



**OFFICE OF THE STATE
AUDITOR GENERAL (OSAG)
KADUNA STATE**

AUDIT MANUAL

- **GUIDING PRINCIPLES FOR FINANCIAL AUDIT**
- **GUIDES FOR ROUTINE AUDITS AND AUDIT PROGRAMS**

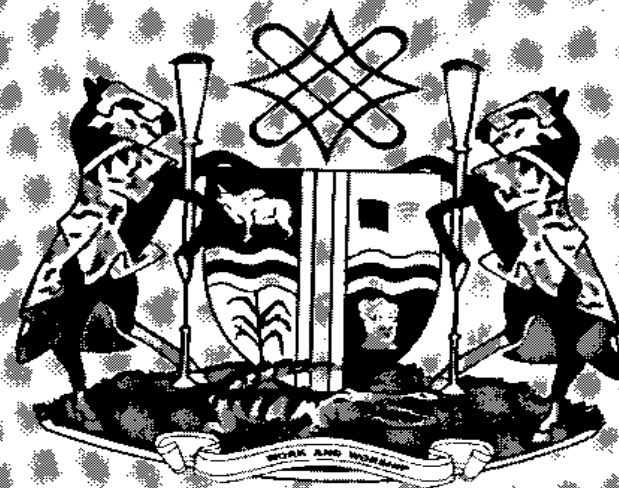
**INFORMATION TECHNOLOGY (IT)
SYSTEMS AUDIT MANUAL**

**GUIDANCE MANUAL ON
PERFORMANCE AUDIT**

JANUARY 2019



**OFFICE OF THE STATE AUDITOR GENERAL (OSAG)
KADUNA STATE**



- **GUIDING PRINCIPLES FOR FINANCIAL AUDIT. VOLUME I**
- **GUIDES FOR ROUTINE AUDITS AND AUDIT PROGRAMS. VOLUME II**
- **INFORMATION TECHNOLOGY(IT) SYSTEMS AUDIT MANUAL. VOLUME III**
- **GUIDANCE MANUAL ON PERFORMANCE AUDIT. VOLUME IV**

JANUARY 2019

INDEX TO THE GUIDING PRINCIPLES FOR FINANCIAL AUDIT (VOLUME I)

| Volume 1 | Section | Sub- Section | FINANCIAL AUDIT Subject | Pages |
|-------------|------------|-----------------|---|----------------|
| | I | I | Groundwork for an Audit Engagement | 6 - 19 |
| | | I A | Code of Ethics | 6 - 8 |
| | | I B | What an Audit Entails | 9 - 10 |
| | | I C | Overall Considerations | 11 - 19 |
| | II | | Strategic Planning | 20 |
| | | II A | Objectives | 20 - 21 |
| | | II B | Materiality | 22 |
| | | II C | Understanding the Audited Entity | 22 - 27 |
| | III | | Detailed Audit Planning | 38 - 53 |
| | | III A | Identification of Audit Process, Key Risks and Controls | 38 - 43 |
| | | III B | Audit Sampling | 43 - 53 |
| | IV | | Executing an Audit | 55 - 69 |
| | | IV A | Obtaining Audit Evidence | 55 - 62 |
| | | IV A | Management Representations | 62 |
| | | | Audit Sampling and Planning | 62 - 65 |
| | | IV A | Management Letters | 65 - 67 |
| | | IV B | Auditor's Report on Financial Statements | 67 - 68 |
| | | IV C | Special Purpose Audit Engagements | 68 - 69 |
| | VI | | Audit Documentation and Quality Control | 85 - 95 |
| | | VI A | Audit Documentation | 85 - 92 |
| | | VI B | Quality Control | 92 - 95 |

INDEX TO VOLUME 2

| Section | Main Subject | Page |
|---------|--|-----------|
| I | Introduction and Annual Plan of Scheduled Audits | .. |
| II | Approach to Scheduled Audits | 150 - 154 |
| III | Revenue Audit | 155 - 164 |
| IV | Audit of Payment | 165 - 171 |
| V | Audit of Transcripts and the Annual Expenditures by Subheads | 172 - 176 |
| VI | Audit of Stores | 177 - 186 |
| VII | Audit of Plant, Equipment, Tools and Government Vehicles | 187 - 190 |
| VIII | Audit of Annual Consolidated Financial Statements | 191 - 195 |
| IX | Audit of Corporations | 196 - 200 |
| X | Audit of Payroll | 201 - 203 |
| XI | Audit of Schools | 204 |
| XII | Audit of Retirement of Benefits | 205 - 206 |

TABLE OF CONTENTS VOLUME III

| | <u>Page</u> |
|---|-------------|
| Introduction | 208 |
| 1.1 Purpose of the manual | 208 |
| 1.2 Impact of Information Technology | 208 - 209 |
| 1.3 Organisation of the manual | 209 - 210 |
| 2.1 IT Environment in MDAs in kaduna State | 210 - 211 |
| 2.2 Scope of IT Audits in MDAs | 211 |
| 2.3 Organisation for IT audit in the OSAG | 211 - 212 |
| 3.1 Performing the IT Audit | 211 - 212 |
| 3.2 Annual Operational plans | 212 |
| 3.3 Detailed Audit Processes | 213 - 216 |
| 4.0 Performing the IT General controls audit | 217 - 221 |
| 5.0 Performing the IT Application controls audit | 221 - 222 |
| 6.0 Auditing MDAs and the annual Financial statement | 223 - 225 |
| Appendix A - IT General Controls (Organization) | 226 - 236 |
| Appendix B - IT General Controls (Security) | 237 - 253 |
| Appendix C - IT General Controls (IT Policies and Procedures) | 254 - 264 |
| Appendix D - Application Systems | |

Index to Guidance Manual on Performance Audit IV

| <u>Section</u> | <u>Subject</u> | <u>Page</u> |
|----------------|---|-------------|
| I | Introduction to the Manual | 266 |
| II | The Context of Performance Auditing | 267 - 275 |
| III | Planning and Selection of Audit Topics | 276 - 281 |
| IV | Pre-study and Work Plan | 282 - 293 |
| V | Executing a Performance Audit | 294 - 312 |
| VI | The Performance Audit Report | 313 - 318 |
| VII | Follow-up | 319 - 320 |
| | Working Papers | 321 |
| Number | Title | |
| WP 1A | Letter of Notification to Conduct Performance Audit | 322 - 324 |
| WP 1B | Code of Ethics Declaration | 325 - 326 |

INTRODUCTORY PREFACE AND APPROVAL

The Kaduna State Audit Manual is a complete system of guidance tools, broken down into parts and volumes as indicated below:

- **Volume 1 - Guiding Principles for Financial Audits (made up of Parts A and B)**
 - Part A - Planning of an Audit Assignment
 - Part B - Execution of an Audit Engagement
- **Volume 2 - Guides for Routine Audit and Audit Programs**
- **Volume 3 - Information Technology Systems Audit**
- **Volume 4 - Performance Audit**

ISSAIs - International Standards of Supreme Audit Institutions.
INTOSAI - International Organization of Supreme Audit Institutions.

Purpose

This set of Audit Manual is a complete system designed to provide the Auditors of the Office of the Auditor General Kaduna State with the key working tool in the carrying out their routine and special audit tasks in a professional manner. The manual is in accordance with the ISSAIs standards (1000-2999) which implies full compliance with all relevant ISAs and additional guidance set out in the INTOSAI Practice Notes to describe public sector external audit.

Guiding Principles for Financial Audits provides the direction for audit which ultimately entails expressing an opinion as to whether or not the financial statements audited are prepared, in all material respects, in accordance with an identified/applicable financial reporting framework and/or statutory requirements. In addition to this, it also includes other audit objectives such as:

- Reporting instances of non-compliance with authorities including budgets and accountability, and/or
- Reporting on the effectiveness of internal control.

Performance Audit: The performance audit system has the key objective of providing guides to Auditors of the Office of the Auditor General Kaduna State in carrying out value for money audits; it also enhances the development of methods and practices in the conduct of performance audits.

Information Technology Systems Audit (IS): The IS audit provides the opportunity to the State Auditors to determine how each MDA uses IT systems to initiate, record, process and report transactions or other financial data. The Auditor must determine whether controls exist, are well designed, are understood, are operating efficiently and are being complied with by the operating personnel.

Use of the Manual

The set of manual has been developed for the use of Auditors of Kaduna State in the professional work of audits as concerns State Government finances and accounting as

specified by relevant laws and statutes, and international standards. As a procedural manual, it should be available to all staff involved in audit functions on behalf of the Office of the Auditor General Kaduna State wherever and whenever such duties are assigned.

Distribution of the Manual

Each member of staff of the Office of the Auditor General Kaduna State should have access to the Manual as a working tool and also as basic guide to his/her work schedules. The Manual shall be applied strictly in dealing with every audit assignment. Given that staffs are normally rotated around duties, tasks, assignments, places and locations etc., each Auditor should have at least a basic understanding of the procedures of every section of the Manual.

The procedures provided are aimed at enabling Auditors to apply a uniform methodology for carrying out audit assignments. The standardized audit planning, execution, the regular working papers and the method of documenting and referencing information are also given to ensure absolute consistency. In addition, the Auditor should follow the sequence in the Manual to conduct his/her work.

Method of Amendment

As part of the financial control system of Kaduna State, the Manual could require changes at any time based on updates in Government financial systems or international standards initiative. In such a case, the relevant part would be subjected to the required modification accordingly. To amend any part of the manual, an Auditor who wishes to suggest a modification will propose such to his superior officer for review. The review process will pass through the hierarchy to the Departmental Director. Where the Departmental Director is satisfied with the suggestion(s), such is passed to the standing Committee on Audit Manual within Kaduna State Auditor General's Office. The Committee will review the suggestion and if satisfied will recommend the changes to the Auditor-General of Kaduna State.

Assuming the recommendation is acceptable to the Auditor - General, the relevant changes will be authorised accordingly. The Auditor-General will then communicate the changes to all holders of the Manual. Such modification will be inserted into the relevant volume/section while any prior section will be withdrawn accordingly.

Approval

I hope this manual will assist in developing our institution significantly in the years ahead. I adopt this audit manual as the basis for the audit approach by all Auditors in Kaduna State.

TIMOTHY BOSSAN AVONG FCNA
Auditor-General Kaduna State
JANUARY 2019

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PART A

PLANNING OF AN AUDIT ASSIGNMENT

SECTION I

GROUNDWORK FOR AN AUDIT ASSIGNMENT

1. This section of the Manual contains the following subjects:

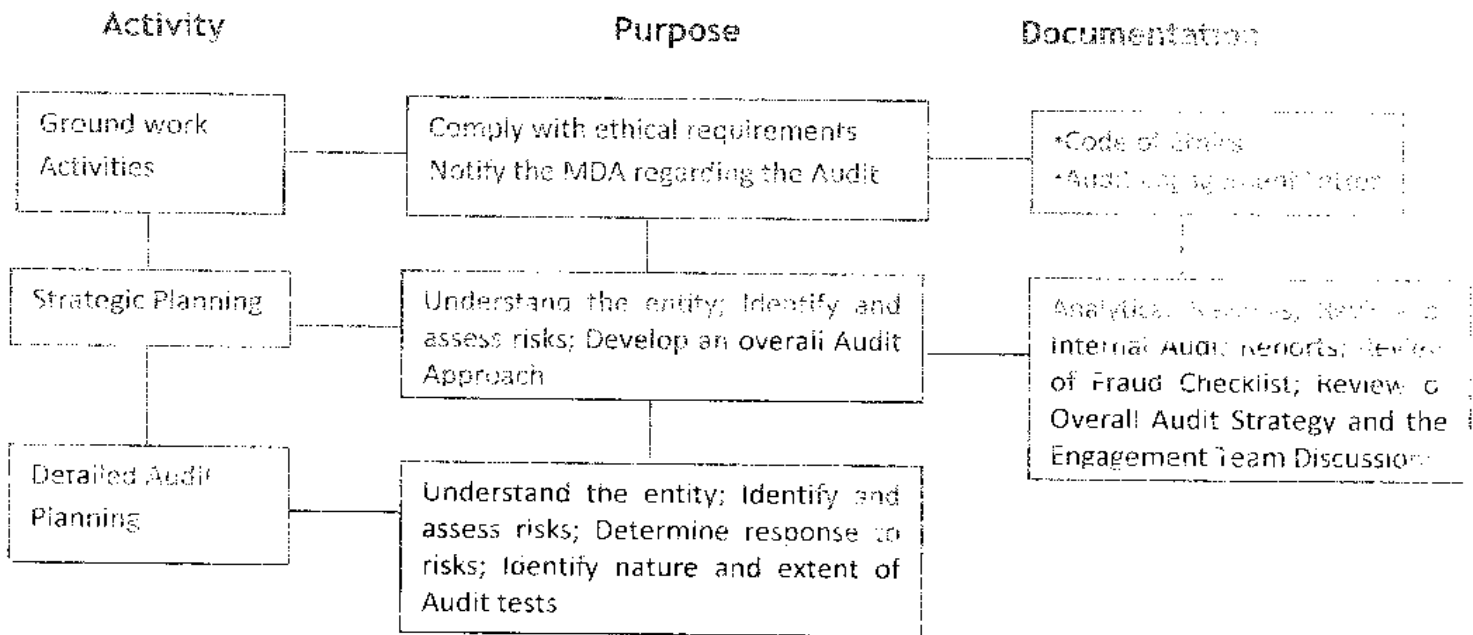
| <u>Subject</u> | <u>Paragraphs</u> |
|----------------------------------|-------------------|
| IA Objectives and Code of Ethics | 2 - 7 |
| IB What an Audit Entails | 8 - 18 |
| IC Overall Considerations | 19 - 40 |

IA. Objectives and Code of Ethics

Objectives

2. An Auditor should appreciate the following as basic objectives of an audit:
- a. Reasonable assurance about the financial statements presented by Office of the Accountant General Kaduna State and the MDAs, and whether or not these are free from material misstatements (whether due to fraud or error)
 - b. Matters arising from an audit shall be made known to management of the entity and those charged with governance. Moreover, professional judgment and skepticism shall be maintained throughout an audit. The following tasks are also relevant:
 - i. Identify and assess risks of material misstatement, which may be due to fraud or error, based on an understanding of the entity and its control environment.
 - ii. Obtain sufficient appropriate audit evidence about whether material misstatements exist, by designing and carrying out suitable audit tests to mitigate the risks.
 - iii. Form an opinion on the financial statements and any other objectives on which reporting is mandatory, based on conclusions drawn from the audit evidence obtained.
 - c. Be alert to areas that may give rise to risks of non-compliance with statutory requirements or risks relating to the effectiveness of internal control when planning and performing an audit
 - d. Reporting on the effectiveness of internal control.
3. The Groundwork and planning activities for an audit engagement are depicted as a flow diagram (Flow Chart I) below:

Flow Diagram for Audit Planning Activities



Code of Ethics Statement

4. The following code is a guide for the Auditor regarding his/her conducts in specific circumstances
5. **INTOSAI Code of Ethics for Auditors:** The Code of Ethics guides the daily work of an Auditor. In addition, the code of ethics recognizes that the objectives of the job are to work to the highest standards of professionalism. These require four basic components thus:
 - a. **Credibility:** The development of any society is based on credible information
 - b. **Professionalism:** The obvious need for individuals who can be clearly identified by the MDA, and other interested parties as a professional Auditor
 - c. **Quality of Service:** The assurance that all audits are carried out to the highest standards
 - d. **Confidence:** The auditee and users of the related audit reports should be confident that there exists a framework of professional ethics for the Auditor
6. Specifically, the following are to be observed:
 - o **Integrity:** An Auditor has the exceptional duty to adhere to the highest standards of behavior in the course of his/her work
 - o **Independence:** Auditors must be independent of the auditee and free from any outside interest groups. Auditors are to be objective and impartial in dealing with issues and topics

- **Political neutrality:** It is important for Auditors to maintain political neutrality
- **Conflict of interest:** The various aspects are listed thus:
 - a. In the course of his/her work, an Auditor shall not take management responsibilities or powers, which must remain solely with the auditee organization
 - b. Auditors are to protect their independence and avoid any possible conflict of interest by refusing gifts or gratifications
 - c. The Auditor shall avoid relationships with officers and staff of the auditee which may influence, compromise or threaten his/her ability to act independently
 - d. An Auditor is not to use his/her official position to promote private interests and therefore must avoid relationships which involve the risk of corruption
 - e. An Auditor is not allowed to use information received during his/her duties as a means of securing personal benefit. Divulging of information that would provide unfair advantage to other individuals or organizations is not permissible
 - **Confidentiality or professional secrecy:** An Auditor shall not disclose information obtained in the auditing process to third parties, except for the purposes of meeting the auditee's statutory or other identified responsibilities as part of the organization's normal procedures or in accordance with relevant laws.
 - **Professional competence and due care:** It involves the following:
 - a. In carrying out their work, Auditors are to apply high professional standards always
 - b. An Auditor should apply applicable auditing, accounting and financial management policies, procedures and practices; he/she should have a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity
 - c. An Auditor shall exercise due professional care in conducting and supervising an audit and in preparing related reports
 - d. The legislative and/or executive authority, the general public and the audited entities need to be fully assured of the fairness and impartiality of the Auditor
 - e. It is essential that the reports and opinions of an Auditor be considered to be accurate and reliable by knowledgeable third parties
 - f. The Auditors' work must stand the test of legislative and/or executive scrutiny, public judgments on propriety and examination against this Code of Ethics.

Declaration on Compliance with the Code of Ethics

7. Each Auditor shall declare compliance with this code of ethics before commencing each audit assignment using the Code of Ethics Declaration Form ((Working Paper 1A). Also, at the end of every audit report, the Auditor shall conclude that the statements included in this Code of Ethics have been duly observed.

1B. What an Audit Entails

Objectives

8. This section provides a foretaste at the audit process and also a comprehensive list of the working papers applicable to each audit.

Financial Audit

9. The Financial Audit of Kaduna State embraces the:
 - a. Attestation of financial accountability of MDAs. It involves the examination and evaluation of financial records and expression of opinions thereon
 - b. Confirmation of financial accountability of the government administrative units
 - c. Audit of financial systems and transactions, including an evaluation of compliance with statutes and regulations
 - d. Review of internal control and internal audit functions
 - e. Assessment of the probity and propriety of administrative decisions taken within the audited entity and
 - f. Reporting of any other matters arising from or relating to the audit and considered necessary to disclose.
10. A financial audit expresses an opinion as to whether the financial system is reliable and that the statements presented is a fair representation of the financial position of the entity as at a particular date. Moreover, a financial audit enables an Auditor to express an opinion as to whether or not the financial statements are prepared, in all material respects, in accordance with an identified/applicable financial reporting framework and/or statutory requirements.

Objectives of a Financial Audit

11. The overall objective of the Auditor in carrying out an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error; also to communicate to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit as required by the auditing standards or by legislation.

Reasonable Assurance

12. An audit in accordance with auditing standards is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatements.
13. In terms of providing reasonable assurance, Auditors shall obtain sufficient and appropriate audit evidence to conclude that there are no material misstatements in the financial statements as a whole.
14. The limitations which are inherent in the audit process affect the Auditor's ability to detect material misstatements and in turn to provide absolute assurance on the financial statements. These limitations exist because of the following factors:
 - a. Only a sample of transactions or balances will be selected for the audit
 - b. The inherent limitations of any accounting and internal control system, for example, the possibility of collusion and
 - c. The fact that most audit evidence is persuasive rather than conclusive.

Requirements for Auditors

15. The following requirements are to be considered and maintained by Auditors throughout the audit work:
 - a. Professional Skepticism: or recognizing that circumstances may exist that cause material misstatements
 - b. Professional judgment by Auditors leading to informed decisions and the appropriate application of relevant knowledge and experience to the facts and circumstances.

Sufficient and appropriate audit evidence should be obtained to reduce audit risk to an acceptably low level and enable the Auditor to draw conclusions.

16. The Auditor's Audit of Financial Statements

- a. The financial statements prepared and presented for audit are those of the entity. Hence, an audit does not relieve management or those charged with governance of their responsibilities as is prescribed by relevant laws or regulations
- b. The financial statements are prepared in accordance with applicable financial reporting framework usually prescribed by International Standards, laws and regulations. In turn, the form of audit opinion expressed by the Auditor will also depend upon the reporting framework.

18. A complete set of financial statements in terms of IPSAS prepared on a cash basis will include the following:
- a. A statement of cash receipts and payments
 - b. Accounting policies and explanatory notes and
 - c. When the entity makes publicly available it's approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments.

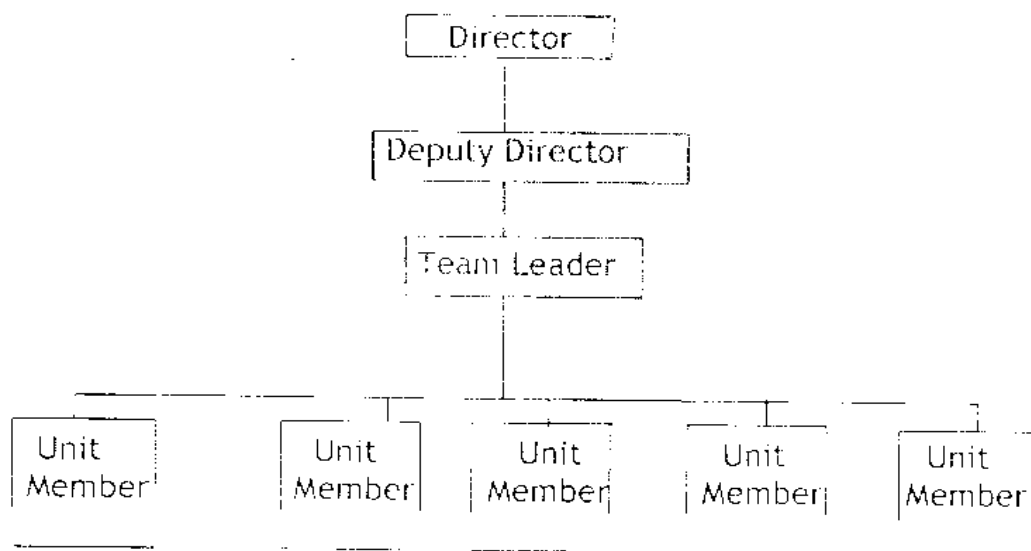
IC. Overall Considerations

Audit Engagements

19. At the commencement of an audit assignment, the Auditor responsible (the Team Leader) shall study, understand and apply the required documentation especially the Audit Planning Working Papers. Next is the process of confirming the audit team and externally engaged experts (if any).
20. Applying the applicable Working Papers, the concerned Auditor (Team Leader) shall:
- a. Comply with relevant ethical requirements including independence
 - b. Plan the time to perform the audit.

Audit Organization

21. For clarity and to enhance easy delineation of roles, the reporting structure for an audit team should be designed at the commencement of an audit. Such would not be static however. An example of a structure for an audit team is shown below:



Basic Role of the Auditor

22. For each audit assignment, the Team Leader shall form a conclusion on compliance with requirements that apply to the audit engagement. This entails the following:
 - a. Obtaining relevant information from the relevant Director to identify and evaluate circumstances and relationships that create threats to independence
 - b. Evaluating the information on identified breaches, if any, of the institution's independence, policies and procedures to determine whether they create a threat to independence for the audit
 - c. Taking appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards. The Team Leader (through his/her Director) shall promptly report to the Auditor - General, any failure to resolve the matter for appropriate action and
 - d. Documenting conclusions on independence and any relevant discussions with the institution that support these conclusions.
23. Before the commencement of the audit, the Team Lead shall confirm and document compliance with certain ethical standards which shall include the following:
 - a. Compliance with relevant ethical requirements including independence (refer to WP1A Code of Ethics working paper)
 - b. Have appropriate competence and capabilities to perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements

Team Lead Responsibility

24. To achieve effectiveness, the Team Leader shall throughout the assignment:
 - a. Remain alert, take note and document any non-compliance with relevant ethical requirements and ensure that appropriate actions are taken
 - b. Take responsibility for the direction, supervision and performance of the audit engagement
 - c. Control performance and quality reviews throughout the audit
 - d. Take responsibility for ensuring that appropriate consultation takes place on difficult or contentious matters, including the fact that appropriate conclusions are reached and implemented. Such consultation shall be documented.

Audit Engagement Letter

25. When aspects of ethical and competency requirements have been duly considered and it is clear that the assigned team is capable of performing the audit, the Audit Engagement Letter/Letter of Introduction is prepared and sent to the accounting officer of the auditee. The Engagement letter/Letter of Introduction is signed by the Auditor General or his duly delegated official.
26. The Engagement letter (Working Paper 1B) is the medium for informing the management of the audited entity, regarding the objectives and scope of the audit and the obligations of the Auditor General.

Changes to the Terms of Engagement

27. On recurring audits, the Auditor shall consider whether or not circumstances require the terms of the engagement to be revised and whether there is a need to remind the audited entity of the existing terms of engagement. When it is decided not to send a new Engagement Letter to the auditee, the Team Leader should still update and communicate to management (of the auditee) the relevant target dates applicable for the audit.

Audit Findings

28. Audit findings (i.e. exceptions) should be documented in the required format as soon as discovered. These findings are communicated to the auditee through the following available means:
 - a. Informal query (this could sometimes be discussed with the auditee)
 - b. Management letter; and
 - c. Audit report.
29. Audit queries are formal means of communication. Such are sent via the accounting officer to the relevant division heads where the queries reside. This way, management has an opportunity to give timely feedback or comments and additional information to the Auditor. There is no restriction on the number of queries that may be sent by the Auditor (Team Leader), but it is advised to avoid sending endless numbers of individual queries. The overall group head (usually the Group Supervisor) should rather collect the queries and send them simultaneously (for example, all queries for a quarter should be sent at once). Such method or arrangement should be communicated and agreed with the auditee.
30. Unresolved material findings which will be considered for reporting should nonetheless always be included (and this way be repeated) included in the Management Letter. Repeating unresolved findings will alert management to the items that will potentially appear in the audit report. This will ensure that audit reports do not contain issues that will 'surprise' management.
31. The management letter is normally issued at the end of the engagement summarizing all unresolved findings previously raised in queries and any new

issues not yet raised. Management shall be requested to provide comments on the findings in the Management Letter.

32. The draft audit report on the work of the Accountant General and for individual Accounting Officers will be discussed with the auditee before it is finalized. Depending on the circumstances, it may be done simultaneously with the Management Letter (e.g. if all findings have already been reported to management).

Communication during the Audit

33. Throughout the audit, there is the need and a responsibility to communicate with the management and those charged with governance of the audited entity. Communication entails the form, timing and expected format of contents. A vital information is the Audit Engagement Letter (WP 1B).
34. A policy involving verbal or written communication should be decided. For example, there should be a protocol for sending out Engagement letter which will specify that the letter should for example be hand - delivered to the relevant person at the auditee's office and that an acknowledgment of receipt should be signed by the auditee. Oral communication in general will not be adequate. Generally, auditors are required to communicate any significant findings from the audit to those charged with governance in writing.
35. The policy of the Kaduna State Auditor General on communication should cover all basic aspects of communications by Auditors with the management of the auditee and those charged with governance. The document should address the following:
- a. The clear purpose of communication;
 - b. The form in which communication will be made;
 - c. The persons in the audit team responsible for the communication and the person receiving the communication at the auditee;
 - d. The contents of the communication;
 - e. Documentation of meetings and other discussions with management and those charged with governance. This is usually done by preparing the minutes of the meeting;
 - f. Timely dissemination of audit documentation including part of meetings (e.g. management letters or draft audit reports etc.). Documentation should ideally be distributed at least a working day prior to the meeting to all attendees;
 - g. Reasonable time to respond wherever necessary, for example, on audit queries and management letters.

Communication for Information Gathering

36. Information might be gathered through interviewing the personnel of the audited entity. Even though this may be a very effective way of obtaining relevant information, verbal statements, when used as evidence need to be documented or confirmed. Meetings held with personnel should be documented in the minutes of these meetings. Minutes which should be signed by the relevant official and the Auditor and should contain any agreements reached or requirements raised by both parties.
37. Confirmation may take the form of formal management representation (for material issues) or through obtaining alternative supporting evidence.
38. The working papers when completed will ensure full compliance with the requirements included in this Manual. Also included in each working paper are the relevant review requirements and the references to other working papers where applicable.
39. The effectiveness of an audit relies significantly on good communication with the audited entity. Communication is also vital throughout the audit process and the key aspects of communication within this manual are as follows:
 - a. Engagement letter before the audit commences, to explain the nature and scope of the audit.
 - b. Overall audit strategy at the end of planning, to explain the audit approach being adopted, based on the preliminary evaluation of the audited entity
 - c. Entrance meeting with the management of the audited entity
 - d. An interim management letter to provide a listing of audit findings and to provide management with an opportunity to respond at the end of an audit visit
 - e. A final management letter to inform the audited entity of all significant issues found during the audit and to provide management with an opportunity to respond. This should form the basis of the exit meeting with the auditee and
 - f. An audit report to provide an overall opinion on the financial statements and other aspects included in the Engagement Letter
40. Table I below provides a comprehensive list of all Working Papers to be applied during the groundwork and planning stage of each audit. Details of the Working Papers are presented in the Annexure

Table 1

TABLE OF WORKING PAPERS

| WORKING PAPER (WP) | | PURPOSE / DECISIONS / OUTCOMES | LINKS WITH OTHER WORKING PAPERS | MANDATORY WORKING PAPERS | COMPLETED BY | REVIEWED BY |
|--------------------|-------------------------|--|--|----------------------------|------------------|--|
| 1A | Code of ethics | Conclude on the team's independence | | Mandatory, for each audit. | Each team member | Team Leader responsible for the audit |
| 1B | Audit engagement letter | Understanding on terms of the engagement and informs Auditor and management, their respective responsibilities with respect to the audit | Overall audit strategy should contain the same information relating to the scope and timelines of the audit. | Mandatory, for each audit. | Deputy Director | Director - person responsible for the audit report to sign the engagement letter |

STRATEGIC AUDIT PLANNING

| WORKING PAPER (WP) | | PURPOSE / DECISIONS / OUTCOMES | LINKS WITH OTHER WORKING PAPERS | MANDATORY WORKING PAPERS | COMPLETED BY | REVIEWED BY |
|--------------------|--|---|--|---|--------------|--------------------------|
| 1C | Analytical review | Identify risk areas where large differences are noted between trends and expectations | Identified risks of material misstatement on a financial statement level | Mandatory, to be complete for each audit. | Team Lead | Deputy Director |
| 1D | Review of internal audit function and report | To provide an assessment of the work and competence of the internal audit function. | | Mandatory, to be completed for each auditee with internal audit function. | Team Leader | Deputy Director/Director |
| 1E | Fraud checklist | To determine fraud susceptibility | | Mandatory, for each audit. | Team Lead | Deputy Director |
| | | | | | | |

| | | | | | | |
|----|-------------------------------------|---|--|--|-------------|------------------|
| 1F | Overall Audit Strategy | Setting out the conclusion from all working papers up to this stage and formulating the high level audit approach. The Overall Audit Strategy is communicated to the management of the auditee. | Conclusions from all other working papers should be included here | Mandatory to be completed for each audit. | Team Leader | Group Supervisor |
| 1G | Engagement team discussion document | Confirms understanding and informs the engagement team about important aspects of the audit. | Information included from other working papers in pre-engagement and strategic planning as well as previous years. | Mandatory, to be completed for each audit. | Team Leader | Deputy Director |

AUDIT EXECUTION

CONCLUDING AND REPORTING

| WORKING PAPER (WP) | PURPOSE / DECISIONS / OUTCOMES | LINKS WITH OTHER WORKING PAPERS | MANDATORY WORKING PAPERS | COMPLETED BY | REVIEWED BY | |
|---------------------------|---------------------------------------|---|---|---|--------------------------|--------------------------|
| 2F | Management letter | Management letter is issued to the Auditee and should include all matters that are still outstanding and yet to be realized from the accounting officer of the auditee. | All unresolved findings and exceptions are included in the management letter. | Mandatory, to be completed for each audit. | Director | Auditor General |
| | | | | | | |
| 2C | Audit query | To provide a basis for communication of findings with the auditee. | Includes all findings / exceptions raised. | To be completed when findings are raised and communicated | Team leader | Director |
| 2D | Review worksheet | To document all responses from auditee to the reviewers | | To be completed when necessary | Team Leader/Team members | Deputy Director/Director |
| 2E | Audit summary memorandum | Summary of the audit process for each component | Summarises information from the other working papers | Administrative working paper, to be completed for each audit. | Team Leader | Deputy Director/Director |

AUDIT DOCUMENTATION AND QUALITY CONTROL

| WORKING PAPER (WP) | PURPOSE / DECISIONS / OUTCOMES | LINKS WITH OTHER WORKING PAPERS | MANDATORY WORKING PAPERS | COMPLETED BY | REVIEWED BY | |
|--------------------|---------------------------------------|---|--|--|-------------|----------------------------------|
| 2G | Overall quality control questionnaire | Clarify and certify all audit procedures to assure conformance with audit standards; Identification of aspects that were not adequately addressed throughout the audit. | Confirm and if necessary addresses main issues from audit working papers | Mandatory, to be completed for each audit. | Director | Director /Quality Assurance Unit |

SECTION II

STRATEGIC PLANNING

1. Section II (Strategic Planning) contains the following key subjects:

| | <u>Subject</u> | <u>Paragraphs</u> |
|-----|----------------------------------|-------------------|
| IIA | Objectives | 2 - 7 |
| IIB | Materiality | 8 - 12 |
| IIC | Understanding the Audited Entity | 13 - 80 |

II A: Objectives

2. This section provides guidance on approaches to effectively organize and plan an audit assignment in order to guarantee ultimate accomplishment and objectivity. To achieve this, the Team Leader shall develop and document an audit strategy plan involving:
- a. The nature, timing and extent of planned risk assessment procedures
 - b. The nature, timing and extent of planned further audit procedures at the assertion level which is documented during detailed planning
 - c. Any other procedures which may be necessary to ensure compliance with the audit as pronounced in this manual
3. Although the planning phase could be time - consuming, it is nevertheless required since the Auditor has a responsibility to understand and document the systems and processes of the auditee in order to assess all related risks. Furthermore, adequate audit planning is essential in order to:
- i. Appreciate the important areas of the audit focus; this will prevent the dissipation of energy
 - ii. Identify and resolve potential problems in a timely manner
 - iii. Properly organize and manage the audit engagement
 - iv. Select and assign team members to tasks
 - v. Facilitate adequate supervision and review of audit work
 - vi. Co-ordinate the tasks by subordinates with regards to audit components

Understand the Entity

4. During the strategic planning stage, the Auditor (particularly the Team Leader) shall obtain a thorough understanding of the audited entity and make vital decisions affecting the audit. Such could be the:
 - a. Studying the reported financial information (financial statements) and identifying transactions and balances to be audited
 - b. Understanding the auditee's operations in order to identify risks of material misstatement. This is done through performing the Analytical Review (Refer to the working paper 1C Preliminary Analytical Review). Although much of this should be common between and across ministries, departments and agencies.
 - c. Assessing the internal controls and governance environment (Refer to WP 1D and - Fraud checklist WP 1E)
 - d. Compiling and communicating the overall audit strategy to the audited entity. (Refer to WP 1F Overall Audit Strategy)

Overall Audit Strategy

5. A key issue in setting an overall plan of an audit is to document the approach for the performance. It involves the summary of the detailed work completed earlier and should include the following:
 - a. Scope, timing and direction of the audit
 - b. Reporting objectives and the nature of the communications required
 - c. Significant factors directing the audit
 - d. Results of preliminary engagement activities and any relevant previous knowledge gained
 - e. The nature, timing and extent of resources necessary to perform the audit
6. The Team Leader will design key decisions and significant matters which are then documented in the Overall Audit Strategy. These will also form the basis of discussion with subordinate Auditors concerning the above stated aspects of the audit.

