers include:

- Risk and Materiality Assessments
- Audit Plans
- Audit Programmes
- Documentation of analyses of data

- Conclusion Forms

Retention of working papers is of particular importance for any legal issues resulting from the audit, as well as being an important source of information for future audits of the entity.

Chapter 4 Reporting Standards

The purpose of these standards is to establish requirements concerning the reporting of audit work in connection with the performance of all types of audits in the National Audit Office.

Reporting Standard 1 – Audit Reporting

The National Audit Office should at the end of each audit prepare a written opinion or report that describes the material audit findings in an appropriate form. The content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent, relevant and reasonable audit evidence, and be independent, objective, fair and constructive.

Reporting Standard 2 – Audit Reporting

The National Audit Office should ensure that the nature of audit evidence collected, and the methods for collecting the evidence are sufficient for the issuance of timely, relevant and accurate reports.

“*Reporting*” embraces among other things the Annual Report to the National Assembly, audit opinions and other remarks on a set of financial statements, reporting on internal control weaknesses and non-compliance with laws, regulations and statutes, reporting on investigative and IT audits, performance audit reports and reports on any other type of audits.

The National Audit Office will most commonly report to various levels of external recipients such as the National Assembly, Ministries and Departments, Parastatals, Donors, and other entity’s and stakeholders.

The auditor’s opinion is generally expressed in a concise and standardized format that reflect the conclusions developed on the basis of the audit evidence.

The Public Audit Act includes requirements regarding the National Audit Office’s Annual Reporting to the National Assembly. It stipulates that the National Audit Office shall submit an Annual Report to the President and the Speaker of the National Assembly on the accounts in a given fiscal year by the 31st December in the following fiscal year.

Chapter 5 Other Auditing Standards

These are standards that are applicable to all phases of the audit, and as such do not fit naturally into either the Field or Reporting standards. The standards apply to quality assurance of audit work, methodology, using the work of other auditors and experts and fraud and irregularities.

5.1 Quality Assurance of Audit Work

Other Auditing Standards 1 – Quality Assurance of Audit Work

All audit work should be properly supervised and quality assured at each stage of the audit, and a senior member of staff should review documented work.

Other Auditing Standards 2 – Quality Assurance of Audit Work

The National Audit Office should adopt policies and procedures to review the efficiency, effectiveness and quality of audit work and the compliance with National Audit Office Auditing Standards and Audit Manuals.

“*Supervision*” refers to the quality controls carried out during the audit to ensure that the quality of work is of the expected standard, that the assignment is proceeding according to plans, and that any difficulties are attended to immediately.

“*Reviews*” refer to quality controls carried out after working papers etc. have been prepared. It is done to ensure that the documentation collected supports the conclusions and recommendations. Reviews can be done either before the audit results are reported, as a means of ensuring the quality of the results that are to be reported, or be in the form of a “post-audit review” where it serves as a tool for measuring the quality of work and compliance with the National Audit Office Auditing Standards and Audit Manuals to facilitate future training and improvements.

Supervision and reviews are essential to ensure the fulfillment of audit objectives and the quality of work. Proper supervision and reviews are thus necessary for all audits regardless of the competence of the individual auditor or audit team.

“Post audit” reviews of audit work shall be carried out annually by a designated Review Team.

The purpose of these reviews is to:

- Ensure that the audit work performed in the National Audit Office is of the desired quality
- Assess and ensure compliance with the National Audit Office Auditing Standards and Audit Manuals
- Identify training needs to improve audit quality
- Ensure a uniform audit approach in the National Audit Office

5.2 Methodology

Other Auditing Standard 3 – Methodology

The auditor should use generally accepted methods in the planning and execution of audits. The methodology should be appropriate to the audit objectives. The choice and application of methodology should satisfy the requirements in the standards for audit evidence, documentation and reporting.

“*Methodology*” is defined as the approaches, techniques and tools that are used to plan and perform the audit.

“*Generally accepted methods*” implies that the chosen approaches, techniques and tools should be used in compliance with the requirements that apply to the method in question and that it should be possible to document and verify the methodological approach.