Changes to Plans during the Course of Audit

7. Planning an audit is a continual process throughout the audit engagement. Consequently, the overall strategy and the detailed plan shall be documented, updated and amended as necessary during the course of the assignment. As a result of any unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the Auditor may need to modify the overall audit strategy and plan (for one or more components), and thereby the resulting planned nature, timing and extent of further audit procedures. All changes made to planning documents should be documented.

II B: Materiality

Audit Materiality

8. The Team Leader should determine materiality in line with standard guide signed off by the Auditor General, bearing in mind the different users of financial statements and their common financial information needs e.g. legislatures and regulators making decisions about the entity. Determination of materiality is also based on the professional judgment of the Team Leader and the understanding of the auditee's operations and risks.
9. The objective of the Auditor is to apply the concept of materiality appropriately in planning and performing the audit. Materiality can be divided into two categories namely qualitative and quantitative materiality.
10. Auditors are to compute the quantitative materiality level as a numerical value, based on professional judgment. The most important figure in the financial statements should be the basis for setting materiality.
11. In the case of spending entities like government ministries, the basis to calculate materiality is usually the gross expenditure of the entity. In the case of entities that collect revenue, the income figure is the most important and hence the basis for setting materiality. An Auditor normally set materiality in the range 0.25 per cent to 1 per cent of gross expenditure.
12. When an Auditor calculates materiality before the final financial statements are available, budgeted figures, estimated amounts or interim financial information may be used. A revision of such materiality should be done as soon as the exact final information is available.

II C: Understanding the Audited Entity

13. The Auditor should obtain an understanding of the audited entity's environment and the internal controls. This will enable him/her assess the risk of material misstatement whether due to fraud or error and to determine the relevant audit approach to be followed. In understanding the auditee's operations, the considerations included in the relevant working papers are fundamental as auditors cannot audit effectively without it.

Risk of Material Misstatement, Compliance or Regularity

14. Risks are inherent in the financial side of every organization; such risks could be:
 - a. The risk that services cannot be delivered due to for example capacity constraints
 - b. The risk that the entity is subject to fraud by its employees or management and

- c. The risk that the financial statements may include material errors due to deficiency in employees' skills.

Risk Assessment Procedures

15. In order to plan for the audit, the Team Leader shall obtain an understanding of the entity and its environment, including its internal control system by performing the risk assessment procedures. This should be sufficient in order to identify and assess the risks of material misstatement both on a financial statements and assertion levels. The risk assessment procedures alone are not sufficient or appropriate to base an opinion on. The Auditor may perform the following (or a combination of the following) risk assessment procedures to obtain an understanding of the entity and its environment including its internal control:
 - a. Discussion with and inquiries from management and staff within the entity
 - b. Analytical procedures whereby relationships between the following is considered:
 - i. Expenditure versus appropriation
 - ii. Benefit payments, such as pensions versus demographic allocations
 - iii. Interest as a percentage of debt compared to the government borrowing rate and
 - c. Observation and inspection of documentation such as
 - i. Legislative reports or minutes
 - ii. Additional documents prepared by management for the legislature, such as performance reports or funding requests
 - iii. Testimonies of agency officials
 - iv. Other directives
 - v. Official records of proceedings of the legislature
 - d. Performance of other appropriate activities.
16. Analytical procedures may be helpful in identifying the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have financial statements and audit implications. Analytical procedures refer to the analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or deviations from predicted amounts. The Auditor may also compare budgeted to actual or to extrapolated figures (where actual figures are not yet available). When these comparisons yield significant deviations (normally identified for each audit), the Auditor considers those results in identifying risks of material misstatement and should investigate and obtain adequate explanations and appropriate corroborative audit evidence. *(Refer to working paper WP 1C Analytical review)*

17. Observation and inspection may support inquiries of management and others, and also provide information about the entity and its environment. Such audit procedures ordinarily include the following:
 - a. Observation of the entity's activities and operations
 - b. Inspection of documents (such as operational plans and strategies), records, and internal control manuals
 - c. Reading reports prepared by management (such as quarterly management reports and interim financial statements) and those charged with governance (such as minutes of management meetings)
 - d. Visits to the entity's premises and plant facilities (if relevant), and
 - e. Tracing transactions through the information system relevant to financial reporting (walk-through procedures).

Depths of Understanding the Audited Entity

18. The Auditor should understand the entity and its environment especially the following aspects:
 - a. Transactions and balances to be audited and the applicable financial reporting framework
 - b. Applicable legislative framework, laws and regulations
 - c. Nature of the entity and its operations, financing, governance structures etc.
 - d. Decisions due to political processes for example new geographic locations or closures of existing locations, reorganizations, including transfer of activities to other entities, new program areas, budgetary constraints or cut backs
 - e. Measurement and review of the entity's financial performance
 - f. Relevant internal controls including the manual and information technology (IT) environment.
 - g. Specific consideration should be given to fraud, litigations and claims against the entity, related parties and the sustainability of service delivery (going concern)
 - f. Expectations of the legislature and other users of the resultant Auditor's Report

Previous Recommendations and Reported Items

19. The Auditor should establish whether previously reported items still constitute risk areas. This is done by evaluating whether management has taken appropriate steps on previously reported recommendations and findings that could affect the audit. The corrective actions taken should be assessed to identify lingering risk areas.

Considering Compliance with Laws and Regulations

20. Some laws or regulations have a direct effect on the financial statements whilst others are fundamental to the operations of the entity (therefore impact indirectly). The Auditor should consider the impact of both on the financial information presented and also on the operations of the auditee. In addition, the Team Leader should obtain sufficient and appropriate audit evidence regarding compliance with the provisions of those laws and regulations which have direct effect on the financial statements. These may include Financial Instructions and the annual budget and relevant laws, for example, Fiscal Responsibility Act, Procurement Act etc..

Responsibilities of Auditors

21. Auditors should gain an understanding of the legal and regularity framework of the entity as well as design and perform audit procedures to identify material misstatements due to non-compliance. However, he/she is not responsible for preventing non-compliance and at the same time cannot be expected to detect all noncompliance with laws and regulations.
22. Regarding understanding the entity and the related objectives, Auditors are to:
 - a. Identify and understand the legal and regulatory requirements of the entity
 - b. Obtain audit evidence regarding compliance with the provisions of those laws and regulations which have a direct effect on the financial statements
 - c. Respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.
23. For all other audit findings, the Auditor should identify whether there is an element of non-compliance or suspected non-compliance with laws and regulations
24. Where the Auditor concerned finds or suspects non-compliance with laws and regulations, she/he shall consider the following:
 - a. Understand the nature of the non-compliance
 - b. Design further tests to evaluate the effect of the non-compliance

- c. Discuss the matter with management and those charged with governance
 - d. Consider the need to obtain legal advice where necessary
 - e. Consider any non-compliance reported in other reports
25. The Auditor shall also evaluate the implications of non-compliance in relation to other aspects of the audit, including his/her risk assessment, and the reliability of written representations. Further actions are then taken accordingly.
26. Auditors are to communicate non-compliances with laws and regulations identified during the course of the audit to those charged with governance unless the matters are inconsequential. The Auditor may have a mandate to order the auditee to correct non-compliances with legislation. All intentional non-compliances should be communicated to the Accounting Officer as soon as practicable.
27. Where the Auditor suspects that management or those charged with governance are involved in non-compliance, he/she shall communicate the matter to the next higher level of authority at the entity.
28. Auditors shall document all identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.
29. During the strategic planning stage, the Team Leader should obtain a general or high level understanding of the legal and regulatory framework applicable to the entity, and the mechanism the entity has put in place to ensure compliance with that framework.

Objectives, Strategies and Related Risks

30. The Auditor is to obtain an understanding of the entity's objectives and strategies, and the related risks that may result in material misstatement of the financial statements. Strategies represent the operational approaches by which management intends to achieve its objectives. Strategies should include provisions to management's approach to deal with applicable risks. An understanding of risks in the public sector environment relates to an organization not possessing the sufficient capacity or processes to deliver on its mandate.

Internal Controls

31. The Auditor should obtain a clear understanding of the internal controls established by management in consonance with the relevant rules/regulations. These controls are in place to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of the accounting and financial systems, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations. It follows

that internal control is designed and implemented to address identified risks that threaten the achievement of any of these objectives. Internal control consists of the following components:

- a. The control environment
 - b. The entity's risk assessment process
 - c. The information system, including the related processes, relevant to financial reporting, and communication
 - d. Control activities and
 - e. Monitoring of controls
32. Each Auditor shall obtain a good understanding of the internal controls relating to the design and implementation of controls relevant to the audit. In the evaluation of the above, some of the categories of control will be performed on a financial statements level (control environment, risk assessment process), and some of it (such as control activities) will be documented and evaluated for each audited component. The designs of controls are adequate when they can prevent or detect misstatements and errors. Where controls are not appropriately designed, the Auditor should not consider its implementation but report the ineffective design to management.
33. In obtaining the understanding of internal controls, the Auditor shall take the following into account:
- a. Any additional reporting responsibilities regarding internal controls
 - b. Relevant controls that relate to compliance with authorities.
 - c. Controls related to monitoring performance against the budget
 - d. Controls related to transferring budgetary funds to other entities
 - e. Supervision and other controls may be performed by parties outside the entity and relate to areas such as compliance with procurement regulations, execution of the budget, other areas as defined by legislation or audit mandate and management's accountability

Control Environment

34. The Auditor shall obtain an understanding of the control environment. The control environment includes aspects of governance, management functions, behaviour and attitudes, underlying culture, actions to prevent and detect fraud and error, commitment to ethical values and competence.
35. Even though for some of these elements, documented evidence may be difficult to obtain (for example management's attitude and awareness), the assessment of the control environment should not only be based on inquiries

and discussions. Conclusions drawn should be linked back to documented policies and procedures or lack thereof.

Information System, and the Related Processes, relevant to Financial Reporting

36. The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures and records established to initiate, record, process, and report the entity's transactions (as well as events and conditions) and to maintain accountability for the related assets and liabilities.
37. Auditors shall obtain an understanding of the information system, including the related processes, relevant to financial reporting, including the following areas:
 - a. The classes of transactions in the entity's operations that is significant to the financial statements
 - b. The procedures, within both IT and manual systems, by which those transactions are initiated, recorded, processed and reported in the financial statements
 - c. The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial statements, in respect of initiating, recording, processing and reporting transactions
 - d. How the information system captures events and conditions, other than classes of transactions that are significant to the financial statements
 - e. The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures
 - f. Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.
38. Auditors should obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:
 - a. Communication between management and those charged with governance and
 - b. External communication, such as those with regulatory authorities.

Control Activities

39. Auditors are to obtain sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to the assessed risks. Control activities are the policies and procedures that help ensure that management directives are

carried out; for example, that necessary actions are taken to address risks that threaten the achievement of the entity's objectives.

40. Examples of specific control activities include those relating to the following:

| Control activity | Description |
|------------------------|--|
| Authorization | How and by whom transactions are authorized are detailed in the procedures and included in the job descriptions of personnel. |
| Performance reviews | Performance contracts for personnel relate to the actual job performed. |
| Information processing | Detailed descriptions of information processing. This includes general and application controls. |
| Physical controls | Safeguarding of assets, for example controls over access to the inventory storeroom. |
| Segregation of duties | Different persons are responsible for: <ul style="list-style-type: none"> • Authorising a transaction/acquisition • Recording the details in the cash book/general ledger etc.. • Handling the goods/stock/assets |

41. Control activities implemented by management can also be categorised by determining whether the controls are preventative or detective. Preventative controls are controls with functions to prevent errors and misstatements from happening. Detective controls are controls with functions to detect and correct errors and misstatements after they already happened.
42. Implementing a preventative control is normally a better and more sustainable solution, but sometimes it takes longer to implement and can be more costly. In such cases a detective control can provide a temporary solution until the preventative control is implemented.

Monitoring of Controls

43. Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It includes pre-identified aspects such as the recognition of information monitored e.g. exception reports drawn from the system on large value spending on a monthly basis. These processes should be built into the normal recurring activities of an entity and include regular management and supervisory activities. The Auditor shall evaluate the sources of information used to monitor and evaluate whether such information is reliable. Corrective actions taken in response to management's monitoring activities should be evident.
44. Management should also make effective use of internal audit to contribute to the monitoring of an entity's activities. Auditors should evaluate the responsibilities of the internal audit function and its position/influence in the

entity's organizational structure; and the activities performed, or to be performed, by the internal audit function.

Consideration of Fraud

45. Misstatements in the financial statements can arise from either fraud or error. The distinction is that fraud is caused intentionally while an error is unintentional. In the public sector, any suspected fraud or significant irregularity has to be investigated by the auditors. There are two types of fraud - fraudulent financial reporting and misappropriation of assets. Although the Auditor may suspect or in rare cases, identify the occurrence of fraud, he/she does not make legal determinations of whether fraud has actually occurred.
46. Fraud or fraudulent financial reporting may be accomplished through:
- a. Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared.
 - b. Misrepresentation or omission of transactions, events or other significant information from the financial statements
 - c. Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure
 - d. Abuse, including the misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.
47. Misappropriation of assets can be accomplished in a variety of ways including:
- a. Embezzling receipts (e.g. misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts)
 - b. Stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a third party by disclosing technological data in return for payment)
 - c. Causing an entity to pay for goods and services not received (for example, payments to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating prices, payments to fictitious employees) and
 - d. Converting an entity's assets to personal use (for example, using the entity's assets as collateral for a personal loan or a loan to a related party).
48. Fraud is usually committed when certain factors are present thus:
- a. Incentive or pressure to commit fraudulent financial reporting when management is under pressure to achieve an unrealistic target. In the public sector, employees or management may be under pressure to deliver high quality services with inadequate resources and to meet budgets

- b. There is an **opportunity** to commit fraud when internal control can be overridden. Lack of skills, high volume low value cash transactions may be prevalent in the operations
 - c. **Rationalization** of the act of fraud when staff (including management) has ethical values allowing them to commit a dishonest act.
49. The primary responsibility for fraud prevention and detection rests with management and those charged with governance or oversight. Auditors are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
50. However, due to inherent limitations of an audit, there may be some material misstatements which may not be detected, however the Auditor may plan and performed the audit. This is particularly true for fraud where the risk of not detecting a material misstatement resulting from fraud is higher than other misstatements resulting from error. The following scenarios may be the position:
- a. Person(s) committing fraud will try to conceal it and in most cases also involve sophisticated and carefully organized schemes to do so. These may include forgery or deliberate failure to record transactions etc..
 - b. Collusion between more than one employee is usually an aspect which will make detection of fraud particularly difficult during routine audit
 - c. Fraud involving management whereby accounting records are easily manipulated, present fraudulent information, overrun control procedures.
51. For this reason, an attitude of professional skepticism is vital for the Auditor throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist and internal controls effective to discover errors may not be effective to discover fraud. This should also apply to revenue collection and capital contracting e.g. appointment of contractors

Responsibilities of Auditors

52. The objectives of the Auditor are to identify and assess the risks of material misstatement of the financial statements due to fraud and also to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses. Finally, the Auditor shall respond appropriately to fraud or suspected fraud identified during the audit.
53. The relative importance of the risk factors varies among engagements and entities from critical to insignificant. Accordingly, the team should exercise considerable professional judgment when considering the risk factors, individually and in combination. When considering the presence of risk factors,

the team should consider whether there are other factors or specific controls that mitigate or exacerbate the risk factors that have been identified.

54. Auditors should identify and assess the risks of material misstatement due to fraud at the financial statements level, and at the assertion level for audited components.
55. Also, Auditors should be able to identify the **red flags (fraud risks)** in a particular audit area. Red flags are anomalies that point to symptoms or indicators that are to be associated with fraud such as:
 - a. Invoices without matching orders (Occurrence or validity of expenditure)
 - b. Payments made without matching invoices
 - c. Over invoicing and under delivery by suppliers
 - d. There is poor segregation of duties in asset management
 - e. Poor physical security of assets (Asset management - existence of assets)
 - f. Lack of controls relating to complete recording of income received
 - g. Fees charged are less than fair market value (Completeness of revenue)
 - h. Goods or services are price highly compared to the market.
56. To respond to the risk of management override of controls, Auditors should design and perform audit procedures to:
 - a. Test the appropriateness of material journal entries recorded in the general ledger especially around the financial year end and making inquiries about any unusual or inappropriate activity relating to the processing of journals
 - b. Review accounting estimates for biases that could result in material misstatement due to fraud.
57. **During the evaluation of audit evidence:** The Auditor should consider whether analytical procedures that are performed at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole are consistent with his/her knowledge of the auditee indicate a previously unrecognized risk of material misstatement due to fraud. Unusual or unexpected relationships in for example revenue accounts may indicate manipulation of financial information.
 - a. For identified misstatements, the Auditor should consider whether there is an indication of fraud. If there is such an indication he/she should consider the implications of this in the light of other aspects of the audit, particularly the reliability of management representations
 - b. Consider the audit report when the financial statements are materially misstated as a result of fraud, the Auditor should consider the implications for

the entire audit. The reliability of evidence previously obtained when there is a possibility of fraud should be considered

- c. If, as a result of a misstatement resulting from fraud or suspected fraud, the Auditor encounters exceptional circumstances that bring into question his/her ability to continue performing the audit, he/she should consider the following:
 - i. Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for him/her to report separately to regulatory authorities
 - ii. Identify whether there is a need to request the help of forensic auditors where applicable
 - iii. Obtain written representations from management relating to their responsibilities and knowledge of fraud (*refer to working paper 2B Management representation letter*)

Communication of Fraud

58. Where an Auditor identifies fraud or obtain information that indicates that fraud may exist, he/she should communicate such to the appropriate level of management and to those charged with governance such as the Permanent Secretary or equivalent immediately.
59. The Auditor should consider whether there are other matters related to fraud to be discussed with those charged with governance of the entity when it is relevant to their responsibilities.

Procedures Regarding Litigations and Claims

60. Litigations and claims involving an entity may have a material effect on the financial statements and thus may be required to be disclosed and/or provided for in the financial statements. Auditors may also have additional reporting responsibilities for example identifying future claims and potential wider consequences of those claims.
61. Auditors should carry out audit procedures in order to be aware of any litigation and claims involving the entity which may result in a material misstatement of the financial statements. Such procedures would include the following:
 - a. Inquire by obtaining written representations from management
 - b. Inquire from the central legal department which administers claims against the government where applicable
 - c. Review of minutes of those charged with governance and correspondence with the entity's legal counsel
 - d. Use any information obtained regarding the entity's operations including information from discussions with any in-house legal department and

- e. Any other information which may assist in identifying litigations and claims including media reports, general public and stakeholder feedback
62. When existing litigation and claims have been identified, the Auditor should seek direct communication with the entity's legal counsel. The letter, which should be prepared by management, should request the entity's legal counsel to communicate directly with the Auditor.

Assessing the Risks of Material Misstatement

63. Risk of material misstatement refers to the fact that the financial statements may be materially misstated prior to audit. The risk of material misstatement consists of two components, namely:
- a. Inherent risk The susceptibility of a class of transaction, account balance or disclosure to a misstatement that could be material
 - b. Control risk The risk that a material misstatement could occur and go undetected by the entity's internal control means.
64. Throughout the strategic planning process and the whole audit exercise, the Auditor should identify risks of material misstatements. The risks of material misstatement should be assessed at the financial statements and assertion levels. For this purpose, the Auditor should carry out the following:
- a. Identify risks by considering the entity and its environment, including relevant controls, and by considering the classes of transactions, account balances, and disclosures in the financial statements
 - b. Relate the identified risks to what can go wrong at the assertion level
 - c. Consider the significance and likelihood of the risks. Significant risks require special audit consideration or risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. Auditors are required to evaluate the design of the entity's controls, including relevant control activities, over such risks and determine whether they have been implemented.

Significant Risks that Require Special Audit Consideration

65. As part of the risk assessment, Auditors should determine which of the risks identified are, in his/her judgment, risks that require special audit consideration (such risks are defined as "significant risks").
66. The application of the following criteria can be used to determine whether the identified risk is significant:
- a. Risk of fraud (e.g. susceptibility of assets to misappropriation)
 - b. Motivation to misstate results
 - c. Non-routine or unusual transactions
 - d. Transactions involving related parties

- e. Complex transactions
 - f. Significant estimations with high degree of subjectivity
 - g. Audit adjustments or differences in prior year's audit.
67. In deciding on the significance of a risk, the Auditor should exclude the effects of identified controls related to the risk. The following may also influence the fact as to which risks are significant:
- a. Complexity and inconsistency in regulations and directives
 - b. Non-compliance with authorities
 - c. The budget process and the execution of the budget
 - d. The budget in the public sector is an authoritative tool determined by the legislature. Auditors therefore normally include the budget process as an essential part of their understanding of the entity and its environment, and of the risk assessment, rather than only as a management procedure.
68. For significant risks, to the extent that Auditors have not already done so, they should evaluate the design of the entity's related controls, including relevant control activities, and determine whether these have been implemented. This is done during the compilation of system descriptions during detailed planning.

Communicating with those charged with Governance

69. Effective two-way communication between Auditors, management and the accounting officer is an essential part of audit. Communication assists the Auditor and those charged with governance as follows:
- a. In understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the independence and objectivity of the Auditor
 - b. To obtain and to provide information relevant to the audit. For example, those charged with governance may assist the Auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events
 - c. To provide timely observations to and assist in fulfilling the responsibility of those charged with governance in overseeing the financial reporting process, thereby reducing the risks of material misstatement of the financial statements.

Whom to Communicate

70. Firstly, Auditors need to identify the appropriate person(s) within the entity's governance structure with whom to communicate. In this instance, governance responsibilities may exist at several organizational levels as well as in several functions (i.e. vertically or horizontally). As a result, there may be instances where there are several distinct groups which are identified as those charged with governance such as the Permanent Secretary, Chief Executive/General Manager of agency etc..

71. In situations where matters are communicated to subgroups of those charged with governance (such as an audit committee or an individual) Auditors may need to convey the information in full or in summary, to the governing body as a whole. Auditors need to be particularly sensitive to meet the needs and expectations of the legislature or appropriate regulators about matters communicated to other governance levels, particularly where the matters may be of broad public interest.
72. **What to Communicate:** Auditors (Team leader) should communicate to those charged with governance, matters identified during the normal course of the audit.
73. **Significant findings:** Communication includes significant findings noted during the audit and other matters, which are in the Auditor's professional judgment critical to the oversight of the financial reporting process. Auditors may have access to information relevant to those charged with governance from auditing other entities in government, such as material errors in transactions with the audited entity which also affect other entities, or designs of relevant controls which have provided efficiency gains in other entities. Communicating this type of information to those charged with governance may add value to the audit when circumstances permit. However, legislation, regulation, or ethical requirements may prohibit communicating this type of information.
74. Other issues to disclose could be significant difficulties which could be encountered during the audit and may include such matters as delays in management providing required information or the unavailability of expected information and restrictions imposed on by management.

Communication of internal control weaknesses to management and to those charged with governance

75. Auditors should identify internal control deficiencies during the audit. In principle, all misstatements are caused by inadequately designed or not properly functioning internal controls. Internal controls are deficient if their design or operation does not prevent or detect material misstatements on a timely basis. Auditors may also have additional responsibilities to report such control weaknesses to those charged with governance and to other parties such as the legislature.
76. When one or more internal control deficiencies have been noted during the audit, the Auditor concerned should evaluate whether the deficiencies alone (or when combined together with other weaknesses) is/are significant to warrant communication to those charged with governance. Control weaknesses in many instances will be related to non-compliances to legislative requirements. For all control weaknesses, Auditors should identify the relevant regulation which was not observed by the auditee.

How and when to Communicate

77. The purpose, form and persons involved in the communication are determined by the Communication policy of Kaduna State Auditor General.
78. Communication should take place on a timely basis. This is especially important when the audit takes place throughout the year or when an interim audit is performed.

Documentation

79. Auditors should document the following:
 - a. The discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to error or fraud, and the significant decisions reached
 - b. Key elements of the understanding obtained regarding each of the aspects of the entity and its environment, including each of the internal control components, to assess the risks of material misstatement of the financial statements; the sources of information from which the understanding was obtained, and the risk assessment procedures
 - c. The identified and assessed risks of material misstatement at the financial statement and assertion levels
 - d. The risks identified and related controls evaluated as a result of the requirements.
80. Auditors should document the overall audit strategy and the detailed audit plan, as well as significant changes to those documents made during the audit and the reasons for such changes. Also, audit documentation may be subject to third party access. As a result, Auditors should be familiar with relevant legislation and determine the implications on their audit documentation.

SECTION III

DETAILED PLANNING

1. This section is divided into the following subjects and paragraphs:

| <u>Subject</u> | <u>Paragraphs</u> |
|---|-------------------|
| IIIA. Identification of the Audit Process, Key Risks and Controls | 2 - 26 |
| IIIB. Audit Sampling | 27- 75 |

IIIA. Identification of Audit Process, Key Risks and Controls

2. The detailed audit plan should include the documentation of the nature, timing and extent of audit procedures to be performed including the documentation of each of the following audited components:
- a. Procedures necessary to obtain the relevant audit assurance covering all relevant assertions and requirements (for example reporting non-compliance with certain laws or regulations relating to budget or procurement)
 - b. The extent of testing based on the assessed inherent and control risks.

Systems Description

3. The responsibility of an Auditor at this stage is to understand the operations of the organization for each audited component. This is critical to the remainder of the audit and determines amongst others, the types of audit tests e.g. test of controls as well as the nature of such procedures. On completion, the system descriptions should inform anyone reading it as to the risks and controls, as well as an assessment of those risks and controls. The risks and controls relate to the point of transaction within its life cycle. For example, the risks relating to the procurement of an asset are specific and different to those surrounding the usage of the same asset.
4. In addition, the system description is the first step to detailed planning and should be completed for all components. It starts with the identification of key activities in the transaction life cycle. After this, risks and management controls that should be instituted for the risks are documented.

Legislation and Internal Policies of the Auditee

5. The first requirement before completing the System description working paper would involve the Auditor identifying the legislative requirements applicable to the relevant component. The common requirements relating to any audit

component (such as plant/equipment and motor vehicle) are determined as follows:

- a. Legislation or policy (e.g. Financial Regulations) relating to the audited component and
 - b. Internal policy or procedures of the audited entity.
6. Normally, legislation is a high level instruction whilst the internal policy is more detailed and would include operational aspects. Legislative requirements are normally straight forward and easy to obtain. Internal documents of the entity may take different forms such as policies and procedures.

Transaction life cycle, Risks and Controls

7. For each documented activity in the transaction life cycle such as payroll, revenue, purchases etc., key risks should be identified. Here the question is asked: What can go wrong? For example, where the activity is identified as 'Receiving goods' the risk associated with this may be 'Loss of goods through theft'. Completing this aspect is still theoretical and requires an understanding of possible risks the audited entity may face. Since this working paper is completed for each component, it is important to keep in mind that key risks should be identified.
8. Risks identified in the Inherent risk on financial statements level working paper that links to the audited component should be included in the system description of the component. For each identified risk, key controls are identified. Management controls include controls that are aimed at preventing the misstatements or errors from happening, or detect them once they already happened. Preventative controls would include a routine procedure to check the condition and quantity of goods received on arrival to the information on the delivery documents. Detective controls would include the independent checks and monitoring of significant transactions (through for example exception reports) by management.
9. As a rule, the preventative controls are the best controls in terms of cost effectiveness. The cost of detective controls includes corrections that need to be made after an error has occurred. The key controls will include both preventative and detective controls that exist in the audited entity. Any legislative requirements prescribing controls to be in place should be kept in mind.

Identification of Assertions

10. Assertion that the relevant control addresses should be identified here. Assertions are statements that the Auditor normally uses to focus on his/her audit. Audit components have different risks that are material to the audit. Consequently, when looking at a specific component, the Auditor should be able to identify whether one assertion is more important than the other. For

example, testing the existence of assets is more important than testing completeness. In turn, completeness of revenue collected is normally more important than evaluating whether a transaction has occurred for the recorded revenue. This may vary on each audit considering the specific risks that may be relevant.

11. The Auditor uses assertions in assessing risks by considering the different types of potential misstatements that may occur, and thereby designing audit procedures that are responsive to the assessed risks.
12. Assertions about classes of transactions and events for the period under audit; such could involve:
 - a. Occurrence - transactions and events that have been recorded have occurred and pertain to the entity
 - b. Completeness - all transactions and events that should have been recorded have been recorded
 - c. Accuracy - amounts and other data relating to recorded transactions and events have been recorded appropriately
 - d. Cut-off - transactions and events have been recorded in the correct accounting period
 - e. Classification - transactions and events have been recorded in the correct accounts
 - f. Value for money - transaction or event relating to expenditure represents the economical acquisition as well efficient and effective use of resources
 - g. Compliance - Transactions and events have taken place in compliance with all relevant laws and regulations and the annual budget of the entity.
13. Assertions about account balances at the end of the period are as follows:
 - a. Existence - assets, liabilities and equity interests exist
 - b. Rights and obligations - the entity holds or controls the rights to assets, and liabilities are the obligations of the entity
 - c. Completeness - all assets, liabilities and equity interests that should have been recorded have indeed been recorded
 - d. Valuation and allocation - assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded
 - e. Value for money - transaction or event relating to assets, inventory and liabilities represents the economical acquisition as well as efficient and effective use of resources.

Decisions made on the System Description

14. Is the risk significant? Once the Auditor has identified and documented the risk, he/she will then go on to assess whether the risk is significant. The criteria for significance are:
 - a. Risk of fraud or misappropriation (e.g. if it was found that assets can be lost due to employee theft and there were problems experienced in the past)
 - b. Motivation to misstate results (large incentives for meeting performance targets will motivate non-recording of expenditure to stay within budget)
 - c. Non-routine or unusual transactions with significant human error factor
 - d. Complex transactions and calculations which are effected manually
 - e. Significant estimations with a high degree of subjectivity as it would be in the case of a doubtful debt calculation;
 - f. Audit adjustments or differences in prior year's audit relating to a specific aspect of the relevant component (e.g. asset management).
15. The decision based on most of the above categories relies on the professional judgement of the Auditor. However, due to fraud risk, the following areas should be identified as significant risk areas:
 - a. Occurrence of expenditure;
 - b. Completeness of other revenue collected;
 - c. Existence of assets.
16. In the case the risk falls into any of the above categories, it is identified to be a significant risk. It will then be required that all controls related to the significant risk be assessed and tested.
17. **Have controls been implemented?** The assessment whether controls have been implemented is done by performing a walkthrough(s). A transaction is selected and traced through the transaction life cycle activities. Supporting documents are then obtained and inspected as proof that all controls have been performed and consequently implemented. The purpose of this exercise is to identify whether the controls documented are actually in place and functioning.
18. The walkthrough should include all identified controls. Where the item selected is not covered by all the controls, another transaction should be selected. For example, it may be prescribed that an IT asset (laptop) should be received by the IT section and not through regular processes. In order to walk through the processes for receiving assets, the Auditor should select an IT asset in addition to the regular asset. For the activities where the processes are similar for all groups of assets, it is sufficient to only use one asset for the walkthrough.

19. **When to raise an audit query (exception)?** Audit queries should be raised by the team leader in any of the following instances:
- a. Legislation is not translated into operational procedures (e.g. requirements are not operational through standard procedures)
 - b. Processes are in place but not formalized and documented. Undocumented, ad-hoc processes - even if followed diligently by employees - do not facilitate accountability or sustainability
 - c. Any non-compliance with the legislation or internal policy of the audited entity
 - d. Lack of implemented management controls for the identified risks.
20. Once a documentation of the transaction lifecycle with assessment of risks and controls is made, the Auditor is in a position to evaluate the controls and design audit tests. It is important that he/she is aware of the standards required to complete the documentation.