The requirement that the methodological approach should be appropriate to the audit objective entails that, alongside the issues of time and resources, elements such as the target of the audit, individual problems and questions, and the means by which the results are to be reported should be considered and weighed up against each other. All audits should strive to use the most suitable methodologies, and the chosen methods should be applied correctly.

5.3 Use of Work performed by others

Other Auditing Standard 4 – Use of work performed by others

When using work performed by other auditors and experts, the auditor should review the work done to draw conclusions as to whether the work meets the audit objectives and the requirements for audit evidence, and if it is in line with the requirements in the National Audit Office Auditing Standards and Auditing Manuals.

Other Auditing Standard 5 – Use of work performed by others

In entities that have an internal audit function, the auditor should maintain an appropriate dialogue with the internal auditors and familiarize him/herself with the internal audit plans and reports. The auditor should assess the extent of reliance that can be placed on this work, and consider any effect that the internal audits will have on the planned audits so as to, for example, avoid duplication of efforts.

The Public Audit Act gives the National Audit Office the right to both contract out general audit work and use other auditors and experts for work of a specialized nature.

The auditor should assess whether the internal auditors and/or experts who perform work for the National Audit Office have had access to all the necessary information. The scope, extent, methods and the assumptions on which the other person's work and conclusions were based should also be studied and evaluated. The auditor should assess any certification or authorization held by the other auditor or external expert and seek to assess his/her independence and objectivity.

5.4 Fraud and Irregularities

Other Auditing Standard 6 – Fraud and Irregularities

When planning and performing audits, and when evaluating and reporting on the results of these audits, the auditor should consider the risk of fraud and irregularities. Discovered or suspected irregularities should be investigated and reported to the management of the entity and other appropriate authorities such as law enforcement agencies.

Fraud and other irregularities could be present in all audit areas under scrutiny.

When planning the audit, the auditor should consider the risk of fraud, corruption and other irregularities, and specific tests should be designed and carried out to uncover such cases.

When the auditor discovers instances of irregularities, he/she should first report the case to management at the National Audit Office. Management will then consider involving the Investigative Audit Section in the further investigation of the issue, and should also, if appropriate, report the issue to top management of the audited entity. Cases of fraud, corruption and other irregularities should also be reported to the appropriate authorities, such as the Police, the Anti Corruption Bureau and/or the Civil Service Commission, by either the National Audit Office or management of the audited entity.

Glossary of Terms

Accounting System

A series of tasks and records of an entity by which transactions are processed as a means of maintaining financial records. Such a system should identify, assemble, analyze, calculate, classify, record, summarize and report transactions.

Audited Entity

The organization, program, activity or function subject to audit by the National Audit Office. Has the same meaning as *Audit Client* and *Auditee*.

Audit Evidence

Information that forms the foundation which supports the auditors opinion, conclusions or report. The audit evidence should be competent, relevant and reasonable.

Audit Opinion

The auditor's written conclusion on a set of financial statements as the result of a financial audit. An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view of the financial situation in accordance with the identified financial reporting framework

Audit Report

The auditor's written opinion and other remarks on a set of financial statements or any other information as the result of a Financial Audit, IT Audit or Investigative Audit, or the auditor's findings on completion of a Performance Audit.

Audit Risk

The probability that the auditor unknowingly expresses an inappropriate audit opinion on the financial statements or unknowingly reaches the wrong conclusion concerning other financial information.

Auditing Standard

Auditing Standards provide minimum guidance for the auditor that helps determine the extent of the audit steps and procedures that should be applied to fulfill the audit objective. They are the criteria against which the quality of the audit results are evaluated. Auditing Standards can be complemented by more detailed *Auditing Manuals*

Control Risk

The risk that internal controls within the audited entity will fail to prevent or detect material irregularities and errors.

Corruption

An act done with the intent of giving, accepting and soliciting advantage inconsistent with official duty and the rights of others or the abuse of public power for private gain. It involves abuse of discretion.