Audit Procedures in Response to risks of Material Misstatement

21. An Auditor should design and perform further audit procedures whose nature, timing and extent are in response to the assessed risks of material misstatement at the assertion level. Auditors should document the nature, timing and extent of planned audit procedures using the relevant working papers). The purpose is to provide a clear linkage between the nature, timing and extent of these audit procedures and the related risk assessment. In designing further audit procedures, the auditor should consider the following:
- a. The significance of the risk
 - b. The likelihood that a material misstatement will occur
 - c. The characteristics of the class of transactions, account balance, or disclosure involved
 - d. The nature of the specific controls used by the entity and in particular whether they are manual or automated
 - e. Whether the Auditor expects to obtain audit evidence to determine if the entity's controls are effective in preventing, or detecting and correcting, material misstatements. The nature of the audit procedures is of utmost importance in responding to the assessed risks.
22. Auditors' assessment of the identified risks at the level of assertion provides a basis for considering the appropriate audit approach and for designing and performing further audit procedures. The higher his assessment of risk, the more convincing audit evidence(s) needs to be obtained.

Audit of Inventory

23. When inventory is a material balance in the financial statements, Auditors should attend a physical counting; unless it becomes impracticable then the following should be applied:
 - a. Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting
 - b. Observe the performance of management's count procedures;
 - c. Inspect the inventory and perform test counts
 - d. Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.
24. Additional procedures should be performed when the physical counting is conducted at a date other than the date of the financial statements to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded.
25. Where the Auditor is unable to attend physical counting, he/she should make or observe some physical counts on an alternative date and perform audit procedures on intervening transactions or perform alternative audit procedures regarding the existence and condition of the inventory. If it is not possible to do so, the Auditor shall modify the opinion in his/her report. The Auditor's response may be influenced by the fact whether the limitation was imposed by management rather than by for example legislation or regulation.
26. When inventory under the custody and control of a third party is material to the financial statements, the Auditor shall obtain audit evidence regarding the existence and condition of that inventory by performing one or both of the following:
 - a. Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity
 - b. Perform inspection or other audit procedures appropriate in the circumstances.

IIIB. Audit Sampling

27. An Auditor should identify the items or transactions on which to perform audit procedures, appropriate for the purpose. This should be done in order to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures including when the objective is to evaluate the compliance with laws and regulations. The objective is to provide a reasonable basis for the Auditor to draw conclusions about the population from which the sample is selected.
28. The means available to the Auditor for selecting items for testing are:

- a. Selecting all items (100% examination). This may be appropriate when, for example:
 - i. The population constitutes a small number of large value items
 - ii. There is a significant risk and other means do not provide sufficient appropriate audit evidence or
 - iii. The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.
 - b. Selecting specific items such as high value or abnormal items and
 - c. Audit sampling.
29. Auditors will hardly be able to test 100% of the items identified for testing. "Audit sampling" (sampling) involves the application of audit procedures to less than 100% of items within a population of audit relevance in such a way that all sampling units have an equal chance to be selected. It is in effect a process at the end of which items to be tested are identified. This will enable the Auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Sampling can use either a statistical or a non-statistical approach with the main aim of reducing the audit risk to an acceptably low level.

Statistical Versus non - statistical Sampling Approaches

30. The decision whether to use a statistical or non-statistical sampling approach is a matter for judgment of the Auditor regarding the most efficient manner to obtain sufficient appropriate audit evidence in the particular circumstances.
31. When applying statistical sampling, the sample size can be determined using either probability theory or professional judgment. The methodology prescribed in this manual utilizes the principles of non-statistical sampling.

Sampling Process

32. The sampling process includes 6 steps which are discussed in detail below:
 - a. Step 1: Identifying the population to be tested
 - b. Step 2: Identification of high value and abnormal items
 - c. Step 3: Determining the sample size
 - d. Step 4: Selecting items for testing
 - e. Step 5: Performing the audit procedures
 - f. Step 6: Evaluation of sample results

Step 1. Identifying the Population to be Tested

33. The population to be tested should be transactions underlying an account balance. It is the entire set of data on which the Auditor must obtain assurance for the audit opinion. If the audit procedure is not applicable to the selected item, he/she should perform the procedure on a replacement item. For example, when testing the payroll costs, individual payments would constitute the population. It is vital that an appropriate and complete population is identified for each procedure. Another example is when auditing service bonuses; the Auditor should exclude the employees without service bonuses from the sample. The population would then only constitute employees with service bonuses.
34. Transactions constituting the population should cover the entire financial year. If sampling is done for an interim audit that includes only part of the financial year additional sampling will have to be done during the final audit.
35. Sometimes it is found that the Auditor may sample from the same population to perform different kinds of audit tests. In other words, he/she may decide not to draw separate audit samples for each test but use the same samples already drawn from the relevant population to perform all applicable audit tests. For instance, a sample of payments drawn to test controls may be used to test compliance with authorities, as well as other substantive tests. This may be done as long as the sample sizes remain appropriate in relation to the risk and materiality.
36. Auditors may need to sample non-financial information as a result of additional public sector audit objectives. For example, if the financial statements of a government hospital use number of patients treated to calculate key performance measures (such as cost per patient), the Auditor may obtain sample to test the accuracy and completeness of the number of patients reported. To draw a sample for such non-financial information, the Auditor should use the judgmental sampling approach detailed below.

Step 2. Identification of High Value and Abnormal Items

37. **Stratification:** It is the process of dividing a population into lower units with similar characteristics, specifically for substantive testing. During such process, for example, the high value transactions will be separated from the population and included in the sample to be tested. When auditing valuation of accounts receivable, it can be stratified by aging whereby long outstanding debtors are separated from the population and tested.
38. Concerning sampling for tests of control, items are selected regardless of their value, with a view to testing the effective functioning of the controls. Stratification may not be used in such cases.
39. When performing substantive tests, the Auditor uses sampling to test the amounts in the financial statements. For this purpose, the sample frequently

consists of items of a higher value. Stratification is a useful aid in that it allows testing of a high proportion in value of the population with relatively few items.

40. **Sampling units** are the individual items comprising the population. They may be defined as a document, an entry, a line item, a balance or a transaction. The decision will be based on the practicality of selecting the sampling units.
41. Detailed tests are to be performed for either overstatement or understatement. The nature of the account being tested generally determines whether one would test for overstatement or understatement. This is also commonly known as the direction of testing. Assertions that normally require the balance to be tested for overstatement include occurrence, accuracy, and compliance with laws, rules and regulations as well as valuations. Assertions that normally require testing for understatement include completeness, cut off, value-for-money and disclosure.
42. When testing for overstatement, selections should be made directly from the population being audited. This is because the population will already include the 'overstated' amounts, for instance expenses in the ledger.
43. In the case of understatement tests, items are selected for examination from an independent population. For instance, when testing revenue for understatement or transactions that were not recorded, receipts issued and invoices appearing on relevant statement (e.g. debtor's statement) will be selected.

Step 3: Determining the Sample Size

44. The Auditor should select items for the sample with the expectation that all sampling units in the population have a chance of selection. The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment objectively applied to the circumstances. This manual will only deal with judgmental sampling. The following is relevant:

| Type of control | Moderate control reliance | High control reliance |
|--|---------------------------|-----------------------|
| Detailed controls: Controls performed randomly - mostly more than once a day e.g. authorization of payment vouchers | 30 selections | 50 selections |
| Daily controls: Performed daily e.g. banking, counting cash etc.. | 10 selections | 20 selections |
| Monthly controls: Controls performed monthly, e.g. bank reconciliations | 2 selections | 5 selections |

Tests of Controls

45. For tests of controls, the following table can be used to determine the appropriate sample size: Factors affecting the number of selections for testing controls are as below:
46. Factors affecting the number of selections for testing controls are as below:
- The lower the level of reliance placed on the controls tested, the lower the number of selections required
 - Where a risk factor has been identified for a specific transaction type, the number of selections will increase
47. Control testing will only be performed when the Auditor is confident that controls for the audit component are adequate. It is clear that the lower the level of reliance placed on the controls tested, the lower the number of selections required for control testing. Low reliance on controls will require more assurance to be obtained through substantive procedures.
48. **Substantive Procedures:** When an Auditor is required to obtain substantive assurance on the account balance, there is a process to be followed. Firstly, he/she should look at the characteristics of the population and decide whether to use judgmental or systematic sampling to determine the sample size.

Judgmental Sampling

49. Judgmental sampling would be applied when:
- Account balance tested has relatively few transactions (up to 150-200 transactions); for example, when sampling from 70 asset acquisition transactions for the year.
 - No financial amount can be clearly identified, for example, when testing cut-off for expenditure, appointments, resignations, etc..
50. The number of transactions to be tested is given, depending on whether the transactions in the population are largely routine, (e.g. daily or monthly generated). The following sample sizes are applicable when judgmental sampling is applied:

| | Indication of the number of transactions to be tested | | |
|----------------------|---|-------------------------------|---------------------------|
| | No reliance on controls | Moderate reliance on controls | High reliance on controls |
| Routine transactions | 50 | 40 | 30 |
| Daily transactions | 20 | 15 | 10 |

| | | | |
|-------------------------|---|---|---|
| Monthly reconciliations | 5 | 3 | 2 |
|-------------------------|---|---|---|

Systematic Sampling

51. Systematic sampling is normally applicable for large numbers of transactions in the population with similar characteristics. In this case, it is most practical for the Auditor to obtain the list of transactions in electronic format - spreadsheet, which will make sample selection (and also stratification) easier. This sampling method would be applied to expenditure and revenue transactions.
52. When systematic sampling is chosen, the process defined here should be documented in the Sampling worksheet. It is as follows:
 - a. Identify and document total account balances (this includes the completeness and integrity of the population)
 - b. Stratify the population by identifying material and unusual items (such as credit balances in debtor accounts)
 - c. Remove the identified material and unusual items (the Auditor should consider materiality as a guide)
 - d. Calculate and document the remainder of the account balance.
53. For the remainder of the account balance, the following actions can be applied:
 - a. No further tests to be performed (enough assurance is already obtained as per the percentage coverage or number of transactions identified)
 - b. Applying analytical procedures such as comparison of year on year expenditure, month on month, or budgeted to actual expenditure
 - c. Calculate the sample size to be tested (see further guidance below) and
 - d. Test more significant items (further stratification of the next layer of high value transactions).
54. The calculation of the sample sizes requires information on the inherent and control risk assessment at account balance and transaction levels.
55. When the calculated sample size is less than 10 transactions for an account balance, it is advised that a minimum of 10 transactions are selected for testing. This is not applicable when the population is less than 10.
56. Whenever information is being presented on sample sizes, a summary should be provided on the account balance and if possible to include the total value of the population and the number of items. The sample selected should then (if appropriate) relate back to the population total. The working paper provided assists the Auditor in presenting the information.

57. The sample selection and size will be dependent on the type of account balance. The table below provides examples on identifying the population and considerations to determine the sample sizes for typical account balances.

| Account balances (Lead schedule) | Population | Pointers on assurance obtained |
|--|---|--|
| Voted Funds / Revenue received from Government | Amounts received from Government. | Total amounts received and recorded can be agreed with amounts voted/appropriated. |
| Interest received | Interest received amounts for the year. | Amounts received to be agreed with bank statements Substantive analytical procedure: Reasonability check through recalculating interest on outstanding balances. |
| Other income | Supporting documents including contracts/agreements or receipts to test completeness; | Substantive analytical procedures, and analytical reviews may provide good (but not complete) assurance. Substantive analytical procedures may include the recalculation of income which should have been received and comparing with what was recorded and banked. |
| Expenditure other than personnel costs | Two sample units: Recorded transactions in the ledger (occurrence). | Contracts/agreements if significant. Recorded transactions are compared to valid supporting documentation (occurrence). Usually systematic sampling if followed to sample from items recorded in the ledger. |
| Personnel costs | <ul style="list-style-type: none"> o Employees (occurrence); and o Recorded monthly salary (Accuracy, measurement). | <p>Most of the required assurance can be obtained through analytical procedures. E.g. number of staff multiplied by the salary band midpoint per month should be compared with amount in financial statements (refer to the evaluation of analytical procedures).</p> <p>Analytical procedures should be supported by independent testing for existence of staff.</p> <p>Systematic sampling may be applied to the payments in the general ledger.</p> <p>Certain elements of personnel expenditure may require additional assurance due to their specific risk. Judgmental sampling may be applied (when applicable) for the audit of the following:</p> <ul style="list-style-type: none"> o Overtime - Occurrence, accuracy; o Service Bonuses - Occurrence, accuracy, existence; o Leave - Occurrence, accuracy; o Allowances - Occurrence, accuracy; and o Appointments/Terminations/Promotions - Occurrence, existence, accuracy. |
| Fixed assets | <ul style="list-style-type: none"> o Line item on fixed asset / inventory register (Existence); and | <p>Systematic sampling for line items in asset register.</p> <p>Focus should be on additions and disposals (judgmental sampling may be applicable) during the</p> |

| Account balances (Lead schedule) | Population | Pointers on assurance obtained |
|----------------------------------|---|--|
| | <ul style="list-style-type: none"> o Physical assets (Completeness). <p>In the absence of a register, what are the primary risks? These could be safeguarding and inappropriate utilisation of assets. Sample unit of specific risky items such as laptops should be identified from invoices and checked for key risks.</p> | <p>year especially if no reporting items on assets were raised in the previous year's audit.</p> <p>Physical inspection of assets back to the register is still essential.</p> <p>Re-performance of depreciation calculation to achieve assurance.</p> |

Step 4: Selecting Items for Testing

58. The next step is to identify the items of the population to be tested. Because the purpose of sampling is to draw conclusions about the entire population, the Auditor should endeavor to select a representative sample by choosing sample items which have characteristics typical of the population and the sample needs to be the selected samples to avoid bias. The following four methods may be used:
59. *Random Number Sampling: Random numbers may be generated by a computer (CAATs) or may be drawn from a random number table. The use of random numbers gives every sampling unit in the population the same probability of being selected.*
60. *Interval sampling: Interval sampling is to select sampling units randomly at uniform intervals throughout the population. The sizes of the population and the sample determine the uniform interval. The number of items in the population is divided by the required sample size to determine the interval. For example, a population of 10, 000 items divided by a required sample of 100 items would give a sampling interval of 100. Systematic sampling also gives every sampling unit the same probability of being selected.*
61. *Haphazard (judgmental) sampling: In haphazard sampling, the Auditor selects sampling units with no particular reason for including or excluding others. Auditors are however advised not to distort the sample by selecting only unusual items; items having one physical characteristic or omitting items such as the first or the last. Normally some form of Judgmental sampling is applied when relatively large error rates are anticipated, or when the total population is not known.*

62. Block sampling: A block sample consists of a group of contiguous sampling units. Auditors should question critically and evaluate carefully the use of block sampling. There are two potential weaknesses in block sampling:
- a. The improbability of each sampling unit having equal opportunity for selection
 - b. Attaining reasonable assurance that the sample is representative of the population

Step 5: Performing the Audit Procedures

63. Where a selected item is not appropriate for the application of the audit procedure, the audit procedure should be performed on a replacement item.
64. Sometimes however, Auditors may be unable to apply the designed audit procedures to a selected item because, for instance, documentation relating to that item has been lost. If suitable alternative audit procedures cannot be performed on that item, the Auditor ordinarily considers that item to be either a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of substantive tests.

Step 6: Evaluation of Sample Results

65. Auditors should evaluate the sample results, the nature and cause of any deviations or misstatements identified, and their possible effect on the particular audit objective and other areas of the audit. At the end, he/she should evaluate whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.
66. When analyzing the deviations and misstatements identified, Auditors should look out for common features, for example, errors on one type of transaction, location, product line or period of time. In such circumstances, they may decide to identify all items in the population that possess the common feature, and extend audit procedures to those items. In addition, such deviations or misstatements may be intentional, and may indicate the possibility of fraud when auditing significant fraud risk areas such as completeness of revenue, occurrence of expenditure and existence of assets.
67. Auditors should also consider instances where for example, management cannot provide adequate explanations for deviations and misstatements. In some environments such as a Court of accounts, auditors may be obliged to investigate further the underlying reasons for the lack of information and determine who is responsible. Additional responsibilities may also include reporting on the effectiveness of internal controls and non-compliance with authorities.
68. In the case of tests of controls, an unexpectedly high sample error rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained.

69. In extreme circumstances when the Auditor considers a misstatement or deviation discovered in a sample to be an anomaly, he/she should obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The Auditor should also obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.

Projecting Misstatements

70. In the case of substantive testing, unexpectedly high rate of misstatements in a sample may cause the Auditor to believe that an account balance may be materially misstated. This is the case for example when the total **accumulated errors and misstatements on the account balance projected to the total account balance exceed the tolerable misstatement.**

| | N |
|--|---|
| Total account balance audited (A) | |
| Total value of transactions tested (B) | |
| Total value of actual errors and misstatements (C) | |
| Projected errors / misstatements for the population $D=(C/B \times A)$ | |
| Tolerable errors / misstatements (E) | |
| Projected - tolerable errors / misstatements (F) | |
| Minimum recommended additional sample items to be selected (G): | |

71. The steps which should be followed by the Auditor are explained in the working paper.
72. **Step 6.1:** The final control reliance should be set at 'No reliance'. Control reliance should be re-stated where any (medium or high) reliance has been previously stated. Recalculate sample sizes where applicable and document the results of the additional audit tests. If F above is now stated positive, you can stop here. If F is still stated as a negative amount, proceed to step 2.
73. **Step 6.2:** Extend sample sizes further to identify actual misstatements and errors in the population. Letter G above indicates the minimum number recommended additional sample items for further tests. Note that this number is merely a guideline for the **minimum recommended** number of items to be tested based on the projected rate of misstatements regarding the items initially tested. It is important that decisions should be made by considering the specific circumstances of the audit. Where extending sample sizes is not practical or preferred for whatever reason, the impact of the projected misstatement exceeding the tolerable misstatement should be considered in the light of the audit report.

74. **Step 6.3:** Confirm whether after testing the additional sample items the projected misstatement is now below the tolerable misstatement ($F > 0$). If this is not the case it means that there was a higher rate of errors / misstatements identified for the additional items than initially projected. The initial projection was based on the assumption that errors and misstatements should occur at the same rate for the entire population. However, additional tests may yield higher errors in which case there may be a need to do further tests. This may be due to the fact that the original sample items included significant items which were found to be misstated. Where the projected error / misstatement figure still significantly exceeds the tolerable error / misstatement there may be a need to select transactions in addition to those stated in G above. Some minor (less than 5%) variations however, may be accepted by our auditors.
75. In certain cases, this may mean that Auditors choose to audit all the transactions for an account balance.

PART B

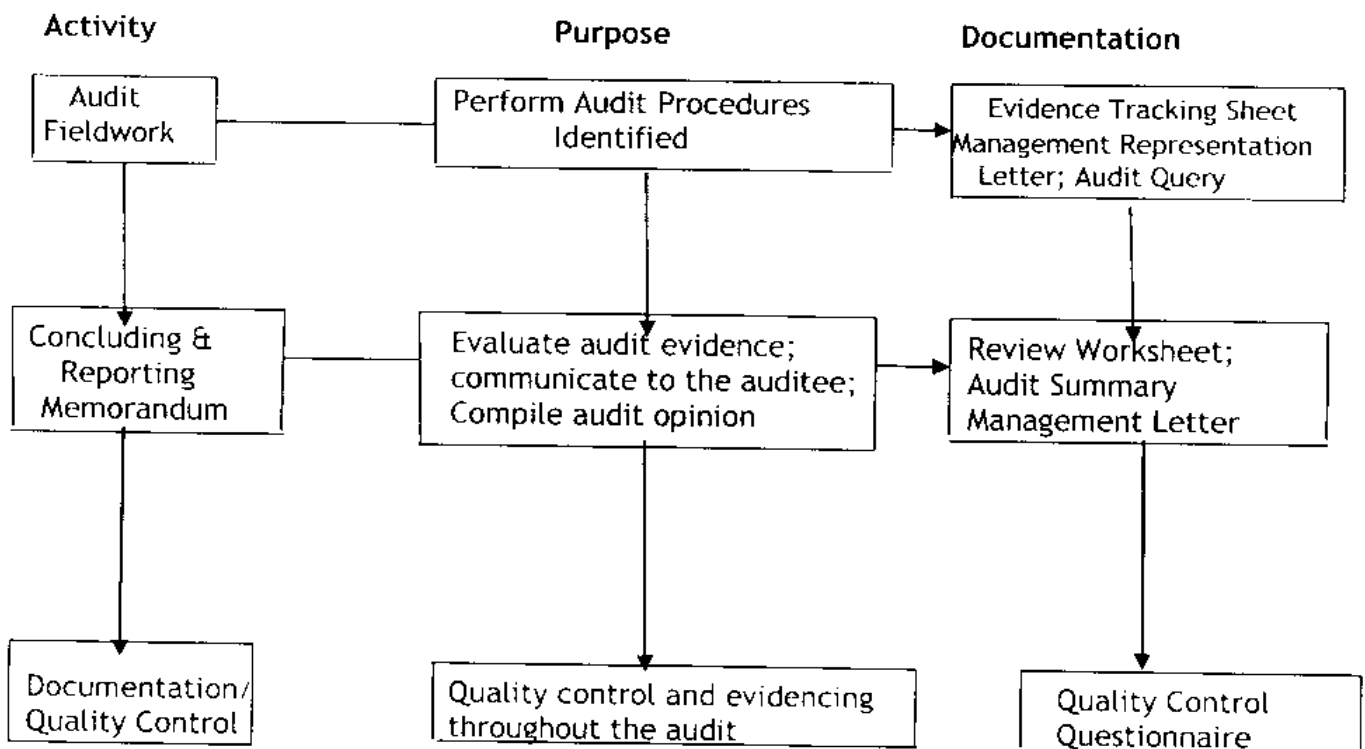
EXECUTION OF AN AUDIT ENGAGEMENT

SECTION IV

EXECUTING AN AUDIT

1. Part B of the Financial Audit Manual contains Sections IV, V and VI which entails the audit procedures for executing an audit.
2. As a general guide, the flow pertaining to the execution of an audit is shown below:

Flow Diagram for Executing an Audit



3. This section contains the following subjects:

| <u>Subject</u> | <u>Paragraphs</u> |
|-------------------------------|-------------------|
| IVA Obtaining Audit Evidence | 4 - 66 |
| IVB Management Representation | 67 - 71 |

IVA. Obtaining Audit Evidence

4. The purpose of this sub-section is to establish the standards and to provide direction on what constitutes audit evidence in an audit of financial statements. It also contains notes on the quantity and quality of audit evidence

to be obtained, and the audit procedures that should be applied to obtain audit evidence.

5. An Auditor should obtain sufficient appropriate audit evidence in order to draw reasonable conclusions on which to base his/her audit opinion.

Concept of Audit Evidence

6. "Audit evidence" is all the information used by the Auditor in arriving at the conclusions on which the audit opinion is based. It includes the information contained in the accounting records underlying the financial statements and also other information. Audit evidence is usually external; it could be documentation obtained from the auditee or other parties independent of the auditee. Evidence is information which may corroborate assertions or contradict them.
7. Audit evidence for the current audit may also include audit evidence obtained from other sources such as previous audits or performance audits.

Sufficient, Appropriate Audit Evidence

8. Audit evidence is necessary to support an audit opinion or report. Most of the work carried out by the Auditor consists of obtaining and evaluating audit evidence. Reasonable assurance is obtained when he/she designs and performs appropriate audit procedures for the purpose of obtaining sufficient appropriate audit evidence.
9. Sufficiency is the measure of the quantity of audit evidence or how much audit evidence is needed to provide an opinion. The extent of audit evidence needed is affected by the risk of misstatement (the greater the risk, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required).
10. Appropriateness is the measure of the quality of audit evidence or evidence which is relevant and reliable to form an audit opinion on the financial statements. This is particularly important when the Auditor uses evidence from prior year's audit or a performance audit. Accordingly, the sufficiency and appropriateness of audit evidence are interrelated. However, merely obtaining more audit evidence may not compensate for its poor quality. The following are applicable to the different types of evidence:
 - a. Audit evidence from independent sources outside the entity is more reliable than that generated internally; this refers to evidence such as bank confirmations, etc..
 - c. Audit evidence gathered internally is more reliable when the related controls are effective; for example, information included in the plant register is more reliable when it was found that controls are functioning effectively for assets management

- c. Audit evidence obtained directly by the Auditor (e.g. observation of the application of controls) is more reliable than that obtained indirectly (e.g. by enquiry regarding the application of controls)
 - d. Audit evidence in the form of documents and written representations is more reliable than oral representations; for example, evidence such as invoices for payments are more reliable as opposed to statements made by personnel of the audited entity during meetings or discussions. Oral evidence needs to be supported by other documented evidence. For instance, when during a discussion, lack of a monitoring mechanism is discovered, this should be a minute and get confirmed e.g. through a third party validation
 - e. Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies.
11. When the information is produced by the auditee, the Auditor should evaluate whether the information is sufficiently reliable including:
 - a. Obtaining audit evidence about the accuracy and completeness of the information
 - b. Evaluating whether the information is sufficiently precise and detailed
 12. In designing and performing audit procedures, consideration should be given to:
 - a. The relevance and reliability of the information to be used as audit evidence. Reliability of evidence may influence the type of audit procedures performed. Also, the passage of time may adversely affect the ability of performing certain procedures or the reliance of the effectiveness of controls
 - b. The means of selecting items for testing that are effective in meeting the purpose of the audit procedure
 13. In the case an Auditor finds out that audit evidence obtained from one source is inconsistent with that obtained from another; or the reliability of information is doubtful, he/she shall determine what modifications or additions to audit procedures are necessary to resolve the matter. The effect of this matter, if any, on other aspects of the audit should also be considered.
 14. Auditors should consider the relationship between the cost of obtaining audit evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved should not in itself be a valid basis for omitting an audit procedure for which there is no alternative.
 15. The judgment of an Auditor as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:
 - a. Significance of the risk - the likelihood of a potential misstatement

- b. Effectiveness of management's responses and controls to address the risks
 - c. Experience gained during previous audits with respect to similar potential misstatements
 - d. Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error
 - e. Source and reliability of the available information
 - f. Persuasiveness of the audit evidence and
 - g. Understanding of the entity and its environment, including its standard of internal control.
16. Sufficient, appropriate evidence to meet any audit objectives which are broader than expressing an opinion on the financial statements should also be obtained and evaluated. For instance, where the audited entity is responsible for giving grants or other financial assistance to other parties, it is often required that the auditee should evaluate whether other parties satisfying the criteria and meeting the terms for receiving grant. Evidence might then be required on the entity's exercise of its responsibilities to satisfy itself about the transactions of other parties.
17. Where the Auditor has not obtained sufficient appropriate audit evidence to a material financial statements assertion, he/she will attempt to obtain further audit evidence. If he/she is unable to obtain sufficient appropriate audit evidence, he should express a qualified opinion or a disclaimer of opinion.
18. Auditors should take into account, data retention requirements for public sector entities when obtaining evidence as stipulated by relevant legislation.

Tests of Controls

19. Tests of controls are audit procedures designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting material misstatements at the assertion level. The Auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls are operating effectively at relevant times during the period under audit. Tests of controls are performed when:
- a. There is an expectation of the operating effectiveness of controls or when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. This would be the case when significant risks have been identified for the assertion
 - b. When the Auditor expects that controls are operating effectively, he/she should perform tests of controls. This means that the controls are suitably designed for a specific assertion and have been confirmed to be operational by performing a walkthrough.
20. The Auditor should perform more tests of controls in order to be able to place greater reliance on the effectiveness of a control.

21. In designing and performing tests of controls, the Auditor should keep in mind that inquiry alone is not sufficient to obtain audit evidence about the operating effectiveness of the controls. Therefore, he needs to identify:
 - a. How the controls were applied at relevant times during the period under audit
 - b. The consistency with which they were applied
 - c. By whom or by what means they were applied.
22. Auditors are to bear in mind that the tested controls may depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls.
23. Tests of controls should be performed to evaluate the operating effectiveness of controls throughout the period under audit. If controls are tested during an interim period, the Auditor will also obtain evidence regarding the functioning of the controls after the interim period.
24. When an Auditor decides to use audit evidence for tests of controls from previous year's audit, he/she should establish that no significant changes happened to those controls subsequent to the previous audit. This is done through a walk-through.
25. Even if evidence is used from prior year's work, the Auditor should still document the conclusions reached about relying on such controls that were tested in a previous audit. In the case there have not been such changes to the controls, he/she will still test the controls at least once in every third audit. Tests of controls this way should be spread over a 3-year period so that some controls are tested during each audit. The Auditor need to test controls for significant risks, for example, over sensitive payments, or of controls designed to prevent or detect fraud within the entity. Tests of controls over significant risks should be performed during each audit. In terms of fraud, significant risk areas include occurrence of expenditure, completeness of income and existence of assets.
26. When using audit evidence about the operating effectiveness of controls obtained in a previous audit, an Auditor may use evidence obtained in performance audits or other audit activities relevant to the entity. While relying on evidence obtained in previous performance audits, Auditors should evaluate whether the assertions used and tests performed are adequate for the purpose of the financial statements audit. When the auditee is part of a larger government control environment, controls may exist outside the entity. The Auditor needs to determine how to obtain sufficient appropriate audit evidence about those controls.

Substantive Procedures

27. Substantive procedures are performed in order to detect material misstatements at the assertion level. Substantive procedures comprise:

- a. Testing the details of classes of transactions, account balances, and disclosures and
 - b. Substantive analytical procedures.
28. The Auditor should plan and perform substantive procedures to be responsive to the related assessment of the risk of material misstatement. Not minding the assessed risk of material misstatement, or whether controls have been tested or not, the Auditor should perform substantive procedures for each material class of transactions, account balance and disclosure. This requirement reflects the fact that the Auditor's assessment of risk is judgmental and may not be sufficiently precise to identify all risks of material misstatement. Furthermore, there are inherent limitations to internal control including management overriding objectives.
29. Auditors should consider whether external confirmation procedures are to be performed as substantive audit procedures. This would typically be done to confirm bank balances, loans, debtors and creditors. Since external confirmations are very reliable sources of evidence, Auditors should consider obtaining confirmation(s) as much as possible.
30. The substantive procedures performed by an Auditor will include the following procedures related to the financial statements closing process:
- a. Agreeing the financial statements to the underlying accounting records
 - b. Examining material journal entries and other adjustments made during the course of preparing the financial statements.
31. For significant risks, Auditors should design and perform substantive procedures that are specifically responsive to that risk.
32. When substantive procedures are performed at an interim date, the Auditor should perform further substantive procedures. This may be combined with tests of controls to cover the remaining period that provide a reasonable basis for extending the audit conclusions from the interim date to the end of the period.

Re-assessing Preliminary Control Reliance

33. Tests of controls or substantive procedures (during interim or final audits) may indicate that the preliminary control reliance is not appropriate. This is the case when a lot of unexpected errors and misstatements are discovered, or when the controls tested are not appropriate as originally expected. This is important as it influences the extent of substantive testing.
34. Also, when testing controls, more than 2 deviations would indicate that a control is not functioning as intended. This may however differ depending on circumstances.

Audit Procedures for Obtaining Audit Evidence

35. The Auditor should obtain audit evidence to draw reasonable conclusions on which to base his/her audit opinion.
36. An Auditor should perform risk assessment procedures to provide a satisfactory basis for the assessment of risks at the financial statements and assertion levels. Risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion, but are supplemented by further audit procedures in the form of tests of controls, when necessary, and substantive procedures, refer to the table below:

| Audit procedure | Detail | Considerations |
|-------------------------------------|---|--|
| Inspection of records and documents | Inspection consists of examining records or documents, whether internal or external, in paper, electronic form, or other media. | Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records or documents for evidence of authorization. |
| Inspection of tangible assets | Inspection of tangible assets consists of the physical examination of assets. | Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations. Inspection of individual inventory items ordinarily accompanies the observation of inventory counting. |
| Observation | Observation consists of looking at a process or procedure being performed by others. | Observation provides audit evidence about 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. |
| Inquiry | Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity. | Inquiries may range from formal written inquiries to informal oral inquiries. Verbal statements are usually reconfirmed in writing through management representations. Inquiries should be performed in conjunction with other audit procedures. Alone it does not provide sufficient audit evidence to detect misstatement. |
| Confirmation | Confirmation, which is a specific type of inquiry, is the process of obtaining a representation of information or of an existing condition directly | Internal confirmations include management representations which need to be obtained for each audit. External confirmations usually provide relevant and reliable evidence. |

| Audit procedure | Detail | Considerations |
|-----------------------|---|--|
| Recalculation | <p>from a third party.</p> <p>Recalculation consists of checking the mathematical accuracy of documents or records.</p> | <p>Recalculation is a reliable method to obtain evidence relating to the accuracy or measurement assertion.</p> <p>Recalculation can be performed manually, or through the use of information technology. For example, an electronic file can be obtained from the entity and by using CAATs the accuracy of the summarization of the file can be checked.</p> |
| Re-performance | <p>Re-performance is the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control, either manually or through the use of CAATs.</p> | <p>Evidence from re-performance procedures provides reliable audit evidence. In many cases it can be a time consuming exercise in which instance costs should be weighed against benefits derived. Cost effective checks may be performed through the use of CAATs.</p> |
| Analytical procedures | <p>Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data and the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.</p> | <p>The use of analytical procedures is discussed in detail below.</p> |

Analytical Procedures

37. Analytical procedures are one of many financial audit processes which help an auditor understand the client's business and changes in the business, and to identify potential risk areas to plan other audit procedures. Analytical procedures are used to evaluate financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also include any investigation relating to identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
38. Auditors will apply analytical procedures as follows:
 - a. As risk assessment procedures to obtain an understanding of the entity
 - b. As a form of substantive testing

- c. To assist the Auditor and obtain results when forming an overall conclusion on the financial statements. This is mainly to determine whether the financial statements are consistent with the Auditor's understanding of the entity
39. Analytical procedures however do not normally provide evidence about certain additional objectives, such as compliance with authorities. Such should be considered together with other audit tests and with the results of other audits such as performance audits.
40. Even though there are limitations, analytical procedures can still provide valuable and cost effective audit assurance. Examples of these are:
- a. Comparison between budgeted and actual figures will give evidence about overspending or under-performance of an entity
 - b. Month on month comparison for example on salaries and wages figures.
 - c. Comparison between prior year and current year expenditure figures.
 - d. Comparing expected results to actual results - for example comparing actual revenue collected in schools with the expected amount (number of students multiplied by the annual fees per student). In such cases the Auditor would obtain the benefits of the evidence where the actual amount is near to the expected amount. Large variances between actual and expected amounts would indicate that further audit procedures need to be performed.
 - e. Comparison of information between similar entities, programs or projects.
41. The following steps should be followed when performing a substantive analytical procedure:
- a. Determine the suitability of the particular substantive analytical procedure. Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time
 - b. Identify the information requirements and determine whether the information is reliable; reliability should be considered by looking at the source, comparability, nature, relevance and the controls over the preparation, review and maintenance of information. In some instances, an Auditor may need to understand the design and test controls over non-financial information used in analytical procedures
 - c. Develop an expectation (if applicable).
 - d. Identify a threshold or a tolerable limit.
 - e. Perform the comparison.
 - f. Identify variances where they exceed the pre-determined threshold (e.g. 10%) or are inconsistent with the expectation

- g. Obtain explanations for material differences from the management of the audited entity through enquiries. If management cannot offer explanations the Auditor may need to investigate further the underlying reasons for the lack of information and determine who is responsible
- h. Performing additional audit procedures as necessary in the circumstances.

External Confirmations

- 42. The Auditor should determine whether the use of external confirmations such as bank statements is necessary to obtain sufficient appropriate audit evidence at the assertion level. In doing this, he/she should consider the assessed risk of material misstatement at the assertion level and how the audit evidence from other planned audit procedures will reduce the risk of material misstatement at the assertion level to an acceptably low level.
- 43. External confirmation may also be used to fulfill an audit mandate or arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature. For example, external confirmations can be used to obtain evidence about:
 - a. The presence or absence in agreements or arrangements with third parties of legislated or other terms and conditions such as guarantees of performance or funding
 - b. The commitment of expenditures that have not yet been authorized by the legislature
 - c. The continued eligibility of individuals in receipt of pensions, income assistance, annuities or other ongoing payments
 - d. The presence of "side deals" with suppliers for the return of goods for credit in order to use funding that would have otherwise lapsed in a subsequent fiscal period.
- 44. It is generally recognized that audit evidence in the form of external confirmations received directly by the Auditor from confirming parties may be more reliable or persuasive than evidence generated internally by the entity. However, an Auditor should keep in mind the objectivity and independence of the third party especially within government and in the light of the relationship between the audited entity and the third party.

External Confirmation Procedures

- 45. The Auditor should design and perform confirmation procedures to obtain relevant and reliable audit evidence. The most common confirmations that are sent out by Auditors are bank and debtors confirmations as well as period balances
- 46. The Auditor should maintain control over external confirmation requests, including:

- a. Determining what information needs to be confirmed.
- b. Selecting the confirming party.
- c. Designing the confirmation requests, addressing the requests and including the address of the Auditor for return information.
- d. Sending the requests, including follow-up requests when applicable, to the confirming party.

Management's Refusal to Send a Confirmation Request

47. In the case management refuses to allow the Auditor to send a confirmation request, the Auditor concerned should:
 - a. Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness of the reasons.
 - b. Evaluate the implications of the refusal on the Auditor's assessment of the relevant risks of material misstatement and on the nature, timing and extent of other audit procedures.
 - c. Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.
48. In the case the Auditor concludes that management's refusal to allow him/her to send a confirmation request is unreasonable, or he/she is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the Auditor should communicate with those charged with governance and any other relevant party (such as legislature or oversight body) and determine the implications for the audit and the audit opinion.

Results of the External Confirmation Procedures

49. In the case the reliability of the response to a confirmation request is doubtful, the Auditor should obtain further audit evidence to resolve those doubts. When unreliable response is the case, the Auditor should evaluate the implications on the assessment risks, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.
50. Where there is no response to a confirmation, the Auditor should perform alternative audit procedures to obtain relevant and reliable audit evidence. In the case alternative audit procedures do not provide the audit evidence the Auditor requires, he should determine the implications of such for the audit and his/her opinion.
51. In the case the confirmation indicates differences in the information in the records, the Auditor shall investigate these exceptions to determine whether or not they are indicative of misstatements.

52. **Positive** confirmations request that the confirming party respond directly to the Auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information. Positive confirmations request the confirming party to reply to the Auditor in all cases, either agreeing or disagreeing with the stated information. This generally should provide more reliable audit evidence.
53. **Negative** confirmations request that the confirming party respond directly to the Auditor only if the confirming party disagrees with the information provided in the request.
54. Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the concerned Auditor uses negative confirmations as the sole substantive audit procedure if the following are present:
 - a. The Auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion
 - b. The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions
 - c. A very low exception rate is expected
 - d. The Auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.
55. Auditors should evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary.

Adequacy of Presentation and Disclosure of Financial Statements

56. The Auditor should perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with the applicable financial reporting framework. Also, the Auditor should consider whether the disclosed financial information (including the notes to the financial statements):
 - a. Made appropriate reference to the applicable financial reporting framework
 - b. Is described and classified appropriately and is in conformity with the applicable financial reporting framework
 - c. Includes adequate disclosure of material matters including accounting policies consistent with the applicable financial reporting framework
 - d. Include the comparative information required by the applicable financial reporting framework and such information is appropriately classified.
57. The Auditor should evaluate whether:
 - a. The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated

- b. The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed
- c. The form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth are reliable.
- d. Underlying accounting records agree

Outstanding Audit Evidence

58. In some situations, it is possible that the Auditor does not receive the requested audit evidence timely or within a 'reasonable' time. What is 'reasonable' may be influenced by the circumstances of each audit. The question is, what to do when there is long outstanding evidence delaying the audit to be performed and finalized. What can be done?
59. **Record the evidence requested:** Evidence requested should be recorded on the Evidence tracking sheet (*Refer to 2A - Evidence Tracking Sheet working paper*). The following information is included for all requested evidence:
- a. Unique identification of the evidence requested (for example payment advice number)
 - b. Date requested and the person responsible for supplying the information;
 - c. Any subsequent follow-ups
 - d. Date evidence was received
 - e. Person to whom the evidence was handed back to (with signature).
60. **Communicate to management:** Firstly, the Audit Team Leader should present to management the list of evidence required to perform the audit. Secondly, management should be regularly informed of any long outstanding evidence. This can be done by issuing an audit query to management on long outstanding evidence. It can form part of the audit queries / management letter sent. This way, management is given a chance to address the inefficient processes to supply evidence. Long outstanding evidence should be regularly included in the communications sent to management. When issuing a query with long outstanding evidence requirements, management should also be informed of the consequences of not submitting the evidence timely.
61. **Receiving evidence at a later stage:** Evidence received late may substantially influence the audit in terms of time lost, resources standing idle, or unutilized, all of which may make the finalization of the audit difficult. In any given circumstance, Auditors need to consider whether to accept the evidence for audit or to report on the scope of limitation. This decision is influenced by the following factors:
- a. The time taken to receive the information

Appropriateness of reasons supplied by management for the delay

Reporting timelines: if the reporting should take place within a certain timeframe for instance through legislation, this may affect the way Auditors handle evidence received late in the audit process

- b. Stage of the audit: Evidence received during the fieldwork stage of the audit will be more likely to be accepted and audited.
 - c. Discussions with management of the audit: Any decisions on evidence received late should be discussed with the officer responsible for signing the audit report. This includes any decisions made that alter the initial dates agreed during pre-engagement or strategic planning. These alterations should also be communicated to the auditee.
62. In the case management supplies evidence at a later stage, when the audit already has proceeded into the reporting phase, the Auditor needs to consider the additional work that it will require to perform the procedures and how the timelines of the audit may be affected. Decision to report or to test the supplied information should be taken by the person responsible for the audit.
63. The following aspects should be included in the communication
- a. Description of the problem, finding or internal control weakness(es);
 - b. Risk or potential effect of the problem
 - c. Recommendation and
 - d. A space provided for management to comment on the finding.
64. Recommendations should always be in terms of management controls which should be designed and/or implemented to prevent or detect misstatements. All deficiencies in internal controls that are of sufficient importance to merit management's attention should be reported in the audit query or management letter.
65. In addition to these requirements, the communication should include adequate information to enable those charged with governance and management to understand the context of the communication. In particular, the Auditor should explain that:
- a. The purpose of the audit was for him/her to express an opinion on the financial statements.
 - b. The audit included consideration of internal control relevant to the preparation of the financial statements 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 internal control.
 - c. The matters being reported are limited to those deficiencies that the Auditor has identified during the audit and that he/she has concluded are of sufficient importance to merit being reported to those charged with governance.

66. Several audit queries and management letters may be issued during the course of an audit. A good practice is to issue a management letter at the end of detailed planning. A second management letter could be issued after an audit visit is completed and a final management letter can be issued at the conclusion of the audit. The management letter should provide all findings included in the audit report. Therefore, the audit report can be seen as a filter for the management letter.

IV(B) Management Representations

67. Auditors are to obtain written representations or statements from management as audit evidence using the standard letter template. This template includes all the relevant aspects for which management should acknowledge responsibility, for example, the presentation of the financial statements in accordance with the applicable financial reporting framework. Management representations are necessary to obtain, but they do not provide sufficient audit evidence on their own. It should be supported by audit evidence obtained through performing other audit procedures. Auditors should identify the person(s) from whom the representations should be requested, generally from the applicable legislation. Normally, the 'Accounting Officer' or 'Permanent Secretary' is responsible for the representations. The fact that written representations should be provided together with details on who is responsible for them should be communicated and agreed with in the engagement letter.
68. The written representations should be obtained as close to the Auditor's reporting date as practicable. Also, written representations should cover the entire financial statements and the period(s) under audit. It usually takes the form of a representation letter addressed to the Auditor (Team Lead) concerned (*Refer to 2B - Management representation letter*)
69. The Auditor should request management to provide written representations regarding its responsibilities relating to amongst others:
- a. Fair presentation of financial statements in line with the financial reporting framework including all relevant transactions.
 - b. Design and implementation of internal control to prevent and detect errors.
 - c. The provision of all relevant information and documentation.
70. In the case a representation by management is inconsistent with or contradicted by other audit evidence, the Auditor concerned should investigate the circumstances and, when necessary, reconsider the reliability of other representations made by management. In such cases, he/she should perform other audit procedures to obtain necessary assurance.
71. Where management does not provide a representation that the Auditor considers necessary, he/she should discuss this with management, re-evaluate management's integrity and consider reporting and whether this constitutes a scope limitation and he/she should express a qualified opinion or a disclaimer of opinion.

SECTION V

AUDIT CONCLUSIONS AND REPORTING

1. This section contains the following subjects:

| <u>Subject</u> | <u>Paragraphs</u> |
|--|-------------------|
| VA. Management Letter | 2 - 9 |
| VB. Audit Report on Financial Statements | 10 - 61 |
| VC. Audit of Special Purpose Audit Engagements | 62 - 73 |

V(A). Management Letter

2. The process for an audit is to ensure that the information contained within the audit report is appropriately considered and communicated to the audited entity before it is made public. The ideal mechanism for this process is through the use of the management letter. At this stage of the audit, the transaction testing and related working papers should have been completed.
3. The audit queries are the basis for the Management Letter (*refer to WP 2F*). All matters arising from the management letter must have been generated through audit queries. The Auditor should issue various management letters during the course of the audit. However, the management letter issued with the financial statements is the crucial management letter. Earlier ones can be issued by the Director (or the Deputy Director he/she is so delegated), however, the management letter issued with the financial statements will be issued by the Director. For a Director/Deputy Director to issue the management letter he/she will conduct a sample of ongoing reviews of management letters issued by the Team Lead during the course of the audit.
4. Prior to the issuance of the audit report, a final management letter should be issued to ensure that all findings arising during the course of the audit are included in one management letter and this will be signed by the Director. This will ensure that the quality and consistency of the information supporting the management letter and ultimately the audit report is of a high standard.
5. For each audit finding, there are several categories of information that are required. These include:
- a. Area of expenditure / revenue
 - b. Classification of the finding
 - c. Description of the finding
 - d. Implication
 - e. Recommendation

- f. Management response
 - g. Auditor's comment.
6. Whilst some of these categories are straightforward, some require further explanation and are discussed in more detail below:

Classification of Findings

7. The Auditor is expected to classify the audit findings into the severity of where and how it will be reported. The categories are as follows:
- a. Included in management letter only
 - b. Included in the audit report under emphasis of matter / other matters;
 - c. Included in the audit report as a qualification issue.
8. The difference between the items has an element of professional judgment. However, for the findings included under qualification issues, the Auditor can use the materiality calculation to guide them.
9. The distinction between management letter and emphasis of matter is more complex. To guide the Auditor, the following table can be used:

| Characteristics of management letter only findings | Characteristics of Emphasis of Matter findings |
|---|---|
| Isolated finding | Common Findings |
| Insignificant or not material | Significant |
| Unlikely to recur | Recurring or likely to recur (and may have been previously reported) |
| Matter resolved prior to issuance of audit report | Matter unresolved at the time of issuing audit report |
| Mistake / omission | Fraud / misappropriation of funds / corruption |
| Isolated legal non-compliance with no financial effect | Any legal non-compliance in particular with any relevant act dealing with procurement |

VB. Auditors' Reports on Financial Statements

10. Financial statements of Kaduna State are normally prepared in line with a financial reporting framework set out by relevant legislation. The objectives of the Auditor are to:
- a. Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and
 - b. Express such opinion clearly through a written report that explains the basis of the opinion.

11. To form an opinion, the Auditor should perform relevant procedures to provide reasonable assurance that the financial statements are free of material misstatements and that all requirements of the applicable financial reporting framework have been correctly applied. The Auditor should follow the approach prescribed in this manual and conclude on the required aspects.

Consideration of Identified Misstatements

Evaluating the effect of misstatement

12. In forming an opinion on the financial statements, the Auditor needs to conclude whether the financial statements as a whole are free from material misstatement.
13. A misstatement is a difference between the amounts, classification, presentation, or disclosure of a reported financial statements item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework or legislation. Misstatements can arise from error or fraud. Auditors need to consider whether financial statements give a true and fair view and giving consideration to laws and regulations as required.
14. In doing that, the Auditor should assess the effect of identified misstatements on the audit and the effect of aggregated uncorrected misstatements in forming an opinion. In addition, the public sector misstatements include instances of non-compliance with legislation which also needs to be assessed.
15. When an Auditor has additional reporting responsibilities relating to non-compliance with authorities and control deficiencies, they should separately evaluate each of these objectives.
16. Auditors should keep in mind that, in certain instances, there is also a possibility of misstatements of relatively small amounts that, cumulatively, could have a material effect on the financial statements. For example, an error in a month end procedure could be an indication of a potential material misstatement if that error is repeated each month. In such cases, the sample drawn to test the population should be extended to ensure that the account balance audited is not materially misstated.
17. Audit objectives may include compliance with laws and regulations and effectiveness of internal control depending on the audit mandate. The following definitions apply to types of misstatements identified:
 - a. Control deficiency (control weakness), a condition in which the design or operation of a control does not allow management or employees to timely prevent or detect material misstatements. Such instances should be noted
 - b. Control deviation, the entity's failure to follow or implement a significant control procedure for a transaction. Control deviations will generally be

- c. noted as well. Instance of non-compliance with authorities, the failure to adhere to law or regulation, including budgetary authority, for a transaction. Non-compliance is usually noted through the identification of control deficiency and deviation.

Communicating to Management and the Correction of Misstatements

18. All audit findings should be communicated to the appropriate level of management on a timely basis. (*Refer to 2C Audit query and 2F Management letter working papers*) The Auditor should request management to adjust the financial statements. Even when management does adjust the misstatement identified, the underlying internal control weakness or non-compliance with authorities may still be included in the audit report. Auditors should also communicate non-compliance with legislation and internal control weaknesses to management, those charged with governance and any additional parties as applicable.
19. If, at the Auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, he/she shall perform additional audit procedures to determine whether misstatements remain. This requirement does not apply to instances of non-compliance with authorities or control deviations.
20. In the case management refuses to adjust the financial statements containing material misstatements, the Auditor should consider reasons for the refusal and evaluate whether the matter will cause the audit report to have a modification.
21. Auditors should obtain written representation that management considers the effects of uncorrected misstatements on the financial statements to be immaterial and on compliance with authority and effectiveness of internal control. When an Auditor finds instances of non-compliance with authorities or control deficiencies, representation may be modified.
22. When required by audit mandate, an Auditor should separately evaluate financial statements misstatements, instances of non-compliance with laws and regulations and control deviations.
23. Where the Auditor concludes that, or is unable to conclude whether, the financial statements as a whole are materially misstated, he/she should consider the effect thereof on the opinion in his/her report. When an Auditor has additional reporting responsibilities, each reporting responsibility may be evaluated separately. For example, he/she is required to report instances of non-compliance with laws and regulations, his/her evaluation whether the entity has complied with laws and regulations may be separate from the relevant evaluation whether the financial statements as a whole are free from material misstatement. However, misstatements and instances of non-compliance with laws and regulations can also be interrelated, potentially

increasing the risks of material misstatements and vice versa. For example, misstatements may represent instances of non-compliance with authorities.

24. For control deviations, the Auditor should determine whether such represents control deficiencies. In this evaluation, Auditors should evaluate compensating controls to determine whether the control objective has been met.

Communication with those Charged with Governance and other Parties

25. Auditors should communicate with those charged with governance:

- a. Uncorrected misstatements and the effect that such, individually or in aggregate, may have on the opinion in Auditor's report, unless prohibited by law or regulation
- b. The effect of uncorrected misstatements related to prior periods influencing the current financial statements.
- c. Instances of non-compliance with authorities and control deficiencies.
- d. Any matters that may lead to modification of audit opinion, any **emphasis of matter and other matter** to be included in the audit report and the proposed wording of these paragraphs.

26. Auditors may be expected to communicate all misstatements, even those that have been corrected by the entity, and all control deficiencies (including those which are recurring), and instances of non-compliance with authorities. This may be the case since the auditee may constitute a limited part of the wider public sector control structure. Therefore, control deficiencies may have implications from a broader perspective. Auditors' determination of who to communicate with about instances of non-compliance with authorities and control deficiencies is based on professional judgment and effected by factors such as.

- a. The general and recommended practice
- b. The nature and number of occurrences
- c. Whether similar occurrences are likely to exist in the entity or in other entities for which those charged with governance have responsibility.

27. When communicating with those charged with governance, Auditors use ways of reporting relevant in their jurisdiction. Also, Auditors may be called upon to testify before the legislature on the results of the financial statements audit. Auditors may also communicate misstatements, instances of non-compliance with authorities and control deficiencies to additional parties such as government officials.

28. In addition, when a reporting deadline given by legislation is not met by Auditors, this fact should be reported to those charged with governance or legislature as applicable.

Documentation and Evidencing

29. Auditors should document:
- All misstatements and whether they have been corrected
 - Identified control deviations and whether they represent control deficiencies
 - Control deficiencies that do not arise from control deviations
 - Identified instances of non-compliances with authorities
 - Conclusions as to whether uncorrected misstatement, non-compliances with laws and regulations and control deficiencies are material and the basis for those conclusions.

Types of Audit Opinions

Unqualified Opinion

30. An unqualified opinion should be expressed, when the Auditors concludes that the financial statements give a true and fair view or are presented fairly in all material respects, in accordance with the applicable financial reporting framework.
31. When expressing an unqualified opinion, the opinion paragraph of the Auditor's report should state the Auditor's opinion that the financial statements give a true and fair view or present fairly, in all material respects, in accordance with the applicable financial reporting framework (unless the he/she is required by law or regulation to use different wording for the opinion, in which case the prescribed wording should be used).
32. An unqualified opinion should be expressed when the Auditor concludes that the financial statements give a true and fair view fair, in all material respects, in accordance with the applicable financial reporting framework.
33. Auditors should draw users' attention to a matter or matters presented or disclosed in or outside the financial statements that are important for users' understanding of the financial statements or his/her report. These matters will be included in an emphasis of matter or an 'other matter' paragraph.
34. **Emphasis of Matter** paragraph refers to a matter appropriately presented or disclosed in the financial statements that, in the Auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
35. Examples of circumstances where the Auditor may consider it necessary to include an Emphasis of Matter paragraph are:
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action
 - Early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date
 - A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position

d. Bringing attention to the following aspects are properly disclosed in the financial statements:

- i. Non-compliance with legislation (when no separate opinion is required)
- ii. Legislative actions on programs or the budget
- iii. Contradictive laws, regulations or directives with a significant effect on the entity.
- iv. Fraud, abuse or losses
- v. Significant transactions
- vi. Significant internal control weaknesses
- vii. Questionable business practices
- viii. Transactions entered into without due regard for economy
- ix. Prior period restatements
- x. Lack of fiscal sustainability
- xi. Environmental Issues
- xii. Corporate social responsibility issues
- xiii. Propriety issues (proper behavior by public officials)

36. **Other Matter** paragraph includes findings relating to matters relevant to the users of the report listed above (under the Emphasis of Matters paragraphs) but not presented or disclosed in the financial statements. Other matter paragraphs normally include control weaknesses, non-compliance with laws and regulations which do not constitute a qualification.

Modified Audit Opinions

37. The Auditor should appropriately modify the opinion in his/her report when he/she:

- a. Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or
- b. Is unable to obtain sufficient appropriate audit evidence.
- c. Determines that the auditee did not comply with responsibilities prescribed by the financial reporting framework to:
 - i. Achieve fair presentation of financial information
 - ii. Fulfill all requirements of the financial reporting framework.
 - iii. Any additional audit requirements, such as non-compliance with legislation or internal control weakness which has a material or pervasive effect on the financial statements as it is not adequately disclosed or accounted for.

38. Pervasive is a term used to describe the effects on the financial statements of misstatements or possible effects if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the Auditor's judgment:

- a. Are not confined to specific elements, accounts or items of the financial statements
- b. Represent or could represent a substantial proportion of the financial statements or
- c. Fundamental to users' understanding of the financial statements.

39. Pervasiveness of the finding will determine the kind of modified audit opinion which will be issued. The Auditor should select the most appropriate modified opinion from the 3 options described below:
- a. A **qualified opinion** should be expressed when an Auditor having obtained sufficient appropriate audit evidence concludes that there are material misstatements in the financial statements or if he/she cannot obtain adequate evidence on aspects of the audit. Qualified opinion is issued when the misstatement or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. It is expressed as being 'except for' the effects of the matter to which the qualification relates.
 - b. An **adverse opinion** should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the Auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.
 - c. A **disclaimer of opinion** should be expressed when the possible effect of a limitation on scope is so material and pervasive that the Auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements. A disclaimer opinion may also be issued considering the potential cumulative effect of uncertainties even when all audit evidence is received.
40. The decision on which type of modified opinion is appropriate depends upon:
- a. The nature of the audit finding (quantitative materiality)
 - b. The extent of misstatement of the financial statements (quantitative materiality)
 - c. The pervasiveness or the possible effects of the matter on the financial statements.
41. Whenever the Auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s) on the financial statements.

Limitation on Scope Imposed by Management

42. If management imposes a limitation of scope on the audit which will affect the audit opinion, the Auditor should:
- a. Request management to remove the limitation.
 - b. If limitation persists, the Auditor will communicate this to those charged with governance and determine whether alternative procedures can be performed to obtain necessary evidence.
 - c. If no alternative procedures are possible, the Auditor should issue a disclaimer of opinion.
 - d. In certain instances, reporting to legislature may also be required.

Contents and Format of the Audit Report

43. **Reporting in Accordance with ISAs:** Auditor's report should only state that the audit has been conducted in accordance with the International Standards on Auditing, and that all standards of ISA have been fully complied with. Under the 'auditor's responsibility' paragraph included in the audit report, the Auditor should state the standards applied during the audit. There are three options:
- a. In accordance with the ISAs; which means full compliance with all relevant ISAs and if relevant, with the additional guidance set out in the INTOSAI Practice Notes to the ISAs
 - b. In accordance with the INTOSAI Fundamental Auditing Principles, but not full compliance with the ISAs which are presently included as part of the INTOSAI Financial Audit Guidelines (ISSAIs 1000-2999)
44. When applying all the provisions included in this manual, the audit report can refer to compliance with ISAs (first option above).

Minimum Requirements for Audit Reports

45. According to the ISAs, Auditor report shall include, at a minimum, each of the following elements:
- I. A **title** clearly indicating that it is the report of a State Auditor.
 - II. An **addressee**, as required by the circumstances of the engagement. If laws and regulations do not identify the addressee the Auditor can address the report to those charged with governance. As concerns the distribution of final audit report issued by the Auditor-General on the financial statements of Government, it forms part of the Audited Financial Statements of Government and is normally not restricted. Auditors should refrain from statements that the report is intended solely for specific users.
 - III. An **introductory paragraph** that includes the following:
 - a) Identify the entity audited
 - b) State that the financial statements have been audited
 - c) Identify the title of each statement that comprises the financial statements including additional reports where applicable (such as comparison of actual and budgeted amounts, reports on performance information etc..). The complete set of financial statements also include any notes to the financial statements
 - d) Refer to the summary of significant accounting policies and other explanatory information
 - e) Specify the date or period covered by each financial statement comprising the financial statements.

- IV. A description of responsibilities for the preparation and fair presentation of the financial statements titled '**Management's Responsibility**' for the Financial Statements' (in this case responsibility lies with the Accountant General - AG of Kaduna State). Responsibilities of the Accountant General should include:
- a) Preparation of the audited Financial Statements in line with the financial reporting framework
 - b) Instituting necessary internal controls to enable the preparation of financial statement free of misstatements
 - c) Achieving fair presentation where applicable.
- V. A description of the responsibility of Auditor General titled "**Auditor's responsibility**" that includes the responsibility to:
- a) Express an opinion on the financial statements and base on the audit
 - b) Perform the audit in line with the International Standards on Auditing. Include specific reference to the requirement to comply with ethical requirements (IFAC and INTOSAI Code of Ethics) and the explanation of reasonable assurance that is provided by the Auditor that the financial statements are free of material misstatement
 - c) The Auditor's report should describe an audit by stating that:
 - i. It involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
 - ii. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation of the financial statements 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. In circumstances when the Auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, he/she shall omit the phrase that the Auditors' consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control and
 - iii. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.
 - iv. Any other reporting responsibilities of the Auditor may be applicable.
- VI. The Auditor should state that, he/she believe that the audit evidence obtained is sufficient and appropriate to provide a basis for his/her (modified / Qualified / Adverse where appropriate) opinion. Consequently, when a disclaimer of opinion is issued, it needs to be stated that evidence could not be obtained.

- VII. A paragraph on the **'Basis for Qualified / Adverse / Disclaimer Opinion'** includes a description of the matter giving rise to the modification and a quantification of the amount of misstatement when practicable should also be included in the paragraph. All the matters which would alone warrant a qualification should be included under this heading. For example, if a disclaimer of opinion is issued based on the lack of audit evidence the Auditor would describe the scope limitation and also include paragraphs under the same heading with explanations for other material misstatements found during the audit
- VIII.
- IX. An opinion paragraph titled **'Opinion'** containing:
- a) The title of this paragraph should clearly state the kind of modified opinion issued when applicable i.e. Qualified Opinion, Adverse Opinion, Disclaimer of Opinion
 - b) Reference to the applicable financial reporting framework used to prepare the financial statements
 - c) An expression of opinion on the financial statements
 - d) For unqualified audit opinion the paragraph will quote
 - i. The financial statements present fairly, in all material respects, in accordance with [name the applicable financial reporting framework e.g. ISAs] etc..
 - ii. The financial statements give a true and fair view in accordance with [name the applicable financial reporting framework e.g. ISAs] or
 - iii. Financial statements are prepared, in all material respects, in accordance with [name the applicable financial reporting framework]
 - d) For qualified audit opinion the paragraph will quote: 'except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph'
 - e) For adverse opinion state that: The financial statements do not present fairly - or the financial statements have not been prepared - in all material respects, in line with applicable financial framework
 - f) For disclaimer of opinion state that because of the significance of the matter described in the Basis for Opinion paragraph the Auditor has not been able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion
 - g) Other reporting responsibilities the Auditor may have should be included here. For example, the Auditor may be required to report on the legal or regulatory requirements, or on performance information disclosed

46. **Other Sub Headings of an Audit Report includes:**

- I. **'Emphasis of matters'** paragraphs with clear indication that the audit opinion is not qualified as a result of this paragraph
- II. **'Other matters'** paragraphs - Standards, laws or generally accepted practice in a jurisdiction may require or permit the Auditor to elaborate on matters that provide further explanation of his/his report thereon. Such matters may be addressed in a separate paragraph following the Auditor's opinion.

III. 'Other reporting responsibilities' - Matters reported relating to reporting responsibilities other than reporting on the financial statements.

IV. Finally, the following should be inserted:

- a) The signature of the Auditor concerned
- b) Date of the report and
- c) Address of Auditor General of Kaduna State.

Understandability of Reports

47. The audit report should be easy to read and understand. Clarity and understandability may be enhanced by:
- a. Use of non-technical language. All technical terms, jargons, unfamiliar abbreviations and acronyms should be clearly defined when used
 - b. Logical organization of material
 - c. Accuracy and precision in stating facts and in drawing conclusions
 - d. Effective use of titles and captions and topic sentences
 - e. Use of visual aids (such as pictures, charts, graphs, and maps) to clarify and summarize complex material.
48. The audit report should not be longer than necessary in order to convey and support the message. Needless repetitions should be avoided.

Comparative Information Disclosed in the Financial Statements

49. There are two different broad approaches to reporting auditors' responsibilities in respect of comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement. Comparative information is the amounts and disclosures included in the financial statements in respect of one or more prior periods.
50. Corresponding figures refer to comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements. The essential audit reporting differences between the approaches are:
- a. For corresponding figures, the Auditor's opinion on the financial statements refers to the current period only whereas
 - b. For comparative financial statements, Auditor's opinion refers to each period for which financial statements are presented.
51. The Auditor should obtain sufficient appropriate audit evidence and report about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework.
52. In the case the Auditor identifies a possible material misstatement in the comparative information during the current audit, he/she should perform additional audit

procedures to determine whether a material misstatement exists. If he/she had audited the prior period's financial statements, the requirements of events after balance sheet date should be followed. Where the prior period financial statements are corrected, the Auditor shall determine that the comparative information agrees with the amended financial statements.

Reporting on Corresponding Figures

53. When corresponding figures are presented, the Auditor's opinion should not specifically refer to the corresponding figures, since the audit opinion is on the current period financial statements as a whole, including those figures.
54. Whenever the Auditor's report on the prior period, as previously issued, included a qualified opinion, disclaimer of opinion, or adverse opinion and the matter which gave rise to the modification is resolved and properly dealt with in the financial statements, the current report should not refer to the previous modification. It may, however be appropriate to include an 'Other Matter' paragraph.
55. However, where the matter is unresolved, it needs to be considered in light of the current year's financial statements. Where it is material to the current period, the Auditor should modify the current years report accordingly. The Basis for Modification paragraph in the Auditor's report should either:
 - a. Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material or
 - b. In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.
56. The Auditor may identify a material misstatement affecting the previous year's financial statements where an unmodified audit opinion was issued. In such circumstances, the Auditor should consider whether the corresponding figures have been restated or not. Where the corresponding figures have not been properly restated and/or appropriate disclosures have not been made, the Auditor should request management to revise the corresponding figures or if management refuses to do so, appropriately modify the report.
57. In the case, in very rare circumstances the prior period financial statements were not audited, the Auditor should state in an Other Matter paragraph in his/her report that the corresponding figures are unaudited. He/she should then obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

Reporting on Comparative Financial Statements

58. When the comparatives are presented as comparative financial statements, the Auditor's opinion should refer to each period for which financial statements are presented and on which an audit opinion is expressed.
59. When reporting on the prior period's financial statements in connection with the current year's audit and where the opinion on such prior period financial statements is

different from the opinion previously expressed, the Auditor should disclose the substantive reasons for the different opinion in an emphasis of matter paragraph.

60. In the case the financial statements of the prior period were audited by another auditor in addition to expressing an opinion on the current period's financial statements, the Auditor shall state in an Other Matter paragraph that the prior period was audited by another auditor, the type of report issued by the predecessor auditor and if the report was modified, the reasons therefore and the date of that report.
61. When the prior period financial statements are not audited, the incoming auditor should state in the report issued by the Auditor that the corresponding figures or comparative financial statements are unaudited as applicable.

VC. Special Purpose Audit Engagements

62. Special purpose financial statements are financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specific users.
63. The financial reporting framework of Kaduna State is prescribed by law or regulation and it is not up to management to determine the framework. Where law or regulation prescribes the financial reporting framework to be used by management in preparing and presenting the special purpose financial statements, such a framework is presumed to be acceptable in the absence of indications to the contrary.
64. In addition to preparing general purpose financial statements, the auditee may prepare financial statements for other parties (such as governing bodies, the legislature or other parties that perform an oversight function) that can demand financial statements tailored to meet their specific information needs. In some environments such financial statements may be the only financial statements prepared by the public sector entity. In which case, they are considered to be special purpose financial statements. Auditors therefore should carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users ("general purpose framework") or the financial information needs of specific users.
65. Examples of special purpose audit engagements are:
 - a. Cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare
 - b. The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.
66. Auditors can be mandated to audit the complete set of financial statements prepared in accordance with a comprehensive basis of accounting other than International Accounting Standards (IPSAS) or national standards. The Auditor should plan and perform the audit appropriately and form an opinion on the financial statements in line with the ISA requirements.