Detection Risk

The risk that any material irregularities or errors that have not been discovered and corrected by the entity's internal controls will not be detected by the auditor.

Documentation

All working papers and all other source material collected and retained during the audit.

Due Care

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

Economy

Minimizing the cost of resources used for an audit without compromising quality

Effectiveness

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

Efficiency

The relationship between the output and the resources needed to produce the output.

Error

An unintentional mistake in the accounting records and financial statements.

Expert

A person or organization that is in possession of specific skills, knowledge and expertise that is used by the National Audit Office to perform a particular task.

Executive

The branch of government which administers the law.

Field Standards

The established criteria and overall framework for the purposeful, systematic and balanced steps and actions that the auditor has to follow in the planning and execution of audits. These steps and actions represent the rules of research that the auditor, as a seeker of audit evidence, implements to achieve a specific result.

Financial Audit

Examination and evaluation of financial and other records in order to secure competent, relevant and reasonable audit evidence and compliance with applicable laws and regulations to enable expression of opinions on financial statements. Sometimes referred to as “*Regularity Audit*”.

Fraud

Fraud is a deliberate misrepresentation which causes another person or entity to suffer damages, usually monetary losses.

General Auditing Standards

Describe the general requirements and qualifications concerning the individual auditor and the National Audit Office as a whole. Can be seen as preconditions for carrying out the audit work in an effective and efficient manner.

Inherent Risk

The risk of material irregularities and errors occurring due to the nature of the entity, its activities and the environment in which it operates.

Internal Audit

A function established as a tool to among other things monitor and review the adequacy and effectiveness of the accounting and internal control systems within the entity.

Internal Control System

All the policies and procedures adopted by the management of an entity to assist in achieving management’s objective of ensuring the orderly and efficient conduct of its operations, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud, irregularities and errors, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

INTOSAI

The International Organization of Supreme Audit Institutions (INTOSAI) is an international and independent body which aims at promoting the exchange of ideas and experience between Supreme Audit Institutions in the sphere of public financial control.

Irregularity

Intentional acts by one or more persons that are in breach of relevant legislation and regulations. Covers both fraud and corruption.

Knowledge of the Entity

The auditor's knowledge of the environment within which the entity operates and a more particular knowledge of how the entity operates.

Materiality

A matter is considered material if its omission, misstatement or inclusion could influence the decision of the users of the information.

Methodology

Approaches, techniques and tools that are used to plan and perform the audit.

Legislature

The law making authority of a country, for example Parliament

Performance Auditing

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

- d) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies
- e) audit of the efficiency of utilization of human, financial and other resources, including examinations of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified weaknesses; and
- f) audit of the effectiveness of performance in relation to the achievement of the audited entity, and audit of the actual impact of activities compared with the planned impact

Planning

Developing a general strategy and detailed approach for the expected nature, timing and extent of the audit work to be carried out.

Quality Assurance

The various procedures for supervision and review that are in place to ensure the quality of the audit.

Reporting Standards

The framework for the auditor to report the findings of the audit.

Review

Quality controls carried out after working papers etc. have been prepared. Done to ensure that the documentation collected supports the conclusions and recommendations.

Sampling

Sampling involves the application of audit procedures to less than 100% of items within an account such that all sampling units have a chance of selection.

Substantive testing

Substantive testing (or substantive procedures) are tests performed to obtain audit evidence to detect material misstatements in a set of financial statements or other information. There are two types of substantive testing:

- a) Test of details of transactions
- b) Analytical procedures

Supervision

Quality controls carried out during the audit to ensure that the quality of work is of the expected standard, that the assignment is proceeding according to plans and that any difficulties are attended to immediately.

Tests of Control

Tests of control are performed to obtain audit evidence about the effectiveness of the:

- a) Design of the accounting and internal control systems, that is, whether they are suitably designed to prevent and correct material errors and irregularities; and
- b) Operations of the internal controls throughout the period

Working papers

Documentation of the planning of the audit work, the performance of audit procedures (execution), and the conclusions drawn on the basis of the audit evidence.