Audit Considerations on Special Purpose Audit Engagements

67. The Auditor should determine the acceptability of the financial reporting framework applied in the preparation of the financial statements considering:

- a. The purpose for which the financial statements are prepared
 - b. The intended users
 - c. The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.
68. In planning and performing the audit, the Auditor should identify any special considerations as required. These considerations may include the understanding of the selection and application (interpretation) of accounting policies. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

Reporting on Special Purpose Financial Statements

69. An Auditor should form an opinion and report on the special purpose financial statements in line with the layout included in the ISAs including at least the required minimum required elements.
70. The Auditor may have additional reporting responsibility to that of reporting whether the special purpose financial statements have been prepared in accordance with the applicable financial reporting framework. In this case, his/her report describes the requirements of any relevant legislation or the audit mandate in a separate section of his/her report. The wording included in the legislated mandate may be used accordingly. Where legislation governing the audit mandate does not conflict with ISAs, the Auditor should adopt the layout and wording used in ISAs so that users can more readily recognize their (i.e. Auditor's) report as a report on an audit conducted in accordance with ISAs.
71. In the unlikely event of management having a choice of financial reporting frameworks, the statement of 'Management's responsibility for the special purpose financial statements' should be expanded to include the responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances of the engagement.
72. The Auditor should evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. The form and content of the Auditor's report on special purpose financial statements should include:
- a. A description of the purpose for which the financial statements are prepared and if necessary the intended users, or refer to a note in the special purpose financial statements that contains that information.
 - b. In the case management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances. When management has a choice of financial reporting frameworks, the Auditor may include this responsibility in the statement of management's responsibility in order to determine whether to expand the statement of management's responsibility for the special purpose financial statements to refer to the source that determines the financial reporting framework applied.

73. The Auditor shall include an Emphasis of Matter paragraph alerting users of his/her report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements and related auditor's report may not be suitable for another purpose. The Auditor may also consider including a statement in his/her report that it is intended solely for the anticipated users and should not be distributed to or used by parties other than the intended users, unless the particular report is a public document.

SECTION VI

AUDIT DOCUMENTATION AND QUALITY CONTROL

1. This section comprises the subjects listed below:

| <u>Subject</u> | <u>Paragraphs</u> |
|---------------------------|-------------------|
| VI A. Audit Documentation | 2 - 36 |
| VI B. Quality Control | 37 - 47 |

VI A. Audit Documentation

2. This section explains the nature, types, and purpose of audit documentation. It also provides the Auditor with the form, contents and extent of the audit documentation and the how the final audit file should be organized. The Auditor should prepare, on a timely basis, audit documentation that provides sufficient and appropriate record of the basis for his/her report and evidence which confirms that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.
3. In addition, Auditors should prepare documentation that enables an experienced superior, having no previous connection with the audit, to understand the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. Significant matters in this context may not only be material misstatements in the financial statements, but also matters relating to lack of compliance, violations of contract provisions or grant agreements or any other matters the Auditor is required to report on.
4. Audit documentation refers to all relevant working papers and audit evidence that has been obtained throughout the audit. Auditors should familiarize themselves with any additional requirements relating to audit documentation that are designed to ensure compliance with applicable rules of evidence.

Nature of Audit Documentation

5. Audit documentation may be recorded manually, electronically or on other media. Electronic working papers, for example, may be generated through using audit software or by preparing working papers on a spreadsheet.
6. In addition, audit documentation includes working papers compiled by Auditors containing audit programs, analyses, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists, and correspondence (including e-mail) concerning significant matters. In addition, audit documentation may include abstracts or copies of the entity's records, for example, significant and specific contracts and agreements.

Types of Audit Documentation

7. Audit documentation either relates solely to the current year or they may be of a more permanent nature. The audit file for the current year should include all the working papers and supporting evidence relating to the current year's audit objectives. There might be working papers and supporting evidence that is applicable for more than one financial year. In such cases it may be appropriate to retain them in

the current audit file, placing a copy in the previous year's current file each time a schedule is carried forward. An example of this could be the system descriptions that may not change from one year to another.

8. The permanent file should contain information of continuing nature about the entity's operations, accounting systems and other features (for example loan/funding agreements) that are important to the conduct of the audit. The contents of the permanent file should be reviewed at every audit and schedules updated to show the latest position. Schedules considered to be outdated should be weeded from the permanent file and filed in the current file of the year they relate to.

Purpose of Audit Documentation

9. Audit documentation provides record of an audit assignment and also:
 - a. Assists auditors to plan and perform the audit
 - b. Aids the discharging of supervision and review responsibilities
 - c. Enables the audit team to be accountable for its work.
 - d. Retains a record of matters of continuing significance to future audits.
 - e. Enables the conduct of quality control reviews
 - f. Enables the conduct of external quality assurance reviews in accordance with applicable legal, regulatory or other requirements.

Extent of Audit Documentation

10. Audit documentation should be arranged in order to enable any experienced superior to understand the nature, timing and extent of the audit procedures performed to comply with ISAs and applicable legal and regulatory requirements. Also, the results of the audit procedures and the audit evidence obtained including the significant conclusions reached. Others are:
 - a. Discussions of significant matters with management and others on a timely basis
 - b. How information that is contradictory or inconsistent with the Auditor's conclusions has been addressed in forming the final conclusion.

Contents of Audit Documentation (working papers) and Audit Evidence

11. With regards to the form and content of working papers, the Auditor should prepare working papers that are sufficiently complete and detailed to provide an overall understanding of the audit. Working papers should contain at least the following information:
 - a. Name of institution, year-end, person preparing and reviewing the working papers, and respective dates for preparation and review
 - b. Explanations for tick marks used should be provided
 - c. The work performed for example description of the audit procedure or review executed
 - d. The source of the sample of information that was used to perform the audit procedure (for example the source may be the ledger)
 - e. List of transactions that were selected to be audited or the extent of the review performed

- f. Sufficient information to enable re-performance of the procedure, e.g. document numbers, dates, names, reference numbers, etc.
- g. The value or amount of the sample selected and coverage obtained
- h. Results of the procedures performed
- i. Conclusion on the work performed based on, and warranted by, the work performed and supporting audit evidence
- j. Explanations, motivations of basis used when using professional judgment and conclusions reached
- k. Indication that all schedules, prepared by the auditee, have been cast and cross-cast
- l. Indication of the purpose of photocopied or scanned documents
- m. References to other working papers or documents.

Compilation of the Final Audit File

12. The Auditor should assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of his/her report. The audit file will contain all audit documentation relating to the specific audit.
13. The complete assembly of the final audit file after the date of the Auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may however be made to the audit documentation during the final assembly process if such are administrative in nature. Examples of such changes include:
 - a. Deleting or discarding superseded documentation
 - b. Sorting, collating and cross-referencing working papers
 - c. Signing off on completion checklists relating to the file assembly process
 - d. Documenting audit evidence that the Auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of his/her report.
14. It is commonly accepted that 60 days after the date of the Auditor's report, the final audit file should be completed.
15. When the Auditor finds it necessary to modify existing audit documentation or add new ones after the assembly of the final audit file has been completed, he/she should, regardless of the nature of the modifications or additions, document:
 - a. When and by whom they were made, and (where applicable) reviewed
 - b. The specific reasons for making them.
16. As a general rule, the Auditor should exclude from audit documentation, superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

Retention and Confidentiality of Audit Files

17. Audit files should be retained with nothing deleted or discarded from them for the period of retention required based on the policy of the Office of Auditor General of Kaduna State as a policy, but not less than 5 years from the date of the audit report.

Cross-referencing

18. All working papers and documentation placed in the supporting files should have individual reference numbers. The following documentation can be regarded as audit evidence:
- Copies of original source documents (payment advices, invoices, tender documents and vouchers of the audited entity) and
 - Schedules/working papers completed by the Auditors such as a summary listing of selected transactions to test included in the work done by him/her stating and explaining the conclusions that were drawn.
19. In certain instances, there will be no original source document available to support a finding. For example, this is the case when the lack of an adequate policy or process is reported. As a rule of thumb, the source documents should be cross-referenced to the summaries and working papers where the audit work has been documented and concluded on, and vice versa.

Contents of Audit Files

20. For an audit to be completed, a set of pre-defined audit files have to be compiled. These files are compulsory and should include the following.

| Reference | Title | Brief description |
|-----------|---------------------------------|---|
| Section A | Strategic planning | Contains completion of working papers relating to strategic plan. |
| Section B | Individual account area testing | For each audit account area, the working papers relevant to complete the audit testing required. |
| Section C | Financial statements | Contains audit work on financial statements and related checklists (for example working paper on Disclosure checklist). |
| Section D | Management letter | Contains management letter(s) with evidence for reported items and minutes of exit meeting. |
| Section E | Audit report | All versions of the audit report with management amendments and evidence for the reporting items. |

21. The audit team can include sections in one file or split sections into separate files depending on the amount of documentation. Below is the detail to support the completion of each section.

Section A: Strategic Planning

- 22. This section includes information that is similar to what is found on permanent files. The nature of this type of information can often be unchanged between financial years. Therefore, the Auditor can use and update the information held on the previous year's file.
- 23. All audit programs should be included in this section and signed by the relevant reviewer. The strategic audit plan should be reviewed and signed by the Director before the audit team commences the audit.

Section B: Individual Account Area Testing

- 24. This section will contain the audit work completed to provide the necessary assurance for the Auditor that an opinion can be expressed on the audit area. The working papers will be referenced in the following order:

| Section | Details |
|---------|--|
| 1 | Any matters arising from previous years including: <ul style="list-style-type: none"> • Matters unresolved; • Errors identified; and • Audit report and management letter issues. |
| 2 | Value of account area balance - from the Lead schedule working paper (Refer to working paper - Lead schedule) |
| 3 | Sampling worksheet for each account area |
| 4 | Audit programs |
| 5 | Audit testing and evidence (Working papers: Substantive procedures performance, Tests of control, Substantive analytical procedures, etc..) |
| 6 | Further action(s) taken from audit findings by the Auditor (including the resolution / outcome of findings) |
| 7 | Lead schedule and summary of findings (Refer to working paper - Lead schedule) |
| 8 | Audit summary memorandum (Refer to working paper - Audit Summary Memorandum) |
| 9 | Review notes of first and second stage reviewers (Refer to working paper - First stage reviewer worksheet) |

Details on Section 5: Audit Testing and Evidence

- 25. The Auditor should reference in this section from the audit programs. For example, all work done on audit test number 3 from the audit program will be evidence at enclosure 5.3. The Auditor will at the enclosure 5.0 have a summary schedule that will show the reference of the audit program tests to the evidence.

A specimen of the enclosure 5.0 is as follows:

| Audit test number from audit program | Reference | Auditor's Initial |
|--------------------------------------|-----------|-------------------|
| 1 | 5.1 | |
| 2 | 5.2 | |
| 3 | 5.3 | |
| 4 | 5.4 | |
| 5 | 5.5 | |
| 6 | 5.6 | |

I have performed all the audit tests from the approved audit program.
Signature of the Auditor
Review

26. Under each subsequent section, the working papers should be as follows:
- a. 5.1 Substantive audit procedures performance working paper - detailing audit test performed and the overall results of the test and
 - b. 5.1 also contain references to source documentation where findings have arisen (where documents tested are satisfactory, they should not be copied onto the audit file). In addition, references to section 6 where the resolution or outcome from the findings is evidenced.
27. Underneath 5.1 for any findings where the audit testing has resulted in a not satisfactory conclusion, the Auditor must copy the relevant source documentation and include it under a section 5.1.1, etc.. This source documentation should include the written audit work on the working paper and be signed by Auditor concerned. The source document should then be referenced to the Substantive audit procedures performance working paper and the reference from the working paper should be made to the copied source document.
28. **For example:** An Auditor recalculates an invoice for supporting a travel allowance. He finds that the calculation was incorrectly added to the extent of N2, 000. He/she then puts the correct amount on the supporting document and initials their workings. This document is then copied, referenced as enclosure 5.1.1 and put onto file. This process is duplicated for all audit tests.
29. When the Auditor performs the audit procedures, standard tick marks should be included in the working paper or on the source documentation (as applicable) to demonstrate the audit tests performed and the results of these tests. These tick marks have to be inserted on each source document audited. **Examples of audit tick marks:**
- / Correct, no exceptions found.
X Incorrect, exception has been raised.
30. The documents tested that are satisfactory should not be copied onto the audit file. The Auditor's tick marks allow the reviewer, if he/she desire, to re-perform the Auditor's work if necessary. This is why the Auditor should use the tick marks on the supporting documentation.
31. **Enclosure 6 Further action to be taken:** This only applies to audit testing where findings have arisen. Therefore, if audit tests 1 and 2 resulted in no findings, but audit test 3 had findings, the first reference in this section will be 6.3.1.
32. Where an audit finding has arisen, the Auditor should complete the template below for each audit finding and provide supporting evidence for any input into the template. Only the final audit query (template included at end of section) should be kept as supporting evidence on file. (Refer to working paper 2C - Audit Query)

Reviewing Working Papers

33. There are two types of reviewers - the first and second stage reviewers. The first stage reviewer is responsible for going through all audit working papers and initialing them for completeness and compliance to the quality standards as stipulated by the Auditor General of Kaduna State. The first stage reviewer then documents any review comments on the reviewer's sheet and also indicates on the working papers with a red pen that there is a review comment.
34. The second stage reviewer is responsible for ensuring that the first stage reviewer has completed the work adequately. These review sheets should be used throughout the audit files. The Auditor should also complete the Audit summary memorandum (Refer to working paper 2E - Audit Summary Memorandum).
35. For section C, the financial statements should be supported by the relevant supporting statement and references should be made to the lead schedule from the individual account areas. A checklist for the financial statements is included in section - Events subsequent to the financial statement being prepared (and before they are published) should be considered. In addition, this section should include a management representation letter.
36. For section D, the management letter, the underlying audit queries should be changed for all revisions made to management letters. Therefore, the final management letter can be referenced to the audit queries (revised) and should be the only management letter on file. (Refer to working paper 2F - Example of management letter).

IV (B). Quality Control

37. Quality control entails the review of work performed by a lower or other Auditor by his/her superior or colleague during the audit. The Auditor should implement quality control procedures for each audit to provide reasonable assurance that:
- The audit complies with professional standards and applicable legal and regulatory requirements
 - The audit report issued is appropriate in the circumstances.
38. Quality control procedures should be performed by the engagement team for every individual audit engagement. These procedures are performed by members of the audit team, on different levels including the person with delegated responsibility for the audit (the superior Auditor). The quality control procedures are designed to ensure that each team member takes part in the responsibility for the overall quality of the audit assignment.
39. The Team Leader has the primary task as regards quality control for each audit component while the Director takes responsibility for the overall quality on each audit assignment. The Director should throughout the audit monitor compliance of the audit team with ethical requirements. If any non-compliance comes to light, appropriate action should be taken by him/her (the Director).

Carrying out Quality Control Procedures

40. The Overall quality control questionnaire contains a series of procedures which were developed to monitor the compliance with the auditing standards throughout the audit. These procedures should be carried out by the audit team members at the different levels.
41. The purpose of the quality control procedure is to ensure that the principles of the Financial Audit Manual have been followed during the audit and that sufficient, appropriate audit evidence has been obtained to support the audit opinion, including the documentation and justification of significant professional judgments.
42. Quality control offers benefits in the following ways:
 - a. It enables the identification and sharing of good practices with members of staff
 - b. It discovers weaknesses in the audit process and helps to identify training and development strategy training requirements within the Office of the Auditor General of Kaduna State
 - c. It promotes consistency of audits and consequently reporting, enabling benchmarking between reports.

Quality Control throughout the Audit

43. The review process can be divided into the following levels:
 - a. First level - lowest level of review; Team Leader will review the work of Team Members under him/her.
 - b. Second level - at this level, review is done by the Deputy Director before it is used to prepare the preliminary report for review by the Director
 - c. Third level - The reviewed report is confirmed by the Director before it is used to prepare the final report for the Auditor-General
44. All levels of review should consider the following fundamental issues during the review process of an audit file:
 - a. All required working papers and procedures have been adequately completed, signed by preparer and reviewer, dated and cross-referenced. When a working paper of procedural steps is omitted, adequate reasons are to be given
 - b. The audited financial statements (and other relevant audited information) have been identified and clearly linked to the audit
 - c. Knowledge of the entity obtained is adequate to inform Auditor's decision relating to the audit approach
 - d. Conclusions were adequately drawn and supported by appropriate and sufficient audit evidence
 - e. Significant deviations from the overall audit plan and any changes in the scope of the audit have been documented
 - f. Adequate level of audit coverage has been obtained for material areas

- g. All significant professional judgments made have been documented and are supported by appropriate audit evidence
 - h. The audit was conducted in accordance with the relevant audit approach, guidelines and other directives
 - i. All significant audit matters have been resolved or have been appropriately reported to management in the management letter as well as in the audit report
 - j. The work performed and results obtained have been adequately documented
 - k. Based on the underlying audit work and findings, the correct audit opinion has been expressed
 - l. Reported findings are supported by adequate and sufficient audit evidence.
45. The working papers should be reviewed as far as possible immediately after each segment of the work has been completed (*Refer to 2G - Quality control questionnaire working paper*). Timely review provides better control over the quality of work and the time consumed in its performance. Normally, the reviewer will be on a higher level than the preparer.

Independent Quality Review System

46. Besides the quality control described above, there shall also be an independent review of randomly selected audits by:
- a. A central unit of **quality assurance team**
 - b. A sporadic peer review system of a sample of completed audits for each period.
47. These procedures shall form part of the overall quality policies and processes of the Office of the Auditor General of Kaduna State.

ANNEXTURE

WORKING PAPERS

WP 1A CODE OF ETHICS DECLARATION

| | | | | | |
|---------------------|--|---------------------|-------------|-------------|-------------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

[This declaration should be completed by all audit team members including management responsible for the audit]

CODE OF ETHICS DECLARATION

Audited entity: *[insert the name of the audited entity]*

Financial year audited: *[insert the date of the financial year-end]*

For the purposes of the audit of *[insert the name of the audited entity]*, I confirm that:

1. Myself, or my any members of my immediate family do not have a financial interest¹ in the *[insert the name of the audited entity]*.
2. I do not have any business relationships with the audited entity or any of its directors, officers and employees.
3. I am not, and have not been in the last two financial years, an officer, employee or director of the audited entity.
4. I do not have any immediate or close family member(s)² that currently hold(s) a financial reporting and oversight role³ at the audited entity or held such a position during the financial year under audit.
5. I do not have any other relationship with any director officer and employee of the entity under audit that may impair my independence.
6. I understand the requirements in the INTOSAI Code of Ethics as far as:
 - 6.1 I should exercise due care and perform the audit in a professional manner and to the best of my abilities.
 - 6.2 I should perform the audit with honesty, integrity, impartiality and political neutrality.
 - 6.3 The confidentiality of information obtained during the audit process and that I should not disclose such information to third parties.

Circumstances which may impair my compliance with the above statements for the audit:

[List circumstances where applicable]

DECLARATION

I, the undersigned fully understand the requirements and responsibilities contained in the Code of Ethics. Where applicable, I have documented the circumstances which may impair my compliance.

| | | |
|----------------------------|-------------|---------------------------------|
| Name of team member | Rank | Signature of team member |
|----------------------------|-------------|---------------------------------|

¹ Including the ownership of shares, loans or guarantees to or from the entity, its directors or officers.

² Including any dependents of the team member, parents, step-parents, children, step-children and siblings

³ A financial reporting oversight role refers to those persons exercising influence over the accounting records or financial statements. This would include a member of the board of directors or similar governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, and director of financial reporting, treasurer, or any equivalent position.

CONCLUSION FOR THE AUDIT

[This conclusion should be signed once-off for the audit by the person responsible for the audit]

| Threats identified by team members | Actions taken to address the threats |
|---|---|
| | |
| | |
| | |

After consideration of the above declarations by the audit team and interviews with team members, I conclude that the all the requirements contained in the Code of Ethics for Professional Accountants are understood and met for the audit engagement. Any threats to the audit teams' independence have been eliminated or reduced to an acceptable level.

| Signature of person responsible for the report | Date |
|---|-------------|
| | |

WP 1B AUDIT ENGAGEMENT LETTER

| | | | | | |
|--------------|--|--------------|------|------|------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | Date: | | | |

On Letterhead of Office of the Auditor General of Kaduna State
Audit of the [insert name of audited entity] performed by our Auditor General
Addressee [Applicable title of the accounting officer]

Date

Dear Sir / Madam

The financial statements of [Insert the name of the audited entity] for the year ended [insert relevant date] are subject to audit by the Auditor General in terms of [Refer to the relevant section of the act].

The purpose of this letter is to outline:

- The terms of the audit engagement and the nature, and limitations, of the annual audit
- The respective responsibilities of our auditor and the management of the [insert name of audited entity] in the annual audit.
- The terms of the audit engagement are set out below. This letter will remain effective until a new audit engagement letter is issued.

Objective(s) of the Audit

The objective(s) of the annual audit are:

- To express an independent opinion on the financial statements prepared in accordance with [the applicable financial reporting framework] and legislation. These financial statements comprise the balance sheet as at [insert relevant date], the income statement, statement of changes inequity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.
- [Insert any additional audit objectives e.g. the evaluation of compliance with authorities or internal controls, where applicable].

This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of the services we will provide. Our audit will be conducted with the objective of our expressing an opinion on the financial statements as well as the compliance with relevant laws and regulations applicable to financial matters [also refer to any other reporting responsibilities if any].

Responsibilities of the Auditor

Our audit will be conducted in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free

from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the Auditors, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements or compliance with all applicable legislation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the International Standards on Auditing.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. However, we will report or communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

While the Auditor is not directed to reporting the following, we will report these items if we become aware of them during the course of the audit:

- Non-effective performance of operations - relates to management's responsibility to undertake activities in an effective and efficient manner.
- Instances of non-compliance with authorities - relates to management's responsibility to undertake activities, use resources, and fulfill accountability requirements, in accordance with authority granted by the legislature and all other relevant directions.
- Waste - relates to management's responsibility to obtain and apply resources in an economical manner, without any public money being wasted.
- Instances of abuse - relates to management's responsibility to meet the expectations of the legislature and the public as they relate to appropriate standards of behavior.

Responsibilities of management

The audit will be conducted on the basis that management has responsibility:

- a. To prepare financial statements in accordance with *the applicable financial reporting framework*] and in the manner required by the *Constitution of the Federal Republic of Nigeria, 1999 (as amended)*
- b. To establish and maintain internal controls necessary in order to:
 - i. Enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and
 - ii. Provide reasonable assurance that adopted policies and prescribed procedures are adhered to and errors and irregularities, including fraud and illegal acts are prevented or detected.
- c. To provide us with access to:

- i. All information which is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ii. Any additional information that we may request from management for the purpose of the audit; and
- d. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of the audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

The following are the key deliverables and target dates that should be met by both parties:

| | Activity | Responsibility | Target date |
|-----|--|---|------------------------------|
| | Opening meeting between our Auditor General's Office and the management of the audited entity to discuss the Overall Audit Strategy. | <i>[Management of the audit team and the audited entity at relevant levels]</i> | <i>[Insert target dates]</i> |
| 1. | Meeting between the Auditor General's Office and the management of the audited entity to discuss the Overall Audit Strategy. | <i>[Group Supervisor/Team lead and the audited entity at relevant levels]</i> | |
| 2. | Request information from audited entity. | Team Lead | |
| 3. | Submit information requested for audit. | Management of the audited entity | |
| 4. | Issue interim management letter to audited entity. | Team Lead | |
| 5. | Submit written response to interim management letter to the Auditor General. | Accounting Officer | |
| 6. | Meeting between Auditor General's Office and the management of the audited entity to discuss the management letter findings. | <i>Group Supervisor and management of audited entity</i> | |
| 7. | Submit financial statements and supporting file (Trial balance, lead schedules and ledger) to auditors. | Management of the audited entity | |
| 8. | Issue management representation letter. | Accounting Officer | |
| 9. | Issue final management letter. | Audit Chief | |
| 10. | Submit written response to management letter to the Auditor General. | Accounting Officer | |
| 11. | Meeting between Audit Team and management of the audited entity to discuss the management letter findings. | <i>[Audit Chief/Group Supervisor/Team Lead and the audited entity]</i> | |
| 12. | Issue approved audit opinion to audited entity. | Audit Chief | |

Agreement to Terms

This letter will remain effective until it is replaced. We shall be grateful if you could confirm your agreement to the terms of this letter by signing and returning the enclosed copy, or let us know if the terms of our engagement are not in accordance with your understanding.

We look forward to full cooperation from your staff during our audit.

Yours faithfully

AUDITOR-GENERAL OF KADUNA
STATE

[ACCOUNTING OFFICER]

**WP 1C
ANALYTICAL REVIEW**

[This working paper is to be completed on excel spreadsheet]

| | | | | | |
|---------------------|--|---------------------|-------------|-------------|-------------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

| AUDIT COMPONENTS [As per Lead schedule] | Current year figures | Current year budget | Difference between actual and budget [Actual less Budgeted amount] | % difference [(Actual less budgeted amount) / budgeted amount] | Prior year | Difference current vs. prior [Actual less prior year amount] | % difference [(Current year actual less prior year figure) / prior year figure] | Explanations of variances over 10% |
|--|----------------------|---------------------|---|---|------------|---|--|------------------------------------|
| | N '000 | N '000 | N '000 | | N '000 | N '000 | | |
| REVENUE | | | | | | | | |
| SALARIES AND WAGES | | | | | | | | |
| Salary payments | | | | | | | | |
| Overtime | | | | | | | | |
| Bonus | | | | | | | | |
| Allowances | | | | | | | | |
| EXPENDITURE | | | | | | | | |
| Goods and services | | | | | | | | |
| Professional services | | | | | | | | |
| Subsistence and travelling | | | | | | | | |
| Administrative expenditure | | | | | | | | |
| TOTAL EXPENDITURE | | | | | | | | |
| ASSET MANAGEMENT | | | | | | | | |
| Equipment and machinery | | | | | | | | |

| | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| Furniture and fittings | | | | | | | | | | | | | |
| Cultivated assets | | | | | | | | | | | | | |
| Computer equipment | | | | | | | | | | | | | |
| Other fixed structures (e.g. roads etc.) | | | | | | | | | | | | | |
| Land and buildings | | | | | | | | | | | | | |
| TOTAL ASSETS | | | | | | | | | | | | | |
| LIABILITIES | | | | | | | | | | | | | |
| DEVELOPMENT EXPENDITURE | | | | | | | | | | | | | |

The following risk areas have been identified in this working paper:

[All risks identified will be taken to the of Risk of material misstatement on financial statement level working paper]

WP 1D REVIEW OF INTERNAL AUDIT

| | | | | | |
|---------------------|--|---------------------|-------------|-------------|-------------|
| Auditee: | | Reviewed by: | Name | Post | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Post: | | Level 3 | | | |
| Date: | | | | | |

| Assessment questions | | Result Yes/No | Record of work done | Wp. Reference |
|---------------------------|---|---------------|---------------------|---------------|
| Overall evaluation | | | | |
| 1. | Does the audited entity have an internal audit function? | | | |
| 2. | Does the Internal Audit Unit (IA) contain an adequate proportion of competent, properly trained and experienced auditors? | | | |
| 3. | Is there adequate allocation of staff and other resources that correspond with the IA needs? | | | |
| 4. | Does internal audit report directly to the accounting officer or external oversight mechanisms (audit committee) where applicable? | | | |
| 5. | Is the IA function separated from the operations of the audited entity? | | | |
| 6. | Is there a written provision from the accounting officer providing IA unrestricted access to all records, assets etc.. of the audited entity? | | | |
| 7. | Does the IA carry out its functions in compliance with Financial Instructions? | | | |
| 8. | Is there a formal document (charter) including the scope, responsibilities, purpose of IA? | | | |
| 9. | Does the scope of IA include evaluating and reporting on internal controls? | | | |
| 10. | Does the scope of IA include the consideration of the following for each audited area: <ul style="list-style-type: none"> • Compliance with applicable laws and regulations including the annual budget; • Reliability of reported information; and • Efficiency, economy and effectiveness of operations. | | | |
| -11. | Does IA prepare annual plans for their audits? | | | |

| | | | | |
|-----|--|--|--|--|
| 12. | Does IA submit progress reports on a regular basis to the Accounting Officer, Auditor General (State) and audit committee (if relevant) to show progress against the plan? | | | |
| 13. | Has IA performed and finalised all the planned audits for the financial year? | | | |
| 14. | Is there a documented audit approach followed for the IA assignments? | | | |
| 15. | Does IA have a documented audit approach that is in line with applicable standards for IA? | | | |

Evaluation of specific audits performed

| | | | | |
|-----|--|--|--|--|
| 16. | Has IA performed any audits relevant to the scope of this audit? | | | |
| 17. | If yes, have relevant audit programs and sample items for the audit been identified? | | | |
| 18. | Are there files containing adequate and detailed documentation (including working papers) for the audit and evidence for findings in the audit report? | | | |
| 19. | Are reasons for performing each test, the result and the conclusions documented? | | | |
| 20. | Are conclusions supported with adequate and sufficient audit evidence? | | | |
| 21. | Is there evidence that the work performed has been reviewed? | | | |

Conclusion on overall functioning of internal audit:

| |
|--|
| |
|--|

Conclusion on specific work performed by internal audit

| Audits performed by internal audit | Is this relevant to the audit? (Yes / No) | Can reliance be placed on the audit of this area by internal audit? (Yes / No) |
|--|--|---|
| <i>[list all audits covering the period under audit]</i> | | |
| | | |
| | | |

WP 1E FRAUD CHECKLIST

| | | | | | |
|--------------|--|--------------|------|------|------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

| # | Nature and extent of audit procedures | Record of work done | Risks identified | Wp Ref |
|----|---|---------------------|------------------|--------|
| 1. | Identify and document the risk management processes for identifying and responding to the risks of fraud in the entity, or indicate "No" where not in place | | | |
| 2. | Review documentation of management's assessments (such as risk assessments, special/forensic reports, etc..) and determine whether management is aware of any fraud, suspected fraud or fraud investigation currently being conducted. | | | |
| 4. | Review management's risk assessment and identify whether any areas of the financial statements which were identified as high risk areas as a result of fraud. Obtain reasons from management and evaluate whether high risk is appropriate for the purposes of the audit. | | | |
| 5. | Evaluate the evidence that management is assessing the internal controls and that adequate actions have been taken to address material weaknesses identified during the year. | | | |
| 6. | By enquiry with relevant officials / other parties document any concerns about the nature, extent and frequency of management's assessment of the internal control systems in place to prevent and detect fraud. <i>[Is there evidence of management assessing the internal controls on a regular basis? Are actions taken to address any weaknesses identified in the internal controls?]</i> | | | |
| 7. | By discussion with other non-management personnel, determine whether unusual pressure is being exerted by management with the intention of overriding any internal controls that may exist. <i>[For example management personnel often take payment advices from the finance section to authorise payments without validity checks by the payment clerk]</i> | | | |

| # | Nature and extent of audit procedures | Record of work done | Risks identified | Wp Ref |
|------|---|---------------------|------------------|--------|
| 8. | Scrutinise the general ledger to identify transactions that are unusual (e.g. outside normal operations, the account balances appear for the first time) or complex (e.g. the transaction(s) that involve multiple or related entities, etc..). Where such transactions have been identified. | | | |
| 8.1 | Inquire from management about the rationale for undertaking these unusual transactions and inspect related documentation. | | | |
| 8.2 | Evaluate reasonableness of the explanations provided for undertaking these unusual or complex transactions. | | | |
| 8.3 | Consider whether the transactions point to a risk area and document this where necessary. | | | |
| 8.4 | Enquire from those charged with governance whether they are aware of these transactions and the rationale behind undertaking them. | | | |
| 9. | Inspect contracts of major customers / group of customer and where possible confirm these terms directly with major customers/group. | | | |
| 10. | Enquire from the auditee's finance / procurement personnel whether there has been any major expenditure incurred or revenue received near to the financial year end and their knowledge of any unusual terms or conditions associated with these transactions. | | | |
| 11. | Identify the following accounts or transactions from the financial statements as a separate audited component: | | | |
| 11.1 | Journal entries (especially when large number of entries passed around year-end) | | | |
| 11.2 | Significant accounting estimates requiring management bias | | | |
| 11.3 | Bad debts written off | | | |
| 11.4 | Subsistence and travelling | | | |
| 11.5 | Payments for overtime worked | | | |
| 12 | Inspect previous audit documentation, documents of the auditee, interview previous auditors (where applicable) and consider whether any of the following indicators may be applicable or has been identified: | | | |

| | | | | |
|-------|--|--|--|--|
| 12.1 | Past irregularities or manipulations by management. | | | |
| 12.2 | Evidence of theft or misuse of assets by management (e.g. for private purposes). | | | |
| 12.3 | Management living beyond their means. | | | |
| 12.4 | Instances where management denied access to records, facilities, certain employees, customers, vendors, or third parties outside the entity from whom audit evidence might be sought. | | | |
| 12.5 | Complaints by management about the conduct of the audit, any intimidation of engagement team members, particularly in connection with our auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management. | | | |
| 12.6 | Unusual delays by the entity in providing requested information. | | | |
| 12.7 | An unwillingness to add or revise or correct financial statements. | | | |
| 12.8 | An unwillingness to address identified deficiencies in internal control on a timely basis (audit finding are repeated / remained outstanding). | | | |
| 12.9 | Unwillingness by management to permit our auditor to meet privately with those charged with governance. | | | |
| 12.10 | Frequent changes in accounting estimates that do not appear to result from changed circumstances. | | | |
| 12.11 | Tolerance of management towards violations of the code of conduct. | | | |
| | <i>[Set out any additional audit procedures relating to identifying of fraud risks here]</i> Existence of a fraud hotline? Existence of a whistle blowing procedure? | | | |

The following risk factors have been identified:

[All risks identified will be taken to the of Risk of material misstatement on financial statement level working pap

WP 1F OVERALL AUDIT STRATEGY

| | | | | | |
|--------------|--|--------------|------|------|------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

1. INTRODUCTION

1.1 The objective of the Overall Audit Strategy is to ensure that an effective and efficient audit is performed, including timely identification of the need and role of specialists. The Overall Audit Strategy is compiled based on cumulative audit knowledge and experience, as well as important matters which have come to the attention of our auditors.

This document is considered to be valuable, as it ensures that all expectations are met and that the strategy takes full cognisance of significant management concerns.

1.2 During the planning phase of our audit, the following important matters will be addressed:

- Terms of reference
- Audit risk
- Materiality
- Information systems environment
- Control environment
- Reliance on internal control
- The accounting policies and laws and regulations
- Identification of components which should be audited.
- Identification of risk per component
- Identification of audit approach
- Project management

2. TERMS OF REFERENCE

2.1 Primary reporting responsibility

The annual financial statements for the year ended *[insert the applicable date]* and the notes to thereto will be audited in terms of *[insert applicable legislative reference]*. The preparation of financial statements in line with the *[insert the applicable reporting framework]* of the *[name of audited entity]* and the maintenance of the effective internal control measure are the responsibility of the *[Insert relevant title e.g. Accounting Officer / Council]*.

The *Office of our Auditor-General of Kaduna State* is responsible for the audit and report on the financial statements in accordance with the audit approach of our Auditor-General that complies with the International Standards of Auditing (ISAs).

2.2 Extent of report

In terms of the ISAs the *Office of our Auditor-General of Kaduna State* is required to report and express an opinion on the annual financial statements of the *[name of*

audited entity]. All matters raised in the previous year's financial statements must be followed-up and reported on.

A regularity audit carried out and will consist mainly of the following:

- The extent to which the financial statements fairly present the *[name of audited entity]* 's activities for the year.
- The accuracy, quality and completeness of the accounting records kept
- That authorised expenditure is substantiated by sufficient and acceptable documentation.
- Sufficient and applicable internal control procedures are in place and maintained.
- Compliance with regulations, policies, acts and other directives.
- Compliance with the budget control procedures.

2.3 Compliance Audit

[include detail only if a compliance audit is planned]

Compliance audit includes an examination on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations that are applicable to the *[name of audited entity]*.

2.4 Report to management

Weekly or monthly feedback will be given to management on the progress of the audit and weaknesses identified during the audit. The scheduled meetings are as follows:
[Indicate planned dates if applicable]

- a:
- b:
- c:
- d:

Management letter will be issued on weaknesses noted during the course of the audit. After the interim audit, a management letter will be issued and be discussed with management on *[Indicate planned dates if applicable]*. A final management letter will be issued on *[Indicate planned dates if applicable]*.

The draft report will be discussed on the *[Indicate planned dates if applicable]*.

2.5 Audited entity's expectations

The management of the *[name of audited entity]* will be informed of any internal control weaknesses noted during the conduct of the audit, the effect thereof and any deviations from the prescribed accounting procedures. All queries will be discussed with the *[include title of the designated officer e.g. Treasurer/CFO]* at the scheduled meetings. Audit queries should be followed-up by management to ensure prompt feedback to the audit team including necessary actions to be taken.

2.6 Specialised audits

Performance auditing *[Indicate if a performance audit will be done at the entity]*
IT Audit *[Indicate if an IT audit will be done at the entity]*

3. KNOWLEDGE OF THE ENTITY

3.1 General Background

| | |
|------------------------------------|----------|
| Physical address of audited entity | |
| General telephone: | |
| Fax numbers: | |
| <u>Banking details:</u> | |
| Bank name: | |
| Type of account: | |
| Bank account number: | |
| <u>Attorney details:</u> | |
| Name: | Address: |

3.2 Mandate and purpose of the entity

| |
|--|
| |
|--|

3.3 Appropriate legislation

[List key acts and regulations, government policies and requirements of the audited entity that will affect the audit]

| |
|--|
| Laws and Regulations: |
| Other applicable instructions, circulars etc.: |
| Accounting framework: |

3.4 Management structure

[List the details of the accounting officer/council, key financial personnel, head of internal audit etc..]

| Name | Rank | Telephone | Fax number | e-mail address |
|------|------|-----------|------------|----------------|
|------|------|-----------|------------|----------------|

| | | number | | |
|--|--|--------|--|--|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

3.5 Organisational structure

[Include details / organogram of the organizational structure]

3.6 Size of entity

Total staff composition:

Total expenditure budget:

Total income budget:

Sites, regional offices:

3.7 Operations of the audited entity

Nature of the entity's operations:

Major suppliers of products and services (outsource to third parties):

Allocation of activities to units and regional offices:

3.8 Related parties

| Related entities | Nature of relationship | Nature of significant transactions | Significant risk areas identified |
|------------------|--|--|-----------------------------------|
| | <i>[for example entities under the control of the same Commissioner]</i> | <i>[for example transfer payments]</i> | |

3.9 Reporting environment

Annual report presented by the audited entity to be published together with the financial statements:

Monthly reports as required by act *(if applicable)*:

3.10 Prior year's audit reports

Risks identified from the management letter(s) of previous year(s):

Risks identified from the audit report(s) of previous year(s):

3.11 Control environment

[Overall conclusion from the internal control checklist - include details of risks identified]

3.12 IT Control Environment

[Include the overall conclusion on IT internal control checklist including details of risks identified]

3.13 Overall evaluation of Internal Audit

[Conclusion on Internal Audit]

3.14 Overall conclusion on performance of Audit Committees

[Conclusion on the Audit Committees where applicable]

3.16 Conclusion on sustainability or services delivered

4. PLANNED AUDIT APPROACH

4.1 Nature and extent of audit

Based on the assessment of the risk of material misstatement on a financial statements level to be *[insert results of risk assessment: high, medium or low]*. The assessment of such risks will have an impact on the sample sizes drawn during detailed testing.

As far as possible the risks identified on the financial statement level will be transferred to the audit individual components. These risks will impact the assessment of risk for the audited component and the planned audit approach for the component.

4.3 Timing of audit

[Include whether an interim and / or final audit will be performed and the timing of them]

4.4 Audit components

The following components were identified:

(List components identified e.g.:

Revenue

Expenditure

Transfer payments

Personnel expenditure

Assets]

4.5 Materiality

Any error and misstatement which by itself is aggregated with similar errors and misstatements exceeds *[insert amount of materiality]* will be considered material for the purposes of this audit. This figure was calculated based on *[insert what item was the materiality calculated on]*.

Due to other audit findings relating to non-compliance of legislation, fraud or control deficiencies will be evaluated by considering the nature of the finding.

4.6 Planned regional visits

[If applicable, indicate the planned regional visits and how the relevant locations were selected.]

4.7 Use of specialist and/or experts

[If applicable, list the external experts that will be involved during the audit, stating the extent and necessity of their involvement, e.g. tax experts etc..]

[Indicate whether the IS auditors will be used and the extent of involvement required]

4.8 Involvement of other auditors

[If applicable, list other auditors that will be involved e.g. work done by regional offices of our SAI, auditors of subsidiaries or divisions]

5. ADMINISTRATION

5.1 Meetings and communication with management of the audited entity

Formal communication is established between the *Kaduna State Auditor General* and the management of the audited entity, in order to accomplish a sound co-operation between these parties. The following persons are invited to participate in the meetings:

| <i>Name</i> | <i>Position</i> | <i>Contact details</i> |
|-------------|-----------------|------------------------|
|-------------|-----------------|------------------------|

Audited entity:

*e.g. Accounting officer
Chief Financial Officer etc..*

Audit Office:

*Audit director
Asst./Dep. Director Audit*

[List all other persons as needed]

5.2 Target dates

[The table below should contain the relevant dates for the communications with the management of the audited entity and dates for the key deliverables on both sides. Dates included here should be the same as communicated in the Audit engagement letter. Include all commitments made. See inserted examples]

| No. | Activity | Responsibility | Target date |
|-----|--|---|-------------|
| 1. | Commence with audit planning | Dep. Director Audit | |
| 2. | Meeting between the <i>Auditor General's Office</i> and management of the audited entity to discuss the Overall Audit Strategy | <i>Management of the audit team and the audited entity at relevant levels</i> | |
| 3. | Request information from audited entity | Dep. Director Audit | |
| 4. | Commence with interim audit | Dep. Director Audit | |
| 5. | Submit information requested for audit | Management of the audited entity | |
| 6. | Issue interim management letter to audited entity | Dep. Director Audit | |
| 7. | Submit written response to interim management letter to <i>Auditor General's Office</i> | Accounting Officer | |

| No. | Activity | Responsibility | Target date |
|-----|--|---|-------------|
| 8. | Meeting between the <i>Auditor General's Office</i> and management of the audited entity to discuss the management letter findings | <i>Management of the audit team and the audited entity at relevant levels</i> | |
| 9. | Send requests for third party confirmations | Dep. Director Audit | |
| 10. | Commence with final audit | Dep. Director Audit | |
| 11. | Submit financial statements and supporting file (incl. Trial balance, lead schedules) to auditors. | Management of the audited entity | |
| 12. | Issue management representation letter | Accounting Officer | |
| 13. | Issue final management letter | Manager | |
| 14. | Submit written response to management letter to <i>Auditor General's Office</i> | Accounting Officer | |
| 15. | Meeting between the <i>Auditor General's Office</i> and management of the audited entity to discuss the management letter findings | <i>Management of the audit team and the audited entity at relevant levels</i> | |
| 16. | Issue approved audit report to audited entity | Manager | |

AUDIT TEAM

| Name | Rank | Telephone number | e-mail address |
|------|------|------------------|----------------|
| | | | |
| | | | |
| | | | |
| | | | |

WP 1G. ENGAGEMENT TEAM DISCUSSION DOCUMENT

| | | | | | |
|---------------------|--|---------------------|-------------|-------------|-------------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

Date of discussion: *[Insert date]*

List of team members participating in the discussion:

| Name | Rank |
|-------------|-------------|
| | |
| | |
| | |

| Discussion Aspect | Resolution / notes |
|---|---------------------------|
| Characteristics of the engagement (i.e. Legislative/ Reporting Framework; Locations). | |
| Reporting objectives (i.e. Deadlines; Key Dates: Final Reporting; Discussions with Management). | |
| Important factors that will determine the focus of the engagement team's efforts (i.e. materiality; the control environment assessment particular risk areas and other developments). | |
| Implications to modify the overall audit strategy. | |
| Nature, timing and extent of the direction and supervision of engagement team members and review thereof including the level of IT utilisation by audit staff. | |
| FRAUD | |

| Discussion Aspect | Resolution / notes |
|--|--------------------|
| <p>How and why entity may be susceptible for fraud including the identification of:</p> <ul style="list-style-type: none"> • Areas or audited components of the financial statements may be susceptible to fraud. • How management could perpetrate and conceal fraudulent financial reporting. • How assets of the entity could be misappropriated. • The circumstances that might be indicative of earnings management and the practices that if encountered, might indicate the possibility of fraud. | |
| <p>A consideration of the known factors which:</p> <ul style="list-style-type: none"> • Create an incentive or pressure for management or others to commit fraud • Provide the opportunity for fraud to be perpetrated. and • Indicate a culture or environment that enables management or others to rationalize committing fraud. | |
| <p>A consideration of management's involvement in overseeing employees with access to cash or other assets susceptible to misappropriation.</p> | |
| <p>A consideration of any unusual changes in behavior or lifestyle of management or employees which have come to the attention of the engagement team.</p> | |
| <p>Audit considerations such as:</p> <ul style="list-style-type: none"> • Maintaining a proper state of mind throughout the audit regarding the potential for material misstatement due to fraud. • How an element of unpredictability will be incorporated into performing audit procedures • Which types of audit procedures are more effective than others to detect fraud? • Allegations of fraud that have come to the auditor's attention. • The risk of management override of controls. | |

Working Papers to

EXECUTION OF AUDITS

WP 2B MANAGEMENT REPRESENTATION LETTER

| | | | | | |
|--------------|--|--------------|------|------|------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

TO: AUDITOR-GENERAL

DATE

This representation letter is provided in connection with your audit of the financial statements of *[insert name of audited entity]* for the year ended *[insert the date of financial year end]* for the purpose of expressing an opinion as to whether or not the financial statements present fairly, in all material respects, the financial position of *[insert name of audited entity]* as at *[insert the date of financial year end]* and the results of its operations and its cash flows for the year then ended in accordance with *[insert applicable financial reporting requirement e.g. IPSAS]*.

We acknowledge the auditors' responsibility for the accuracy of the accounting records and the fair presentation of the financial statements and we confirm, to the best of the auditor's knowledge and belief, the following representations given to you in connection with your duties as auditors of *[insert name of audited entity]* for the year ended *[insert the date of financial year end]*.

Accounting policies

The accounting policies used by the *[insert name of audited entity]* are as stated in the financial statements and are consistent with those of the previous year.

Accounting records and transactions

1. We as management are responsible for the design and implementation of internal controls to prevent and detect error, misstatements and fraud.
2. We have made available to you all books of account and supporting documentation and all minutes of meetings and no such information has been withheld.
3. To our knowledge the financial statements are free of material misstatements including omissions. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
4. We have no plans that may alter materially the carrying value or classification of assets and liabilities reflected in the financial statements.

5. Except as disclosed in the financial statements, the results of operations for the year were not materially affected by transactions of an extraordinary or abnormal nature or of a sort not usually undertaken by the *[insert name of audited entity]*, or items relating to a prior year.
6. All transfer payments have been properly and completed accounted for and has been recorded in the proper period.
7. The Appropriation account reflects a complete record of all expenditure relating to the financial transactions of the budgetary vote under our control as well as all allocated funds (budgeted, adjustments and special authorisations by the minister).
8. The budget has been prepared in accordance with the relevant regulations and instructions and is in line with set criteria and objectives.
9. Personnel expenditure represents payments in respect of services which have been rendered to the *[insert name of audited entity]* by employees on the payroll of the *[insert name of audited entity]*.

Assets

1. We have no plans or intentions that will result in any excess or obsolete inventory.
2. The *[insert name of audited entity]* has satisfactory title to all assets, and there are no liens or encumbrances on the *[insert name of audited entity]*'s assets in favour of third parties.
3. All assets were maintained and were stored in good condition during the financial year.
4. The current assets in the financial statements are expected, in our opinion, to produce at least the amounts at which they are stated. Adequate provision, in our opinion, has been made against all amounts owing to the *[insert name of audited entity]* which are known and may be expected to become irrecoverable.

Liabilities

1. The *[insert name of audited entity]* has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regularity authorities that could have a material effect on the financial statements in the event of non-compliance.
2. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in Note to the financial statements all guarantees that we have given to third parties. We are not aware of any pending or threatened litigation, proceedings, hearings, claims or negotiations which may result in significant loss to the *[insert name of audited entity]*.
3. There have been no events subsequent to period end that requires adjustment of or disclosure in the financial statements or notes thereto.

4. We are not aware of any capital expenditure projects entered into without a legal contract. There were no purchase commitments in excess of normal requirements or at prices in excess of prevailing market prices.

Other matters

1. There have been no irregularities involving management or employees that have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.
2. All known, actual or possible, non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements, have been disclosed to the Auditor
3. All the recorded expenditure transactions have been appropriately authorised during the year under review, except as disclosed to our auditors.
4. According to our knowledge there has been no fraud or suspected fraud affecting the financial statements and the operations of the entity.
5. Except as disclosed in the financial statements, no transactions involving management and others requiring disclosure in the financial statements have been entered into. We confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and, when appropriate, adequately disclosed in the financial statements.
6. The required tender procedures have been followed and no commissions have been received by any employee of the *[insert name of audited entity]*.

**Signature of Accounting
Officer**

WP 2C AUDIT QUERY

| | | | | | |
|---------------------|--|---------------------|-------------|-------------|-------------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

To: *[insert the name of Accounting Officer or delegated authority]*

Issued on: *[Date of issue]*

Audit Query Number: *[given from audit query register]*

Title of Query: *[e.g. Missing Payment Voucher]*

Amount of misstatement/error: N

Detail of Transaction: *[e.g. payee, voucher number, cheque number]*

Description of finding:

| |
|--|
| |
|--|

Recommended action to be taken by Accounting Officer:

| |
|--|
| |
|--|

Signature of Auditor General

Response date:

Response by Accounting Officer:

Management's response to the query is documented here.

Auditor's comments:

The Auditor considers management's response and decides on further action to be taken (if necessary)

WP 2E AUDIT SUMMARY MEMORANDUM

[This working paper is to be completed for all audited components]

| | | | | | |
|--------------|--|--------------|------|------|------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

Audited component:

Financial statement balance:

- Control weaknesses identified

[List control weaknesses identified]

- Nature and extent of testing performed

| Assertions | Control reliance | | | Substantive testing | | | |
|--|----------------------------------|---------------------------------------|---------------------------|-------------------------------|--|-------------------|--|
| | Preliminary reliance on controls | Have controls been tested? (Yes / No) | Final control reliance | Extent of substantive testing | Nature of substantive tests | Population tested | % coverage for population / number of items tested |
| <i>[List all assertions relevant for the component]</i> | <i>[High/ Medium/No]</i> | | <i>[High/ Medium/ No]</i> | <i>[High/ Medium/ No]</i> | <i>[substantive analytical, tests of detail]</i> | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

3. Final audit assurance (substantive procedures)

[Conclude whether sufficient audit work was performed by considering the following:

- *Nature, timing and extent of audit procedures performed;*
- *Coverage of all relevant assertions.]*

4. Consideration of compliance with laws and regulations

Compliance with the following laws and regulations has been given consideration:

[list relevant laws and regulations]

5. **Where other issues were identified during the audit of this component, were these followed up and where applicable brought to the attention of specialist components (e.g. Performance, Computer and Forensic Auditing)**

6. Departures from audit programme and/or plan

7. Errors / Misstatements

| ACCOUNT BALANCE | WP | OVERSTATED (N) | | UNDERSTATED (N) | |
|--------------------|--------------|-------------------|----|--------------------|----|
| | | DR | CR | DR | CR |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | Total | | | | |

8. Conclusion

| Description | Conclusion |
|--|------------|
| Risk of material misstatement was correctly identified for the audited component. | |
| Audit work performed for the audit component is sufficient and appropriate in order to express an opinion. | |
| Sample tested has provided a reasonable basis for conclusions about the population that has been tested. | |
| All matters raised have been appropriately followed up, communicated to management. | |
| Errors and misstatements have been transferred to the Audit differences working paper. | |

WP 2F MANAGEMENT LETTER

| | | | | | |
|---------------------|--|---------------------|-------------|-------------|-------------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

Audit of a department performed by our auditor General

Addressee [*Applicable title of the accounting officer*]

Date

Dear Sir(s)

The financial statements of [*Insert the name of the audited entity*] are subject to audit by our Auditor-General [*or equivalent*] in terms of [*Refer to the relevant act*].

MANAGEMENT LETTER: [*Insert the type of audit e.g. Regularity*] AUDIT PERFORMED FOR THE [*insert date*] FINANCIAL YEAR

INTRODUCTION

The audit of the [*insert the name of the audited entity*] for the year ended [*insert date*] was completed and the purpose of this letter is to bring to your attention the findings that were revealed during the audit.

SCOPE AND DETERMINATION OF RESPONSIBILITY

The audit was conducted in accordance with the International Standards on Auditing. These standards require that the audit is planned and performed so as to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the annual financial statements. An audit includes:

- a. Examination on a test basis of evidence supporting the amounts and disclosures in the financial statements
- b. Assessment of the accounting principles used and significant estimates made by management
- c. Evaluation of the overall financial statement presentation.

The audit will also include an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to our attention and are applicable to financial matters.

The matters mentioned in this letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the Accounting Officer. Our responsibility is to express our opinion on these financial statements.

The audit findings which were identified during the course of the audit, are included below.

MANAGEMENT COMMENTS

It would be appreciated if your comments on these findings could be submitted within *...(insert dates)* days after the date of this report for incorporation.

APPRECIATION

We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the *[insert the name of the audited entity]* during the audit.

Yours faithfully

Auditor General (State)

MANAGEMENT LETTER OF *[Insert the name of the audited entity]* FOR
THE YEAR ENDED*[Insert relevant date]*

AUDIT FINDING

*[The findings included here should be identified in the working papers where the
audit procedures are performed and concluded*

*e.g. System description, test of control, substantive procedure performance
etc..]*

RISK

*[Either in terms of monetary misstatement, services not being delivered or
assets not safeguarded]*

RECOMMENDATION

[Recommendations should include reference to preventative and detective controls].

MANAGEMENT

COMMENT

WP 2G QUALITY CONTROL QUESTIONNAIRE

| | | | | | |
|---------------------|--|---------------------|-------------|-------------|-------------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

| | | ISA Ref | Yes | No | N/A | Comments |
|----------------------------------|---|---------------------------|------------|-----------|------------|-----------------|
| PRE-ENGAGEMENT ACTIVITIES | | | | | | |
| 1. | Is a copy of the engagement letter on file for the audit? | ISA 210 ISA 230.8 | | | | |
| 2. | Have the contents of the engagement letter been agreed to and signed by the Accounting Officer of the entity? | ISA 210.9-10 ISA 230.8 | | | | |
| 3. | Are audit staff available that have the degree of technical training and proficiency required to perform the audit? | ISA 300.7-8 | | | | |
| 4. | Do all audit team members (with special emphasis on management) comply with the office's requirements in terms of independence? (Refer to Code of ethics working paper) | ISA 200.14 ISA 230.8 | | | | |
| 5. | Do the members of the audit engagement team fully understand their responsibilities? | ISA 300.5 | | | | |
| STRATEGIC PLANNING | | | | | | |

| | | ISA Ref | Yes | No | N/A | Comments |
|-----|--|--------------------------|-----|----|-----|----------|
| 6. | Have prior year's issues been identified as risk areas? | | | | | |
| 7. | Was the internal audit department and their work adequately evaluated and concluded on? | ISA 610.8-10 | | | | |
| 8. | If it was intended to rely on the work performed by Internal audit, was the work evaluated and tested to confirm its adequacy? | ISA 610.11-12 145 | | | | |
| 9. | Was a meeting held with the engagement team to discuss the susceptibility of the financial statements to material misstatement? | ISA 240.15 | | | | |
| 10. | Were fraud risk factors considered and identified? | ISA 240.16 | | | | |
| 11. | Were preliminary analytical procedures performed and were conclusions on risks adequately drawn? | ISA 315.6(b) | | | | |
| 12. | Was the potential for non-compliance to laws and regulations properly evaluated? | ISA 250.4 | | | | |
| 13. | Was an appropriate conclusion documented regarding the risk of material misstatement on a financial statement level? | ISA 230.8 | | | | |
| 14. | Was overall audit strategy document <ul style="list-style-type: none"> • prepared • approved and • discussed with the auditee's management? | ISA 300.12 ISA 220 | | | | |
| 15. | Were the contents of the Overall audit strategy and planning working papers communicated to all team members? | ISA 315.14 ISA 240.27 | | | | |

DETAILED PLANNING (Complete for each audited component)

| | | ISA Ref | Yes | No | N/A | Comments |
|-----|---|--------------------------|-----|----|-----|----------|
| 16. | Were exceptions raised for control weaknesses found? | ISA 330.16-17 | | | | |
| 17. | Were planning working papers reviewed and approved prior to commencement of the audit testing? | ISA 220.15 | | | | |
| 18. | Was the internal control procedure in place for the whole financial year audited? | ISA 330.11 | | | | |
| 19. | Were the samples selected for testing reasonable and representative of the population? | ISA 530.6-8 | | | | |
| 20. | Does it appear that the tests of controls results were properly assessed and evaluated? | ISA 330.16 | | | | |
| 21. | Was the level of control reliance appropriately re-stated where necessary after tests of controls? | ISA 330.17 | | | | |
| 22. | Were substantive procedures developed and performed to adequately address all relevant audited components and significant risk areas? | ISA 330.18 ISA 500.16 | | | | |
| 23. | Were substantive procedures developed to adequately address all relevant assertions? | ISA 330 ISA 500 | | | | |

FIELDWORK (Complete for each audited component)

| | | | | | | |
|-----|---|--------------------|--|--|--|--|
| 24. | Was each step of the audit procedures carried out in accordance with the audit programme and the audit plan to ensure that the audit was completed? | ISA 330 | | | | |
| 25. | Is there evidence of approval for audit procedures prior to the commencement of fieldwork (in fact by Asst. / Dep. Director Audit)? | ISA 330 ISA 500 | | | | |

| | | ISA Ref | Yes | No | N/A | Comments |
|-----|--|-----------------------|-----|----|-----|----------|
| 26. | Was the working paper completed to indicate the source of the documentation, direction of testing, population size, and sample size tested and sample method used? | ISA 230 | | | | |
| 27. | Were all relevant tests of controls performed and concluded before commencing with substantive testing? | | | | | |
| 28. | Was the use of substantive analytical procedures considered to reduce the performance and extent substantive audit procedures? | ISA 520.5 ISA 330 | | | | |
| 29. | Were all third-party confirmations received back and differences followed up and concluded on? | ISA 505 | | | | |
| 30. | Was sufficient evidence gathered to substantiate conclusions made on substantive procedures? | ISA 500.6 | | | | |
| 31. | Was the entire audit working papers and audit procedures properly completed and concluded on? | ISA 230 | | | | |
| 32. | Were all relevant audit queries/exceptions appropriately raised? | ISA 530.15 ISA 230 | | | | |
| 33. | Are exceptions supported by and cross referenced to audit evidence? | | | | | |
| 34. | Are well-supported conclusions stated for each component? | ISA 330.28-29 | | | | |
| 35. | Is there a clear and traceable link between the audited financial statements and the audit procedures performed? | ISA 230 | | | | |
| 36. | Were conclusions drawn on all queries, exceptions and review points either satisfactorily resolved or the level of | ISA 220.16 | | | | |

| | | ISA Ref | Yes | No | N/A | Comments |
|------------------------|---|--------------------|-----|----|-----|----------|
| | influence the audit report determined? | | | | | |
| 37. | Was materiality considered during the evaluation of the results of procedures performed and were proper conclusions reached in this regard? | ISA 320.10-13 | | | | |
| 38. | Were the financial statements checked to determine whether they were consistent with those of the previous financial year and consistent with the supporting schedules? | ISA 500.15 | | | | |
| 39. | Were procedures performed to ensure the completeness and accuracy of documents, other than the financial statements, containing audited financial information? | ISA 500 ISA 330 | | | | |
| 40. | Was a properly tailored management representation letter obtained which was signed on a date close to (but prior to) the signing of the audit report? | ISA 580 ISA 230 | | | | |
| 41. | Where a representation letter was refused, was a possible limitation of scope considered? | ISA 580 | | | | |
| 42. | Have analytical review procedures identified a need for further audit procedures and have such further procedures been performed? | ISA 520 | | | | |
| AUDIT REPORTING | | | | | | |
| | Overall conclusion | | | | | |
| | Management letter | | | | | |
| 43. | Was there a management letter for discussion with the Accounting Officer? | ISA 230 | | | | |
| 44. | Does the management letter set out: | | | | | |

| | ISA Ref | Yes | No | N/A | Comments |
|---|-------------------|-----|----|-----|----------|
| (a) Clear statement of the problem, including possible consequences (weaknesses in internal control); | ISA 230 | | | | |
| (b) Practical and cost-effective recommendations in terms of non-existing or non-functioning internal controls; | ISA 220 | | | | |
| (c) Comments from the auditee; | | | | | |
| (d) Conclusion by the Auditor whether the matter is resolved, unresolved and whether it will be included in the audit report | ISA 230 | | | | |
| 45. Where issues in the draft management letter were resolved, was this adequately evidenced on file? | ISA 230 | | | | |
| 46. Was the management letter signed by the person assigned by the Auditor General to perform the audit? | ISA 220 | | | | |
| 47. Was there adequate communication with the auditee throughout the audit and with the compilation of the final management letter? | ISA 230 SA 260 | | | | |
| 48. Were minutes taken at meetings with the management of the auditee and were these minutes included in the audit file? | ISA 230 | | | | |
| Audit report | | | | | |
| 49. Were all significant matters identified in the management letter addressed in the audit report? | ISA 700 | | | | |
| 50. Did reported findings have relevant supporting documentation, such as working papers and audit evidence? | ISA 230 | | | | |
| 51. Did the audit report contain the following information: | | | | | |
| (a) Objective or scope of the audit; | ISA 700 | | | | |
| (b) Expression of opinion on the financial statements; and | ISA 700 | | | | |

| | | ISA Ref | Yes | No | N/A | Comments |
|-----|--|-------------------------------|-----|----|-----|----------|
| | (c) Identification of the financial statements and the financial year to which it refers? | ISA 700 | | | | |
| 52. | Was the correct audit opinion expressed based on the supporting working papers? | ISA 700 ISA 500 ISA 230 | | | | |
| 53. | Is the format and content of the audit report in accordance with the applicable standards? | ISA 700 | | | | |
| 54. | Are reporting findings understandable, factual and adequately summarized? | ISA 700 | | | | |
| 55. | Were individual conclusions for the separate components reviewed, summarized and consolidated into a final audit report? | ISA 230 | | | | |
| 56. | Have target dates for reporting been achieved or otherwise valid reasons supplied? | ISA 220 | | | | |
| 57. | Is the emphasis of matter points adding value to the reader of the financial statements? | ISA 706 | | | | |
| 58. | Generally, do the audit working papers, the audit procedures carried out, and the results of the audit procedures support and confirm the audit opinion furnished? | ISA 230 | | | | |
| 59. | Do the working papers: | | | | | |
| | (a) Include indexing/signatures and dating by preparer and reviewer? | ISA 220 | | | | |
| | (b) Indicate the meanings of audit tickmarks? | ISA 220 | | | | |
| | (c) Indicate the source of information? | ISA 500 | | | | |
| | (d) Indicate the procedure executed? | ISA 220 | | | | |

| | | ISA Ref | Yes | No | N/A | Comments |
|--|---|---------|-----|----|-----|----------|
| | (e) Indicate the purpose of photocopied or scanned in documents? | ISA 230 | | | | |
| | (f) Indicate that all schedules, prepared by the audited entity, have been cast & cross cast? | ISA 230 | | | | |
| | (g) Conclude on the work performed? | | | | | |
| ENGAGEMENT QUALITY CONTROL REVIEW | | | | | | |
| 60. | Where the audit has been selected for a engagement quality control review identify whether the following was performed: | | | | | |
| | (a) Was a suitably qualified reviewer appointed? | | | | | |
| | (b) Has the engagement quality control review been performed? | | | | | |
| | (c) Were any differences in opinion adequately resolved? | | | | | |
| | (d) Was a discussion held on significant findings with the engagement quality control reviewer? | | | | | |
| | (e) Have all the findings been considered and resolved with the audit team? | | | | | |

VOLUME II

Section I

Introduction and Annual Plan of Scheduled Audits

Introduction to the Manual

1. This volume contains procedures pertaining to the routine work of the OSAG, Kaduna State. It is to be read and applied with the main Regularity (Financial) Audit Manual as contained in the relevant volumes.
2. The sections and the essence as contained in this volume are briefly given as below:
 - a. Section I: It contains the introduction and the basics of annual audit plan
 - b. Section II: This is concerned with the basic methods to be applied in the scheduled audit of each component
 - c. Section III: This section is concerned with the procedures for audit of revenue of Kaduna State and cash book of Government
 - d. Section IV: It contains the audit of Payments which also include the cash book and bank reconciliation
 - e. Section V: The section deals with Transcripts and Annual Expenditure subheads
 - f. Section VI: It treats the procedures pertaining to Stores Audit
 - g. Section VII: This section treats the Audit of Plant, Equipment, Tools and Government Vehicles
 - h. Section VIII: It contains procedures for the Audit of Annual Financial Statements of Government
 - i. Section IX: It contains procedures for the Audit of State corporations
 - j. Section X: This contains the procedures for the Audit of Payroll
 - k. Section XI: It contains the procedures for the Audit of Schools
 - l. Section XII: It contains the audit of pensions and gratuities.

Objectives of Scheduled Audit and Guides to Annual Audit Plan

3. The scheduled audit guide provides the direction for the work of auditing of State finances which ultimately entails expressing an opinion as to whether or not the financial statements audited are prepared, in all material respects, in accordance with an identified/applicable financial reporting framework and/or statutory requirements. In addition to this, it also includes other audit objectives such as:

- Reporting instances of non-compliance with authorities including budgets and accountability, and/or
 - Reporting on the effectiveness of internal control.
4. The annual audit plan of a succeeding year is developed in the last month of each year. It is intended to be applied by each audit team for the effective coverage of all State audits at the MDAs. The plan (example or template provided as Appendix 1A below) indicates frequency of work on each component that makes up the work of the ~~OSAG of Kaduna State~~.
 5. The key objectives of the annual audit plan are as stated below:
 - a. To ensure that all aspects of the work are carried out effectively
 - b. To provide a guide concerning the staff resources required by each group
 - c. To determine the time frame within which each component of the audit is to be completed (e.g. a component that is covered monthly must be completed within two weeks)
 - d. To ensure that the right attention is given to each component
 - e. To determine the allocation of staff to respective audit duties
 - f. To enhance the effectiveness of the entire audit function

Responsibility

6. Responsibility for the preparation of the Audit Plan rests with the Unit Heads. The plans are initially developed in draft and discussed with the Auditor General. When the Auditor General is satisfied with the audit plan, it is consolidated, harmonized and distributed to the respective Unit Heads for implementation. The finalized and distributed Audit Plan shall be the reference audit agenda throughout the relevant year. In the case changes are required in the annual audit plan, such amendment is prepared and approved following the method described above.

Planning Factors

7. In the planning of staff resources to cover the annual audit plan, the expected period that staff would be on leave should be taking into account. Equally important is external training and other factors that are expected in the normal work situation.

Appendix 1A

Model of Annual Audit Plan

| S/N | Description of Activity | Periodicity | Responsible Institutions |
|-----|--|-----------------------------------|--------------------------|
| 1 | Revenue Collection, Revenue Cash Book, Revenue Collectors Cash Book, Final Revenue Account | Quarterly | MDAs, EBIR |
| 2 | Payment Vouchers, Payments Cash Book | Quarterly | MDAs |
| 3 | Bank Reconciliation | Quarterly | MDAs |
| 4 | Transcripts and the Annual Expenditures by Sub Heads | | MDAs |
| 5 | Stores | Bi annually (six times a year) | MDAs |
| 6 | Plant, Equipment and Tools | Annually | MDAs |
| 7 | Government Vehicles | Annually | MDAs |
| 8 | Monthly Transcripts | Monthly | MDAs |
| 9 | Statement of Assets and Liabilities | Annually | OSAG, KDS |
| 10 | Investments | Annually | OSAG, KDS |
| 11 | Consolidated Revenue Fund | Annually | OSAG, KDS |
| 12 | Statement of Total Recurrent Revenue | Annually | OSAG, KDS |
| 13 | Statement of Recurrent Expenditure by Heads | Annually | OSAG, KDS |
| 14 | Statement of Recurrent Expenditure by Sub Heads | Annually | OSAG, KDS |
| 15 | Statement of Contingencies Fund | Annually | OSAG, KDS |
| 16 | Development Fund Receipts | Annually | OSAG, KDS |
| 17 | Treasury Fund of the State Government | Annually | OSAG, KDS |
| 18 | Other Financial Annual Statements of Government | Annually | OSAG, KDS |

Section II

Approach to Scheduled Audits

Objectives

1. This Volume deals with the routine and specific programs to scheduled audits of the finances, the financial books and records of MDAs. Also, this volume shall be read and applied along with Volume I (Guiding Principles) and Volume III (IT Systems Audit) of the Financial Audit manual. The systems are intended to confirm absolute accountability and diligence in the control exercised by Government officials at Ministries, Departments and Agencies (MDAs) in their routine financial and accounting responsibilities.
2. The broad guidelines and scope pertaining to each component are given below, while the working papers (Audit Programs) are also provided at the end of each Section.

Scope

3. The basic audit approach below covers the following:
 - a. Audit organisation, allocation of duties and general control
 - b. Audit responsibility
 - c. Adherence to audit objectives and programs
 - d. Performing an audit assignment
 - e. Reporting

Audit Organisation, Allocation of Duties and General Control

4. Scheduled audits should commence with an appreciation of the entity, the work load and the resources available. The human resources should be administered suitably and efficiently to achieve the desired effectiveness. The relevant Director assisted by the Deputy Director and the Team Leader should design a workable staff arrangement for the realisation of the objectives set.
5. Based on the Annual Audit Plan (Appendix 1A), the scope and related audit programs, the Deputy Director or Team Leader shall organise the available manpower to cover the schedules of audits within the time allocated.
6. Audit tasks shall be coordinated by the Team Leader in a manner that promotes the building of relevant working papers and audit evidence to support assertions. Staff members are to be focused and apply:

- d. Professional Skepticism - recognizing that circumstances may exist that cause material misstatements. It also enhances and broadens the concept of due care and is fundamental for planning and performance of an audit.
 - e. Professional judgment by auditors leading to informed decisions and the appropriate application of relevant knowledge and experience to the facts and circumstances
 - f. Sufficient and appropriate audit evidence to reduce audit risk to an acceptably low level and enable the Auditor to draw conclusions on which to base his/her opinion.
7. Routinely (as appropriate), the work output involving the achievements, and standards required including the working papers of lower level Auditors are to be controlled and reviewed by their superiors. This will promote the laid down quality and also assure timely completion of assignments.

Audit Responsibility

- 8. Auditors have the responsibility to perform their work in an independent manner and shall declare their absolute independence of the auditee by completing the Code of Ethics form at the assumption of duties whenever they are posted and at the commencement of each audit period.
- 9. An Auditor is expected to demonstrate exceptional ethical behaviour. Any misconduct or improper behaviour also reflects on the integrity of the OSAG, Kaduna State and the quality and validity of the audit work of the institution (OSAG). The adoption and application of the relevant Code of Ethics would therefore promote trust and confidence in the Auditor and his/her work - the audit reports.
- 10. In addition, the Code of Ethics recognizes that the objectives of the job are to achieve highest standard of work in terms of professional standards; to attain the highest levels of performance. These objectives require four basic needs to be met thus:
 - e. **Credibility:** There is a need for credibility in information and information systems
 - f. **Professionalism:** The obvious need for individuals who can be clearly identified by the auditee, the employees and other interested parties as professional persons in the organization
 - g. **Quality of Services:** There is the compelling need for assurance that all services obtained from the OSAG are carried out to the highest standards of performance, and

- h. **Confidence:** The auditee and users of the related audit reports should be able to feel confident that there exists a framework of professional ethics which governs the provision of the audit.

Adherence to Audit Objectives and Programs

- 11. Auditors shall appreciate the standard objectives and the scope of each audit as contained in the opening part of the relevant sections of Volume I of this manual. The objectives shall therefore guide the performance of the task itself and prevent the dissipation of energy. Also, each audit task has a relevant and explicit program; these are to be applied meticulously. Where required, a program may be extended in order to capture any issue not listed in the standard form. In addition, the program is expected to accumulate the relevant evidence for the drawing of audit conclusion(s).
- 12. All completed assignments shall be accompanied by the Clearance Form/Inspection Report. On the submission of related audit reports or findings, the relevant superior officer shall measure the performance of each subordinate auditor, based on the quality of work, the accompanying working papers and how far the objectives and scope of the assignment have been covered.

Performing an Audit Assignment Effectively

- 13. Auditors shall accomplish their respective assignments in a professional manner to assure the achievement of set objectives. The critical or vulnerable aspects of the financial process which are open to abuse should be appreciated for the required emphasis.
- 14. Other basic audit methods are listed as below:
 - a. Plan each aspect of the task by sequencing the approach, based on the recommended working papers (contained in the Financial Audit Manual). Apply the relevant audit program as contained in this manual (flow chart may be used)
 - b. While carrying out an audit task, mark out documents which copy is required to be obtained as evidence and request for these early
 - c. After each audit and when required, Interview those concerned in an open manner, note issues that are of concern and where necessary, prepare your notes which may form the basis for further work
 - d. On completion of work, promptly arrange the related working papers including any audit evidence obtained, assemble the notes made, write and submit the related report to the appropriate senior member of the team

- e. Keep the working papers in an organised file for reference purposes and audit evidence; develop an index for the filing system and arrange all files in a fire proof safe

15. The conclusions reached after each audit shall be supported by appropriate evidences especially documentary confirmations, accounting breakdowns and analysis which shall form part of the working papers. The working papers shall be appropriately referenced, arranged and listed in a manner that enhances easy location and use even when the initial Auditor who performs the task is not available.

16. Audit working file would include the following:

- i. Relevant laws creating the institution
- ii. Bye-laws and regulations guiding its activities
- iii. Audit plan, program objectives and scope
- iv. Engagement letter (where applicable)
- v. Information about the entity and its operation
- vi. Notes on the accounting systems and procedures
- vii. Audit risks and risks assessment
- viii. Procedures followed, tests performed
- ix. Evidence obtained from audit procedure carried out
- x. Account names of third parties, flow chart and internal questionnaire
- xi. Approved budget, expenditure warrants, AIEs
- xii. Agreements, loan covenants, and contract documents
- xiii. Balance sheet (make up of assets and liabilities)
- xiv. Bank reconciliation statements
- xv. Financial statements and other accounting balances
- xvi. Date and Initials of preparer and reviewer of the working papers

Audit Reporting

17. Audit findings (exceptions) should be raised and documented in the required format (see Volume I) as soon as discovered. These findings are communicated to the auditee through the following available means:

- a. Formal query (this could sometimes be discussed with the auditee)
- b. Management letter; and
- c. Audit report.

18. A query is an initial method of communicating with the accounting officer to the relevant division heads where the queries reside. This way, management is provided the opportunity to provide feedback and additional information. It is advised that the number of queries should as much as possible be minimized. Team Leader should rather assemble the queries and send them at the same time

19. Unresolved material findings which will be considered for reporting should nonetheless always be included (and this way repeated) in the management letter. Repeating unresolved findings will alert management to the items that will potentially appear in the audit final report. This will ensure that audit reports do not contain issues that will 'surprise' management.
20. The management letter is normally issued at the end of the engagement summarising all unresolved findings previously raised in queries and any new issues not yet raised. Management is requested to provide comments on the findings raised in the management letter. The management letter should be issued and signed by the Auditor General or any officer he delegates to so do. All unresolved issues in the management letter shall then form part of the annual report of the Auditor General Kaduna State.
21. The final audit report prepared and signed by the Auditor General will be presented to the House of Assembly through the Public Accounts Committee of the House.

Section III

Revenue Audit

Objectives

1. The key objective of the revenue collection and revenue cash book audit are:
 - a. To confirm that the relevant laws, rules and regulations are adhered to in the collection, accounting and general control regarding the revenue of Government
 - b. Specifically, to verify and confirm:
 - i. The timely collection of revenue
 - ii. That actual amounts due are collected and recognized
 - iii. That official Kaduna State Government receipts are issued for all revenue collected
 - iv. That all income is banked within one working day and all payments through pay-direct system are confirmed to the bank statements
 - v. That the amounts collected are accurately documented and correctly accounted for in the relevant books/records
 - vi. That the required returns are rendered
 - vii. That relevant accounting summaries are prepared and rendered
 - viii. That required reconciliations are prepared

Scope

2. The revenue audit shall cover revenues collected through:
 - i. Taxes
 - ii. Fines and fees
 - iii. Licences
 - iv. Earnings and sales
 - v. Rent of government properties
 - vi. Interest repayment and dividend
 - vii. Miscellaneous/sundry

General

3. Auditors shall initially test and examine the system of internal control within the particular institution as it concerns revenue collection and accounting. Such shall include control over ordering, custody and issuing of Government receipts, licences and other related security documents. Also of significance is the confirmation regarding the preparation and rendition of monthly returns as stipulated by relevant Government regulations.

Audit Focus and Summary of the Procedures

4. The Audit Program as regards the revenue collection and revenue cash book are given as Appendices 3A to 3C. The basic procedures which Auditors should direct their respective focus are summarised as below:
 - a. At the outset, Auditors are to confirm that there exists valid authority for each of the revenue being collected. The relevant legislation or bye-law, circulars etc., should be verified accordingly to assure validity of practices. The applicable rates should also be verified
 - b. The Auditor concerned should obtain a copy of the Financial Instructions, relevant rules and regulations, in order to ultimately determine the compliance level
 - c. Each Auditor concerned should obtain the revenue estimates of the institution and determine the sources of and the available revenue from it
 - d. The Auditor shall confirm the authenticity of revenue earning documents being used - official receipts, cash books etc. and verify that these are printed, pre-numbered, and that they are supplied by authorised sources
 - e. The Auditor shall ensure that appointed Revenue Collectors are trained and are competent to discharge the duties and that adequate safeguard exists to prevent the commission of frauds or misappropriation of funds
 - f. The Auditor shall examine the Internal Auditor's work to determine the extent to which it can be relied upon
 - g. The Auditor shall confirm that money has been paid to the bank before official receipt is issued and assess the internal control generally. This will enable him/her to identify the areas of weaknesses which can be exploited for the commission of fraud or misappropriation of Government funds. Use of flow chart or a descriptive analysis of the system can be applied here for effectiveness.

Types of Revenue Audit

5. To ensure effective coverage, the revenue audit is divided into three parts as below:
 - a. **General Revenue Audit and Audit of Revenue Collectors' Account:** This part is concerned with the verification of completeness in receipts of Government revenue.
 - b. **Final Revenue Audit:** It deals with the completeness of entries, verification of returns etc.
 - c. **Audit of Treasury Revenue Earnings Books:** This aspect is concerned with control, receipt and issue of stock of revenue earning books. It involves some key documents thus:
 - i. Revenue collectors' Receipt Books (TF6A)
 - ii. Treasury Receipt Book (TF6)
 - iii. Licence Books
 - iv. Fixed Fee Tickets
 - v. Receipt Book Register (TF136)
 - vi. Other Security Books

Appendix 3A

General Revenue Audit and Audit of Revenue Collector's Account

Institution:..... Period:..... Reviewer.....

Date.....

| Task No | Detailed Work Date | Comments | Signature |
|------------|---|----------|-----------|
| I. | Understand the mandate of the MDA; Obtain a copy of relevant law/statute setting it up and confirm conformance accordingly | | |
| II. | Obtain existing manual/ instructions; check compliance accordingly | | |
| III. | Confirm the standard of internal control standards; obtain the work of the Internal Auditors to gauge the internal control level | | |
| IV. | Obtain the revenue estimates; determine the sources of and the available revenue from the institution | | |

- V. Confirm validity of documents in use; verify that these are printed, pre-numbered and supplied by authorised sources

- VI. Ensure that appointed Revenue Collectors are capable; that adequate safeguard exists to prevent the commission of frauds or misappropriation

- VII. Verify Receipt Book Issue Note (RBIN) and Receipt Books to Receipt Book Register; confirm correctness of entries

- VIII. Authenticate correctness of last Return of Used and Unused Receipt books and obtain/verify the audit file

- IX. Check receipt book 6A to cash book Since latest return or since last inspection (whichever is applicable) and also check bank tellers to receipt books

- X. Cast cash book since last return or inspection to confirm accuracy of totals/figures declared

- XI. Check paying-in totals into original Treasury Receipts posted in the cash book to corroborate the figures shown; trace the two separate figures to bank statements

- XII. List all Treasury Receipts and trace these to Treasury Cash Book
-
- XIII. Certify assessment to revenue for the period
-
- XIV. Confirm the receipts into Revenue Register to authenticate Entries
-
- XV. Confirm that all dues are being collected promptly and that there is a notice that the public should request for receipts after payment; confirm that no original receipt issued are left in the receipt book
-
- XVI. Ascertain that all revenue collected are promptly transferred to bank and then to the Sub Treasury of the State; confirm security for unused receipt books
-
- XVII. In the case of fee revenue, check that full fee and not part is received
-
- XVIII. Mark off all audited receipt books from the Receipt Books Register; compile receipt books not produced for audit
-

Other commentaries

.....
Signature/Date

Appendix 3B

Audit of Final Revenue Account

Institution..... Period..... Reviewer.....
Date.....

| Task No | Detailed Work | Comments | Signature | Date |
|---------|---|----------|-----------|------|
| I. | Verify all Treasury Bk. 6 Receipts into main Treasury Cash Book | | | |
| II. | For each transaction, check receipts/receipt voucher to confirm accuracy in both calculation and classification | | | |
| III. | Verify individual Receipts into the Schedules/Cards/Abstracts/Ledgers using the subhead schedules and the main revenue ledgers | | | |
| IV. | Cast the Revenue ledgers to confirm correctness | | | |
| V. | Obtain copies of summary of monthly collections by the collection bank and copies of the monthly receipts of revenue by the controlling banks | | | |
| VI. | Review the main revenue cash book maintained for the controlling bank and ensure that it was properly kept | | | |

VII. Check to ensure that the amount on the credit advice slips of the controlling banks are properly reflected on bank statements and that the amounts are in agreement with the corresponding debit advice slips by the collecting bank.

VIII. Extract the balances of the Revenue Ledgers/Abstracts into the Transcripts

IX
Compare actual revenue with estimates and extract/comment on material variations

X Where applicable, check consolidated Arrears of Revenue Returns and ensure that they are

Regularly monitored by the Inland Revenue Service.

Other commentaries

.....
Signature/Date

Appendix 3C

Audit of Treasury and Revenue - Earnings Books

Institution..... Period..... Reviewer.....
Date.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|---------|--|----------|----------------|-----------|
| I. | Check from the RBIN to the receipt register, all receipt books, tickets and other security books issued to the department being audited | | | |
| II. | In carrying out the audit, make no tick alongside the serial number but tick the RBIN number/date; draw a small green line under the serial number of the last receipt of each batch covered by the RBIN. The RBIN will be endorsed TOC (taken on charge), initialed and dated | | | |
| III. | Call for and check unused receipt books to confirm complete and correct numbering; check each receipt book to the receipt book register | | | |
| IV. | For partly unutilized receipt book, check each into the receipt book register | | | |

| | |
|------|---|
| V. | Make a cross on the front and back of each receipt book completely used; endorse the receipt book register E/A (examined and audited) |
| VI | Compile list of receipt books issued to sub-station or branch for further verification at such branch |
| VII | Scrutinize the Stock Register (also called Stock Book Register or Distribution Register) to confirm any entry not checked; call for such omission |
| VII | Upon endorsing all receipt books, and marking them E/A, rule a diagonal line from the left bottom corner to the right hand top corner, initial and date accordingly |
| VIII | Confirm that the Receipt Book Register or Stock Register is being checked at least once a month by a senior officer |

Other commentaries

.....
Signature/Date

Section IV

Audit of Payments

1. The audit of payments at Ministries Departments and Agencies (MDAs) is significant and should be accorded the appropriate attention by the Auditors.

Objectives

2. The work of Auditors at MDAs aims at:
 - a. Safeguarding Government's fund against misappropriations and frauds
 - b. Establishing the authority of each payment (e.g. Memo from Government House, Warrants, etc.)
 - c. Ensuring that payment vouchers (PVs) are prepared for all payments and that the PVs are presented for post-payment audit whenever required by Internal Auditors
 - d. Certifying that all payments made by MDAs are properly authorized, and also ensuring that the documentation attached to payment vouchers are valid and complete; ensuring that stated payments are actually made to the specified contractor/ service provider/supplier
 - e. Confirming that economic value has been received for every payment made
 - f. Assuring the accurate recording of all transactions (commitments and payments) involving the payments in the relevant Departmental Vote Book
 - g. Making sure that bank reconciliations are done in a timely manner for the prompt discovery of any incorrect entries by banks and/or errors in cash book entries by staff
3. To promote the achievement of the above stated objectives, Auditors shall lay the desired emphasis by continuously examining the level of internal control.

Summary of Scope

4. The payment audit covers three broad sub components thus:
 - a. **Post payment audit of payment vouchers:** It involves:
 - i. the vouching of payment vouchers to confirm the genuineness of transactions paid for

- ii. the authorization of the payment based on applicable laws, rules and regulations including Government circulars and the warrant or AIE (memo from Government House)
 - iii. the completeness of supporting documents
 - iv. the accurate classification of each payment
 - v. the examination of the e-payment mode to confirm that payments made are true and that each payment has been made to the accounts only of bonafide recipients
 - vi. the acknowledgement of the amount paid by Government by the recipient (receipt from the payee)
- b. **Audit of the cash book:** This involves the tracing of payment vouchers (PVs) to entries in the cash book, and other accounting records (e.g. the ledger) to confirm that related entries are complete and absolutely correct
- c. **Audit of Bank reconciliation statement:** It is the reviewing of the bank reconciliation statements prepared by Government officials to verify its accuracy and the follow up of any outstanding items, and to enquire the steps taken to resolve such outstanding with the concerned bank. Ensure all bank entries are recorded in the cash books.

Key Control Issues

5. The key control issues applicable to payments are listed as below:
- a) Only expenditures included in the Appropriation Act (annual Budget and exemplified by the Departmental Vote Book or DVB) can be paid; the vote book monitoring system shall be applied to ensure conformance
 - b) No payment can be made until all required steps are implemented - complete documentation through the payment voucher system, authorization and the mandatory checks have been observed
 - c) All proposed payments along with documentary evidences shall first be pre-audited by the internal audit of the MDA; only when the payment voucher has been endorsed for payment by the internal audit can payment take place
 - d) The electronic mode of payment (e-payment) and issuing of cheque (in some cases) are the methods allowed for all disbursements
 - e) Payments are posted promptly into the cash book
 - f) Reconciliation of the bank accounts shall be accomplished monthly for all bank accounts and checked by the Director of Finance & Accounts.

Appendix 4A

Post Payment Audit of Payment Vouchers

Institution.....

Period.....

Date.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|---------|--|----------|----------------|-----------|
| I | Study the institution being audited - its mandate, the law establishing it; appreciate its operations in order to understand the peculiarities and possible control issues | | | |
| II | Review the process for authorizing payments and the role and place accorded internal audit function; obtain and study any manual or procedures/instructions | | | |
| III. | Call for and carry out initial verification of the batch of payment vouchers (PVs) for the period (month); confirm the serial numbering of PVs; note any missing voucher (serial number, etc.) | | | |
| IV. | Confirm that PVs prepared and presented adhere to Financial Instructions as concerns: classification, contents, documents attached (contract papers, invoices, delivery notes/stores receipt | | | |

vouchers etc.);
authenticate the
computations on PVs and
the accuracy of the
attachments

Check that each PV has
been correctly coded
according to the new Chart
of Accounts

-
- V. Check and confirm that
photocopy of cheques/
cheque stubs and the bank
details of recipients relates
to the names on PVs;
- confirm the
acknowledgement by payee
for the amount paid

-
- VI. Validate the authorization
of PVs, note any
irregularity; confirm that
payments made (the PVs)
are valid and are included
in memos from Government
House/annual
budget/warrants;

-
- VII. Confirm that the system of
DVEA system is adhered to
ie Vote Books are
adequately completed.

Other Commentaries

.....
Signature/Date

Appendix 4B

Audit of Cash Book

Institution.....

Period.....

Reviewer.....

Date.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|---------|---|----------|----------------|-----------|
| I | Assemble PVs for the period, check PV entries into cash book, note any missing PVs; | | | |
| II | Verify PVs against Monthly Schedules/Expenditure Abstracts/Expenditure Ledgers | | | |
| III. | Confirm cast of cash book and cast of Expenditure Abstracts and Ledgers | | | |
| IV. | Extract expenditure totals into Transcripts; compare actual expenditure with approved/authorized expenditure, note/comment on any deviation or excess | | | |

Other Commentaries

.....
Signature/Date

Appendix 4C

Audit of Bank Reconciliation Statement

Institution:..... Period:..... Reviewer:.....
Date:.....

| S/N | Detailed Work Date | Comments | Signature |
|------|--|----------|-----------|
| I. | Obtain copies of bank reconciliation statements; For period, check items on payments and receipt side of cash book with bank statement. | | |
| II. | Ascertain all contra items on both in cash book and bank statement. | | |
| III. | Confirm that all outstanding items on the reconciliation of previous period have been cleared; obtain explanations for any delay(s). | | |

Appendix 5A

Audit of Main and Supplementary Transcripts

Institution..... **Period.....** **Reviewer.....**
Date.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|----------------|--|-----------------|-----------------------|------------------|
| I | Call for the Transcripts for a specified month and verify the main ledger figures; confirm the main ledger entries against the Transcripts according to the classification in the Estimates | | | |
| II | Request for and use the main journal book (the Adjustment Voucher Schedule) to verify the Supplementary Transcripts, based on the classification in the Estimates and the Below the Line (BTL) accounts | | | |
| III. | Confirm the cast of the Main Transcripts and the cast of the Supplementary Transcripts respectively; verify the brought down figures from both statements (Main and Supplementary Transcripts) using the balance carried forward from previous month | | | |

IV. Report on any differences between the Main Transcripts and the Control Ledger; check to confirm that there are no arithmetical or balancing errors; confirm the balances are correctly transferred from previous month to the month being audited

V Note and report any difference between the Supplementary Transcripts and the Journal Book; check to confirm that there are no arithmetical or balancing errors; confirm the balances are correctly transferred from previous month to the month being audited

Other Commentaries

.....
Signature/Date

Appendix 5B

Audit of Annual Expenditures by Subheads

| Institution..... | | Period..... | Reviewer..... | Date..... |
|------------------|--|-------------|----------------|-----------|
| Task No | Detailed Work | Comments | Signature..... | Date..... |
| I | Call for the relevant vote book and verify each subhead's authorised vote from the approved Estimates; pay attention to the description of each subhead for any duplication or misclassification | | | |
| II | Using the Virement Warrant records/file, Verify additions or deductions of the authorised vote | | | |
| III. | Confirm arithmetical accuracy of the balance column for each sub head after adjusting for any addition(s) or subtraction | | | |
| IV. | Confirm savings or excess position by deducting total actual expenditure from the balance of each subhead of expenditure | | | |

V Cast the balances of all subheads together and verify the arithmetical accuracy of the totals arrived at for authorised vote, additions, deductions, balance available, total actual expenditure for the year, savings and excess columns

VI Report on any discrepancy between the figures in the Statement of Annual Expenditure Under Subheads and those in the approved Estimates

VII Report on any error in arithmetic computations

Other Commentaries:

.....
Signature/Date

Section VI

Audit of Stores

1. Stores in Government MDAs represent the equivalent of cash value; the stores audit shall therefore be given the deserved attention through the appropriate certification of internal control procedures concerning the stores. The relevant Audit Programs are produced as Appendices 6A to 6D in this section.

Objectives

2. Stores audit aims to:
 - a. Ensure that all items ordered and delivered are properly receipted and taken on ledger charge into the stores
 - b. Ensure that all issues made from the stores are requisitioned for (using prescribed forms), authorised and properly recorded
 - c. Ensure that stores are properly arranged, secured and controlled in accordance with laid down regulations

Scope

3. Audit of stores shall cover all items i.e. Allocated stores, Unallocated stores; Expendable, non-Expendable, and Consumable stores.
4. The audit of stores shall cover the following:
 - a. Proper acquisition of stores item from the point of ordering and purchase authorisation through to delivery
 - b. Adequate arrangement for storage and security of stores
 - c. Satisfactory documentation - from the point of receiving through issuing, Ledger entries (including inter - stores transfers) and write off of stores, using stipulated Government formats
 - d. Proper authorisation of stores transactions involving ordering, receiving, issuing, transfers etc.
 - e. Maintenance of proper records of stores
 - f. The periodic stock taking and reconciliation of book figures against physical counts, and prompt reporting and resolution of discrepancies where such has occurred

Appendix 6A
Audit of Stores (Supply)

Institution.....

Period.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|---------|--|----------|----------------|-----------|
| I | Request for Purchase orders in the period under audit, confirm that these have been made using prescribed Government stipulated method at the level of a Local Purchase Order (LPO) or formal agreement and authorised by appropriate officials so allowed | | | |
| II | Are copies of authorised order document (LPO etc.) being dispatched in advance to Accounts department and stores for the needed information? | | | |
| III. | Confirm that copies of LPOs are being maintained and issued in serial number order; verify that cancelled LPO (all copies) are left intact in the booklet | | | |
| IV. | Verify that all unused LPO booklets are firmly safeguarded against possible misuse by unauthorised persons | | | |

V Confirm that there exist an approved list of certified and registered suppliers, verify that orders are made only from the list of registered suppliers

VI Verify that limits of authority concerning amounts in the authorisation of orders (LPO etc.) is being adhered to; confirm that there are no split in orders to circumvent allowed financial authority limits

VII Confirm that appropriate procurement procedures (e.g. tender according to Government laws) were followed prior to the final stage of issuing order (LPO etc.)

VII Conduct regular stock count and compare result obtained with record per stock ledger. Reconcile or investigate any difference noted

VIII Take sample (e.g. 10%) of items supplied, make note of the quoted prices on suppliers' invoices, conduct a price survey to confirm the reasonableness of prices indicated on the suppliers' invoices

Other Commentaries

.....
Signature/Date

Appendix 6B

Audit of Arrangement and Security of Stores

Institution.....

Period.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|---------|--|----------|----------------|-----------|
| I | Confirm adequacy of space available in the stores, compared to the volume of items stored | | | |
| II | Assess the arrangements made to prevent burglary; confirm the adequacy of measures put in place to prevent/control fire, flood and rodents etc. | | | |
| III. | Check stock limits (max, min, re-order levels, reorder quantity etc.) in place; confirm these are being followed; verify the stores ordered and monthly stores balances applying statistics, confirm there are no overstocking in certain period of the year | | | |
| IV. | Verify long existing items in stores, find out why and the possibility of such items becoming obsolete, unserviceable or turning to wastes | | | |

- V Check the arrangement and adequacy of appropriate storage facilities (racks, shelves etc.); confirm use of available storage devices and general efficiency of storage
-

Other Commentaries

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Signature/Date

Appendix 6C

Audit of Stores Documentation

Institution.....

Period.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|---------|---|----------|----------------|-----------|
| I | Verify the source of stores items (direct from supplier or transferred from another stores); confirm the preparation of receipt documents - Stores Receipt Voucher (SRV), Verification Sheet etc. and if transferred, Store Issue Note from the transferor stores | | | |
| II | Check to confirm details on SRV against LPO, Supplier's Invoice, Delivery Waybill etc.. | | | |
| III. | Confirm that items being supplied are inspected at point of delivery to stores by at least one officer outside the stores function and that proof of the inspection (e.g.by signing the relevant document) exists | | | |
| IV. | Verify that relevant receiving documents - SRVs are prepared immediately on receipt of stores | | | |

V Confirm the order of issuing (normally First in First Out - FIFO basis should be applied)

VI Obtain the authorised list of signatories for approval of Requisitions and use it to confirm Stores Requisition approvals/authorisations; check and confirm any alterations on Stores Requisitions and SIVs

VII Confirm that issues are not in excess of quantities requisitioned or authorised; check signed Requisition forms against Stores Issue Vouchers

VII Verify that all Requisitions and Stores Issue Vouchers (SIVs) are serially numbered and firmly preserved to prevent unauthorised access

VIII Confirm that all SIVs are referenced to the Requisitions and where necessary to the ledger account folios (especially as relates to Unallocated stores)

IX For all Unallocated Stores, ascertain that monetary values of items are indicated on the SIVs

X Crosscheck entries of SIVs to Ledger Bin Cards

Where required, verify

XI SIVs to Job Cards

Other Commentaries

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Signature/Date

Appendix 6D

Audit of Stock Taking and Valuation

Institution.....

Period.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|---------|--|----------|----------------|-----------|
| I | Confirm that stock are physically counted periodically (at least once a year) - at the end of a financial year; ascertain the procedures for stock taking; confirm compliance with laid down rules (the Financial Regulations) and the involvement of the Stock Verifier | | | |
| II | Verify the stock sheets figures against the Ledger entries, ascertain completeness and accuracy of balances | | | |
| III. | Test-check the balances in Ledger folios by casting and vetting them | | | |
| IV. | Ascertain the method of stock valuation adopted and verify the adequacy in relation to the type of establishment | | | |
| V | Confirm that the staff who do the physical count is not involved in the entry of the Ledger | | | |

VI Confirm surpluses declared and check that such are taken on the Ledger

VII Confirm stock deficiencies, apportion liabilities accordingly

VII Obtain the previous recommendations of the Stock Verifier, confirm that these have been effected and the level of compliance; confirm that a Board of Survey was appointed at the end of previous year and that the related recommendations were implemented

VIII Confirm that items listed for destruction were duly destroyed; verify the Destruction Certificate

IX Test-check to confirm the existence for highly marketable items which can easily be stolen

X Observe physical stocktaking of stores in reality; confirm the level of compliance with relevant rules and regulations

Other Commentaries

.....
Signature/Date

Section VII

Audit of Plant, Equipment, Tools and Government Vehicles

General

1. Government's property, plant and equipment (aside from buildings) are usually classified as 'plant, equipment, and motor vehicles'. Tools fall in a class regarded as items of store but which last long enough and cannot therefore be classified as consumables

Objectives

2. The purposes of plant, equipment, tools and motor vehicles audit are:
 - a. To ensure adequate and perpetual control over the assets of Government
 - b. To ensure that proper records are maintained regarding Government assets
 - c. To promote the maintenance of motor vehicles in a manner that enhance their useful lives
 - d. To ensure that appropriate approvals for purchase of assets are obtained as stipulated by relevant laws, rules and regulations
 - e. To make sure that Government is advised on a timely manner, when an asset is no longer economical to keep

Scope

3. The term 'Plant' includes fixed and movable items owned by Government. Such could encompass machines used in the office, or operational site equipment etc. All plants are to be numbered as appropriate in numerical order and recorded in a Plant Register or Ledger. It shall reveal the Departmental number, name and rank of the officer in charge etc.
4. With respect to plant/equipment, An Auditor concerned shall:
 - a. Generally, verify the physical existence of the item and also the appropriate records. He/she shall confirm any records of damages or loss of plant.
 - b. As a rule, be in a position to confirm that all unserviceable plants are arranged to be disposed off according to the relevant provisions (Financial Instructions).

- c. Be in a position to monitor and report any unauthorised cannibalisation of plant/equipment
 - d. Observe and report unauthorised scrapping/sale of unboarded Government plant/equipment
 - e. Generally, confirm that plant, equipment and motor vehicles are acquired using Government fund allocated for that purpose and with appropriate approvals
 - f. Be in a position to confirm that relevant Registers and or Ledgers are being maintained and updated as these are due
 - g. Regularly inspect the performance of each piece of plant/equipment and motor vehicle vis-à-vis the cost of maintenance and take note when such is no longer economic to keep
5. **Tools:** In the case of tools and due to the diverse nature, the Auditor is concerned with the audit of the records (e.g. Ledger) being maintained - its completeness, adequacy and how timely these are being updated.
6. **Motor Vehicles:** As concerns motor vehicles, the scope of audit involves the following:
- a. The Auditor is to confirm that motor vehicles are being maintained with adequate servicing arrangements. Proper records of the maintenance program are also to be kept and presented for audit
 - b. The Auditor shall examine the custody and usage of each vehicle; this also concerns the keeping of log books (having records of kilometers made) by the drivers concerned who must record journeys made outside the town or city of location and the authority for such trips
7. **IT equipment:** The scope of audit of IT equipment involves the following:
- a. The Auditor is to confirm that acquisition and disposal of IT equipment is properly authorised by designated personnel. IT equipment acquired should be cross-checked that it meets specifications by an independent person
 - b. The Auditor shall examine that the equipment is properly embossed and transferred to the right location. Assets register should be maintained and routine physical check of the assets should be performed to ensure existence.

Appendix 7

Audit of Plant, Equipment, Tools and Government Vehicles

Institution.....

Period.....

| Task No | Detailed Work | Comments | Signature..... | Date..... |
|---------|--|----------|----------------|-----------|
| I | Request for the Plant Register or Ledger; scrutinise and confirm these are in existence and that they are being properly maintained; | | | |
| II | Call for the register/ledger of motor vehicles; site and validate the existence of all vehicles listed | | | |
| III. | Call for the relevant log Books of motor vehicles, check and confirm that details of petrol consumption are entered in each log book by crosschecking from petrol requisition book | | | |
| IV. | Confirm that each journey recorded was authorised by checking the signature of the authorising officer | | | |
| V | Examine the register of private running of vehicles by test-checking the receipts issued for all private journeys for which payments have been made | | | |
| VI | Confirm that the private running register is being checked each month by a senior officer | | | |

VII Verify that the arrangements and records kept for maintenance/servicing of motor vehicles are satisfactory

VIII Confirm the adequacy of garaging and security of vehicles

IX Obtain and verify the a list of unserviceable vehicles; where no list is available, compile one

X Survey the spare parts available, comment on the adequate safeguard of such spare parts

XI Check the system of disposing boarded vehicles

XII Verify the Tools store by: checking the stores receipt voucher (SRV) to confirm any deliberate or inadvertent omission in the relevant record

XIII Confirm that tools issued are returned by checking the records

XIV Generally confirm the adequacy and completeness of the tools control and records

Other Commentaries

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Signature/Date

Section VIII

Audit of the Consolidated Financial Statements of Government

Objectives

1. The Audit of Financial Statements of the Government is aimed at authenticating the final accounts and reports received from the Accountant General of the State. The audit process by the relevant Auditors is significant since it is the basis of the report that is eventually issued by the Auditor General, confirming the financial position of the State Government regarding the year under consideration.

Scope and Responsibility

2. The philosophy regarding the audit of the annual financial statements of the Government by the OSAG are stated as below:
 - c. Responsibility for the preparation of the Financial Statements rests with the Accountant General of the State who shall ensure that:
 - i. The Financial Statements as presented comply with relevant laws and the Financial Instructions
 - ii. The financial statements comply in all material respects with the provisions of the FAAC Guidance on the Format of Financial Statements.
 - d. The Accountant General of the State is also responsible for the establishment and maintenance of adequate system of internal controls at all MDAs which shall support reasonable assurances that the transactions recorded are within statutory authority, and that such transactions adequately disclose the use of all public financial resources by the State Government
 - e. The Auditor General for the State is responsible for the auditing and issuing of a certification as to the fact that:
 - i. The appropriate financial records have been kept in accordance with the relevant laws
 - ii. The Financial Statements presented by the Accountant General of the State together with the notes and other statements annexed reflects the true and fair view of the state of affairs of the finances and accounts of the State Government as at the relevant date

- f. On completion of the audit, the Auditor General for the State shall issue his/her Report concerning the particular set of Annual Financial Statements. A Domestic Report on the finances of Government which shall contain sundry issues observed in the process of auditing the accounts of the State shall also be issued by the Auditor General for the State.

Submission of Financial Statements by the Office of the Accountant General

3. Not later than three months after the end of every financial year, the Accountant General of Kaduna State shall present the financial statements relating to the year under review to the Auditor General for audit.
4. Under the cash basis of preparing the Financial Statements, the following statements along with the relevant notes and schedules are to be presented to the Auditor General for Kaduna State for auditing:
 - a. Statement No 01 - Statement of Assets and Liabilities
 - b. Statement No 02A - Statement of Consolidated Revenue Fund
 - c. Statement No 02B - Statement Capital Expenditure and Development Fund Receipt
 - d. Statement No 03 - Statement of Recurrent Revenue
 - e. Statement No 04 - Statement of Recurrent Expenditure
 - f. Statement No 05 - Statement of Capital Receipts
 - g. Statement No 06 - Statement of Capital Expenditure
 - h. Statement No 07 - Cash Flow Statement

Audited Statements of Accounts under the IPSAS Accrual System

5. Governments at all levels are expected to migrate to the IPSAS based Accrual system of accounting from January 01, 2016. Accordingly, the set of accounts to be presented for audit and upon which the Auditor General Kaduna state would base his/her annual audit report in compliance with the IPSAS Accrual method. In consequence, the Auditor General shall receive a complete set of financial statements from the Accountant General, Kaduna State comprising the following among others:
 - a. Statement of Financial Position (also known as Balance Sheet or Statement of Assets and Liabilities)
 - b. Statement of Financial Performance (Statement of Consolidated Revenue Fund)
 - c. Statement of Changes in Net Assets/Equity

- d. Cash Flow Statement
- e. Statement of Comparison of Budget and Actual Amounts
- f. Statement of Accounting policies (these are notes, comprising a summary of significant accounting policies and other explanatory notes)

Procedure for the Audit of Annual Financial Statements

6. The annual financial statements are derived principally from the monthly financial returns (the Transcripts) submitted by the MDAs which forms the accounting components and are processed by the Office of the Accountant General.
7. The steps required in the audit of financial statements emanating from the office of the Accountant General are given as below:
8. **Step 1 - Receipt of Documents:** The Accountant General will arrange and submit the following to the OSAG:
 - a. Completed and duly signed printed copies of the Financial Statements (along with relevant annexure/analysis and the related notes) as concerns the period being audited.
 - b. The payment details for the period (i.e. payment authorisation or transfer instruments issued by the Sub Treasurer to MDAs)
 - c. The Consolidated Revenue Fund Cash Book
 - d. The Appropriation Act (the Approved Budget for the year)
 - e. Soft copy of the financial statements
 - f. Public Debt Statements (these are received from two relevant agencies namely: The Revenue and Investment Department of the Office of Accountant General, and the Debt Management Office)
9. **Step 2 - Validation of Entries:** The Auditor shall simultaneously validate each Mandate against the entries in the Consolidated Revenue Fund (CRF) Cash Book and also the CRF Bank Statements
10. **Step 3 - Authentication of Mandates:** The Auditor shall examine each mandate to substantiate the purpose of payment and the correctness of the classifications
11. **Step 4 - Analysis of Payments:** The Auditor shall analyse the payment mandates into

- a. Personnel
- b. Overheads
- c. Capital
- d. Service wide vote and
- e. Capital Supplementation

12. Step 5 - Comparison of Financial Statements figures against Consolidated Transcripts: The Auditor shall for each head/sub head:

- a. compare the figures submitted in the financial statements against the corresponding figures shown in the consolidated Transcripts to confirm absolute correctness of both
- b. Check the figures shown in the Transcripts from individual MDA against the figures shown in the financial statements
- c. Compare actual expenditures against the budgeted figures to determine any extra budgetary spending
- d. Verify the balances revealed by the Transcripts of each MDA against the balances reported in the financial statements
- e. Compare the actual amounts released to MDAs against the total expenditure to arrive at the unspent balance; compare the figures of unspent balance against the actual cash balance in the Transcripts of the MDAs
- f. Concerning loan servicing, compare the budgeted amounts with the actual payments to determine any excess payment

Audit of Special Fund

13. The Special funds of the Kaduna State Government are various. Audit of special funds involves the following stages:

- a. The Mandates for each fund is obtained from the Sub Treasurer
- b. Obtain the bank statement for each fund as well as the Inflow and Outflow statements
- c. Scrutinise each payment to confirm that the expenditures are in line with the purpose of creating the fund according the relevant
- d. Prepare schedules of expenditures (if any) that are not in line with the purpose of creating the funds

- e. Carry out other audits in line with the recommendations of this manual and the other audit guidelines/principles as established by the Office of the Auditor General of Kaduna State

Section IX

Audit of Corporations and Self - Accounting Parastatals

Objectives

1. The object of setting audit procedures for corporations is to enable the OSAG discharges its oversight functions relating to government corporations. The audit is aimed at achieving the following objectives:
 - a. To specify the criteria for selecting competent external auditors
 - b. To obtain assurance that External Auditors have complied with the International Auditing Standards in carrying out their audits
 - c. Ensuring that the audit is concluded within a reasonable time
 - d. Ensuring that issues raised by the External Auditors in his/her management letter are resolved in a timely manner
 - e. Identifying areas where additional audit work is required and directing the External Auditor to perform further audit procedure(s) on such aspect(s) of the financial statements, and report back on such additional audit work

Scope of work

2. The guideline shall specify the modality for the selection of a competent external auditor and the ways in which the work of the external auditor can be monitored to achieve audit objectives.

General

3. Auditors shall initially set criteria for selecting competent external auditors for corporations. This is to ensure that only the External Auditors with requisite experience and skills are selected to carry out audit of corporations. The selection of competent external auditors also gives assurance to OSAG that quality work is carried out and this will in turn reduce the level of oversight functions to be performed. The Auditors shall also develop a checklist for assessing the quality of work carried out by the External Auditors and obtain require assurance from the audit.

Audit Focus and Summary of the Procedures

4. The Audit Program as regards the audit of corporations is given as Appendices 9A & 9B. The basic procedures to which Auditors should direct their respective focus are summarised as below:

- i. Criteria for selecting competent auditors should be set.
- ii. Database of competent auditors should be maintained by OSAG.
- iii. The OSAG should develop a checklist for benchmarking work performed by the external auditors against best practices.
- iv. The Auditor shall examine the External Auditor's work to determine the extent to which it can be relied upon.

Appendix 9A

Criteria for Selecting External Auditors

Institution:..... Period:..... Reviewer.....
Date.....

| Task No | Detailed Work Date | Comments | Signature |
|---------|--|----------|-----------|
| I. | Confirm that he/she is a member of a recognized professional body in Nigeria | | |
| II. | Check to confirm that the practicing license presented is genuine and is issued by a recognized professional body in Nigeria | | |
| III. | Check to confirm that the firm has required practicing experience | | |
| IV. | Confirm that the firm is independent of the auditee | | |
| V. | Check and confirm whether the key Partner(s) possess skills, competency and integrity. | | |

Other commentaries

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Signature/Date

Appendix 9B

Reviewing the Work of External Auditors

Institution..... Period..... Reviewer.....

Date.....

| Task No | Detailed Work | Comments | Signature | Date |
|---------|---|----------|-----------|------|
| I. | Obtain and review audit planning memorandum with a view to ensuring that appropriate audit procedures have been designed for identified risk of material misstatements. | | | |
| II. | Review the audit procedure implemented to ascertain completeness and existence of revenue. Confirmed that revenue was remitted to the bank. | | | |
| III. | Review audit program designed for expenditures. This should ensure detection of error or fraudulent transactions. | | | |
| IV. | Confirm that additions to property, plant and equipment and inventories are duly authorized. | | | |
| V. | Check confirmations obtained for trade receivables, trade payables and bank balances. | | | |
| VI. | Check procedure implemented to ensure completeness of liabilities and existence of assets. | | | |
| VII. | Check the procedure used for ensuring that all expenditures were that of the corporation. | | | |

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- VIII Review the financial statements, management letter and the internal control letters with a view of identifying critical areas of the audit.

Other commentaries

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Signature/Date

Section X
Audit of Payroll

General

1. Salaries, wages and other employee benefits paid to government workers are referred to as payroll cost. The internal audit unit of each MDA shall carry out monthly audit the payroll in detail while the external auditor i.e. OSAG staff carry out oversight audit periodically.

Objectives

2. The payroll audit aims at ensuring that:
 - a. Adequate control exists over the preparation of payroll and the payment of salaries
 - b. Proper records are maintained for payroll costs
 - c. Adequate database exists in respect of all workers and that these are updated regularly as the need arises
 - d. Appropriate approvals are obtained for the payment of salaries as stipulated by relevant laws, rules and regulations
 - e. Salaries and wages are paid only to authentic workers of the state

Scope

3. The main focus of audit with respect to payroll is to prevent the payment of salaries to ghost workers and ensure that correct salaries are paid to the genuine government staff and adequate records are kept for payroll costs.
4. As a rule, and in order to prevent ghost workers, a complete verification of staff in all MDAs should be accomplished at least once in two years. Data of staff already verified should be updated regularly in order to cater for new staff and to delete the records of the staff whose employments were termination or retired.
5. The detailed audit work of the internal audit unit of each MDA provides the basis for the audit to be performed by the external auditor from the OSAG in the audit of the payroll. Consequently, the external auditor from OSAG will only carry out the audit of payroll on a random basis, occasionally.
6. With respect to payroll audit, An Auditor (OSAG) concerned shall:
 - a. Get familiar with the condition of service for employees in the state
 - b. Understand the process leading to the preparation of payroll and payment of salaries
 - c. Focus attention on key controls established as to payroll administration in order to identify any breach in the process
7. The payroll audit process is provided in Appendix 10A below.

Appendix 10A

Audit of Payroll

Institution..... Period..... Reviewer.....

Date.....

| Task No | Detailed Work | Comments | Signature | Date |
|---------|--|----------|-----------|------|
| I. | Obtain staff handbook to appreciate the types of employee benefits applicable to the public servants in Kaduna State. | | | |
| II. | Validate the payroll schedule by checking current report against the previous month's payroll schedule | | | |
| III. | From the computer generated payroll schedule, select a sample of staff and ascertain that various benefits computed correspond with those specified in their letter of employment or letter of promotion/ increase in salary. | | | |
| IV. | In respect of variation inputs/payroll advices, verify samples to ascertain that these are authentic and that approval has been obtained from the Accounting Officer or a designated subordinate before processing additional benefits included for payment. | | | |

IV. Obtain samples of payroll schedule, cast and cross-cast these to ascertain the accuracy of the amounts

VI. On a random basis, check the net pay in the payroll schedule to bank advice; investigate any difference.

VII. On a random basis, confirm that appropriate authorizations have been obtained before salaries are paid.

VIII. Randomly check to confirm that deductions made from the staff salaries are correct.

Other commentaries

.....
Signature/Date

Section XI

Audit of Agencies Accounts E.g. Secondary Schools

General

1. To assure accountability, the accounts of all agencies for instance secondary schools owned by Kaduna State are audited annually.

Objectives

2. The audit of secondary schools' accounts is aimed at ensuring that:
 - a. Revenues recorded in the books are accurate and complete
 - b. Adequate control exists over recognition of revenue and expenditure
 - c. Expenditure are genuine and incurred solely for schools' activities
 - d. Adequate control exists to safeguard the assets of the schools
 - e. Government policies are followed by the authority of each school.

Scope

3. The scope of audit shall cover the financial statements of each school for a twelve-month period (from September of a year to August of the following year).
4. An Auditor concerned shall:
 - a. Understand and be familiar with the laws and regulations establishing the schools
 - b. Apply the relevant guidance provided in Section III of this manual for the audit of schools' revenue
 - c. Apply the relevant guidance provided in Section IV of this manual for the audit of payments concerning each secondary school
 - d. Apply the relevant guidance provided in Section VI of this manual for the audit of stores of the schools
 - e. Apply the relevant guidance provided in Section VII of this manual for the audit of assets of the schools.

Section XII

Audit of Retirement Benefits

General

1. The general applications of audit principles as expatiated above and in other volumes of the manual are applicable to pensions and gratuities audit. However, specific issues are to be observed for effectiveness and emphasis as concerns the audit of retirement benefits (pensions and gratuities). This is particularly to ensure compliance with the provisions of financial instructions (FI) and Kaduna State Civil Service Rules with respect to retirement benefits.

Objectives

2. The audit of pensions and gratuities of retiring/retired staffs is aimed at ensuring that:
 - a. Adequate records exist for retirement benefits
 - b. Errors are avoided or kept to the barest minimum in the processing of retirement benefits
 - c. There is absolute compliance with civil service rules especially with regards to recognition and payment of retirement benefits
 - d. Adequate security exists over pension funds

Audit Procedures

3. An Auditor concerned shall:
 - a. Ensure compliance with the provisions of financial instructions (FI). A particular reference should be made to sections 1501 to 1510 and 1601 to 1603 of the FI
 - b. Ensure adequate records of pensions and gratuities are maintained for all qualified staff of Kaduna State
 - c. Ensure that all required forms relating to pensions and gratuities are properly completed and preserved e.g. Form 39 and Form 122.
 - d. Verify that records of pension are maintained for only the bonafide members of staff
 - e. Ensure accuracy of computations of pension and gratuity

- f. Verify payments made during the year and confirm that only genuine staffs were paid. Payment should be traced to the previous records and bank statements

- g. Verify existence and adequacy of pension funds by checking the bank statements where the funds are lodged or by obtaining written confirmations from the fund administrators.

VOLUME III

1.0 Introduction

1.1 Purpose of the manual

The purpose of this manual is to establish guidelines and provide guidance on procedures to be followed when an audit is conducted in an Information Technology systems (IT) environment.

It is intended to provide guidance at the level required by the generalist auditor who is familiar with the issues and methods of IT audit. The guidance does not attempt to present detailed specialist information on the highly technical areas of the subject. The scope of IT audit work needed in any particular case must be decided in the light of the general objectives of the audit being undertaken.

An Information Technology systems environment exists when a computer of any type or size is involved in the processing by the entity of financial information of significance to the audit; whether that computer is operated by the entity or by a third party. A computer in this context includes any other related Information technology. The Auditor should consider how IT environment affects the audit.

1.2 Impact of Information Technology

Information technology brings two particular problems for management and auditors:

- Computers and networks, like any technology, are vulnerable to breakdown and damage. As soon as an organisation or a function becomes dependent on information technology, contingency planning becomes important and must take sufficient account of technical matters.
- Data and programs held in computer systems are invisible and intangible, and they can be accessed or changed without leaving a trace. Management and auditors alike need to take special measures to be sure of the **reliability, integrity and confidentiality** of any data resulting from computers.

The Information Technology systems environment may affect:

- The procedures followed by the Auditor in obtaining a sufficient understanding of the accounting and internal control systems
- The consideration of inherent risk and control risk through which the Auditor arrives at the risk assessment
- The Auditor's design and performance of tests of control and tests of detail appropriate to meet the audit objective.

1.3 Organisation of the manual

The manual includes six sections as follows:

- Section 1: Introduction.
- Section 2: gives a brief description of the IT environment that is audited by the Office of the Auditor General of KADUNA State.

Section 3: describes the steps for the annual overall plan and specific individual audit plan.

Section 4: describes the audit of the IT General controls

Section 5: describes the audit of the IT Application controls

Section 6: Auditing MDAs and the annual Financial Statements.

Questionnaires for IT General Controls and IT Application controls audits are included in the appendices.

2.0 IT Environment in MDAs in Kaduna State

2.1 The IT Environment in MDAs in Kaduna State

The Office of the Auditor General of KADUNA State audits the accounts of the Line Ministries, the Departments and Agencies (MDA).

Kaduna state Government is implementing an integrated Financial Management system (SIFMIS) which includes the following components:

- Budget, Accounting and Treasury Management information system(BATMIS)
- Human Resource Management Information System(HRMIS)
- Payroll Management System
- Computer Aided Audit Tool (CAAT)
- Infrastructure and Network (I&N)

Microsoft Dynamic Navision (NAV) 2009 which was deployed to implement the BATMIS solution in 2011 has been upgraded to Microsoft Dynamic NAV 2016 to address the need to expand the implementation across other MDAs and 23 Local councils for a State Integrated Financial Management Information System (SIFMIS)

Microsoft Dynamic NAV is a fully integrated relational database system that maintains Financial, Budget and other business activities in a common database. The main functions to be managed with the Application system include the following:

- General Ledger
- Budget
- Treasury Management
- Releases & Virement
- Projects
- Procurement
- Accounts Payable
- Accounts Receivable
- Debt Management
- Human Resources
- Payroll
- Administration

The review of some processes in the Accountant General Office revealed the following:

- The Payroll of the Ministries, departments and agencies has been automated and individual employees received their salaries through direct e-payment to the Banks.
- The collection of all revenue in the state is managed by the Internal Revenue service. All payments are made directly to designated bank accounts by customers/taxpayers. These are automatically transferred to the state government account. The law has abolished physical collection of cash by any staff of the service

The OSAG also performs periodic review of the accounts of Parastatals and Corporation which uses Information Systems in their financial and other operations. The IT infrastructure hosting the information systems are located within the offices of the respective organisation.

2.2 Scope of IT Audits in the MDAs

The main areas that will be covered in performing IT audits in the MDAs include the following:

(a) IT general controls

These establish a framework of overall control over the IT activities in the MDAs. General controls include controls over data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance.

Examples of general controls include IT policies, standards, and guidelines on IT security, information protection, application software development, change controls, segregation of duties, Disaster recovery planning, IT project management, etc..

(b) IT application controls

These establish specific control procedures over accounting applications. They include controls to ensure the proper authorisation, completeness, accuracy, validity of transactions, and maintenance of the applications.

Examples of accounting applications in the state include the Microsoft Dynamic Navision which manages the payroll, Budget, Accounting and Treasury management.

(c) Financial Statements and Accounting records

The Financial statements of the State are maintained in the Microsoft Dynamic Navision (NAV). The transactions in the Navision system are direct posting of daily accounting and operational activities in the various MDAs.

The Auditors are expected to obtain detailed transactions on all the Ledgers including the Payroll, and other transactions maintained by the Accountant General.

The Auditor's specific audit objectives do not change, regardless of whether accounting data are processed manually or electronically. However, the methods of

applying audit procedures to gather evidence may be influenced by the methods of processing.

2.3 Organisation for IT audit in the OSAG

The office of the Auditor General will carry out IT audit function using some well-trained auditors in the Government Audits department. The Resident auditors and some selected auditors in the OSAG will be trained on auditing IT General controls, IT application controls and on application of Audit software and Tools.

The Operations Audits department should be responsible for the followings:

- Develop and implement a risk-based IT audit strategy for the Office in compliance with IS audit standards, guidelines and best practices.
- Plan specific audits to ensure that IT and business systems are protected and controlled.
- Conduct audits in accordance with IT audit standards, guidelines and best practices to meet planned audit objectives.
- Communicate emerging issues, potential risks and audit results to key stakeholders.
- Advice on the implementation of risk management and control practices within the MDAs while maintaining independence.
- Train the generalist auditors on the use of Audit software in the conduct of regularity and forensic audits.

3.0 PERFORMING THE IT AUDIT

3.1 Annual Operational plan

The Operations Audits department should prepare an operational plan and selection of the type of IT audit to be conducted in each year.

The annual operational plan should be prepared by the Director and approved by Auditor General.

An operational plan for the IT audit should contain but not be limited to the following:

| Criteria - Activities | Plan description |
|----------------------------------|---|
| Scope and approach of the review | The terms of reference for conducting the audit will depend on the type of audit to be conducted: <ul style="list-style-type: none">• IT General Controls |

- IT Application controls
- Information security management
- Other specialised audit

| | |
|---|--|
| Objectives of the IT audit | Should state the aim of the audits, for example, "To determine if the e-payments processing has adequate internal control for approval of the payments" |
| Timing of the audit | Individual audits to be conducted annually depending on the availability of resources. |
| Budget for the audit | The IT audit function needs to have enough resources to carry out the audits. Where applicable, a separate budget for the audit should be considered and approved by the Auditor General annually. |
| Methods of gathering information | Indicate the methodology to be used, |
| Selection of audit team | A team leader should be nominated for each IT audit team and each team should consist of staff with suitable skills and experience to carry out the audit. |

3.2 Detailed Audit Processes

The IT auditor should perform **detailed audit planning for each audit** to be carried out. The following steps should be followed in order:

- Gain an understanding of the business's mission, objectives, purpose and processes, which include information and processing requirements, such as availability, integrity, security and business technology.
- Identify stated contents, such as policies, standards and required guidelines, procedures, and IT organization structure.
- Evaluate risk assessment and any other impact analysis carried out by management.
- Perform a risk analysis.
- Conduct an internal control review.
- Set the audit scope and audit objectives.
- Develop the audit approach or audit strategy.
- Assign personnel resources to the audit and address engagement logistics.

4.0 *Performing the IT General controls audit*

General controls are the controls in place over a whole computer installation or network. The quality of these controls has a pervasive effect on all applications that runs in the environment. For example, if there are weaknesses in access control at the installation level or for a whole network, it is most likely that all applications will be vulnerable to unauthorised access, regardless of any specific access controls in the applications themselves.

The overall audit objective in reviewing the general controls is to ensure that the controls and procedures are adequate to provide secure, effective and efficient day-to-day operation of the computer facilities.

The controls and procedures which together form the general controls are discussed in the succeeding paragraphs.

4.1 **Organisational controls**

These controls ensure that

- there is separation of duties to reduce the risk of employee fraud or sabotage by limiting the scope of authority of any individual
- there are comprehensive written standards and
- Access to and use of computer workstations is properly authorised.

These high level controls are important as they influence the effectiveness of any lower level controls which operate within accounting applications.

An assessment of the high level IT policies, strategies and procedures will provide the auditor with a reasonably reliable indication as to the existence and effectiveness of any lower level detailed controls.

The Audit program is contained in **Appendix A: IT General Controls (Organisational controls)**

4.1.1 **Segregation of duties**

The auditor should check whether adequate and effective segregation of duties has been in place within the staff operating the computer system as it reduces the risk of error and fraud. Poor segregation of duties could lead to any one person, with control over a computer function, making an error or committing a fraud without detection.

In any major IT System the following IT duties should be adequately segregated:

- System design and programming
- System support
- Routine IT operations and administration
- System security

- Database administration.

The Audit program is contained in **Appendix A: IT General Controls Organisational controls)**

4.2 Security

4.2.1 Physical Access control

Physical access controls include the environmental controls which operate across the whole IT environment and affect all underlying computer applications. These controls are designed to protect the computer hardware and software from damage, theft and unauthorised access. Access controls can operate on various levels, for example, from restricting access to the Server's room, to installing key locks on individual PCs.

The IT Auditor should get a quick assessment of physical access controls. Restricting physical access to the IT systems reduces the risk of unauthorised persons altering the financial information.

4.2.2 Logical Access control

Logical Access controls are provided to protect the financial applications and underlying data files from unauthorised access, amendment or deletion. Logical access controls can exist at both installation and application level. Controls within the general IT environment restrict access to the operating system, system resources and applications, whilst the application level controls restrict user activities within individual applications.

The most common form of logical access control is login identifiers (ids) followed by password authentication. For passwords to be effective there must be appropriate password policies and procedures, which are known to all staff and adhered to. Menu restrictions can be effective in controlling access to applications and system utilities.

4.2.3 Network Communication Security Controls

Network communication security controls are important where LANs/WANs or web enabled systems are in use. Some important aspects that should be covered by this control are as follows:

- All sensitive information in the network should be protected by using appropriate techniques;
- The critical network devices such as routers, switches and modems should be protected from physical damage;
- The network configuration and inventories should be documented and maintained;
- Prior authorisation of the Network Administrator should be obtained for making any changes to the network configuration.
- The changes made in the network configuration should be documented. The threat and risk assessment of the network after changes in the network

- configuration should be reviewed.
- The network operation should be monitored for any security irregularity. A formal procedure should be in place for identifying and resolving security problems.
- Physical access to communications and network sites should be controlled and restricted.
- Communication and network systems should be controlled and restricted to authorised individuals.
- **Firewalls:** Intelligent devices generally known as "Firewalls" should be used to isolate an organisation's data network from any external network. Firewall devices should also be used to limit network connectivity from unauthorised use.
- **Connectivity:** Organisations should establish procedures for allowing connectivity of their computer network or computer system to any outside computer system or networks.
- **Network Administrator:** Each organisation should designate a properly trained "Network Administrator" who is responsible for operation, monitoring security and functioning of the network.

4.2.4 Disaster Recovery Planning

The auditor should ensure that there are adequate plans to resume processing in the event of failure of IT operations. The degree of continuity planning will depend on the size of the IT department and the dependence on computer processing. A significant and prolonged loss of IT capability in a mission critical system may increase the risk of the financial statements being unavailable or materially misstated. Disaster recovery planning for IT facilities should be treated as one element of an organisation's overall business continuity plan.

Disaster recovery plans should be documented, periodically tested and updated as necessary. Untested plans may be satisfactory on paper but fail when put into practice.

Back-up copies of systems software, financial applications and underlying data files should be taken regularly. Back-ups should be cycled through a number of generations by, for example, using daily, weekly, monthly and quarterly tapes. Back-ups should be stored, together with a copy of the disaster recovery plan and systems documentation, in an off-site fire-safe. Where micro-computers are used, in addition to core Server computers, the auditor should ensure that there are also procedures for the backing-up of financial data stored on local hard disks.

An audit program for the review of the Security is included in [Appendix B: IT General controls \(Security\)](#).

4.3 IT Policies and Procedures

The Auditor should ascertain that policies and procedures which define the IT risk and control environment are aligned with the organisation's overall general risk and control environment.

The policies and procedures should include the following areas:

- E-mail Policy
- Unauthorised Software
- Program Change Controls
- Access Controls
- Third Party (External service providers)
- Information security responsibilities
- Information sensitivity classification
- Password Management
- Use of Internet

IT policies and procedures are an indication of what management want to achieve by implementing certain controls.

Policies and procedures should be:

- clear and concise;
- Create a positive environment in the organisation;
- reviewed at least annually to ensure that they are up to date and reflect the current position of the organisation;
- Approved by management.
- Communicated to staff members to ensure that they are aware of their responsibilities.
- Include periodic awareness training on the policies and procedures which are issued in the MDA.
- Include a process to reassess the adequacy of the control environment and the risk appetite of the organisation to ensure that it is aligned with the organisation's changing environment.

An audit program for the review of the IT policies and procedures is included in Appendix C: IT General controls (IT policies and procedures).

5.0 Performing the IT Application Controls Audit

Application controls are essential to an application system and they have a direct impact on the processing of individual transactions. The controls are used to provide assurance (primarily to management) that all transactions are valid, authorised and recorded.

The office of the Auditor General will audit the operational and accounting records managed in the State Integrated Financial Management Information system (SIFMIS). The main functions to be managed with the SIFMIS include the following:

- General Ledger
- Budget
- Treasury Management
- Releases & Virement
- Projects
- Procurement
- Accounts Payable
- Accounts Receivable
- Debt Management
- Human Resources
- Payroll
- Administration

The operational systems that will be audited includes

- Automated Revenue Collection
- E-payment

The auditor must have good understanding of the application systems before proper evaluation of application controls. This will involve having a brief description of the application covering the following:

- Name of each application system
- Description and purpose of each application
- Modules/Subsystems of each applications
- The major transactions,
- The transaction flow and main output,
- The major files maintained and
- The transaction volumes.

The auditor will evaluate the processes in the application and procedures to ascertain the weaknesses and the adequacy of the controls in the following:

- Responsibility for each application system.
- Documentation standards
- Input control
- Processing control
- Output control

- Master/Standing Data File control

5.1 Responsibility for the Application

The Auditor should ascertain that management responsibility for every aspect of maintaining and running applications is properly allocated. For each application, the following should be defined:

- The user (or a principal user) who is defined as owner of the application.
- Maintenance of the application and decisions on its future development are formally managed, preferably by the owner.
- Ownership of the data used by the application is specified.
- The duties of the computer centre and of any third parties (e.g. Service providers) for operating and supporting the application are covered by service level agreements (contractually in the case of third parties).
- All the departments responsible for input or for handling output are known and their responsibilities (for timing, quality, security etc.) are formally agreed.
- The division of responsibility for the accuracy and continued integrity of stored data is clear (ultimate responsibility should normally lie with the user).
- Responsibility for deciding, and for executing, the security and control requirements of the application is assigned, taking account of the organization's general security policy and of the IT department's standard security measures.
- Responsibility for providing and for maintaining documentation, including user manuals, is defined.

5.2 Documentation Standards

Documentation standards ensure that adequate and up-to-date system documentation is maintained. There should be policies and procedures in the MDAs to ensure that:

- System documentation is sufficiently comprehensive.
- Documentation is updated to reflect system amendments and
- Back-up copy of the documentation is held.

Without good documentation, it will be difficult to assure that controls will operate on continuous basis and there will also be greater likelihood of error.

Good application documentation reduces the risk of users making mistakes or exceeding their authorities.

A review of comprehensive, up to date documentation should aid the auditor in gaining an understanding of how each application operates, and may help identify particular audit risks.

5.3 Input Controls

The input control consists of measures and procedures to ensure that

- The data received for processing are genuine, complete, not previously processed, accurate and properly authorized and
- Data are entered accurately and without duplication.

Controls over input are vital to the integrity of the system. The controls that the auditor should evaluate include:

- All prime input, including changes to master data, are appropriately authorised. For instance, all payroll data from the MDAs must be properly authorised
- For on-line systems, the ability to enter data from a workstation is adequately restricted and controlled.
- There is a method to prevent and detect duplicate processing of a source document.
- There are procedures for ensuring correction and resubmission of rejected data.

5.4 Data protection

The protection of data includes data transmitted over telecommunication lines, data in the system and the transportation of backed up data to offsite location.

When data is transmitted over telecommunication lines there are a number of ways that an organisation can ensure the proper protection. Data can be encrypted and decrypted in several ways to ensure the confidentiality, reliability and accountability of data.

The auditor should ascertain that there are:

- Adequate controls in place, either within the network system, or the financial applications, to detect corrupted data.
- Regular backup of data is maintained
- Adequate protection of data when transported to an offsite location.

The Audit program is included in section **2.4 of Appendix B- IT General Controls (Security)**

5.5 Processing Controls

Processing controls ensure complete and accurate processing of input and generated data. This objective is achieved by providing controls for:

- Adequately validating input and generated data,
- Processing correct files,
- Detecting and rejecting errors during processing and referring them

- back to the originators for re-processing,
- Proper transfer of data from one processing stage to another, and
- Checking control totals (established prior to processing) during or after processing.

The Audit program is included in section **4.0 of Appendix D- IT Application Controls**

5.6 Output Controls

These controls are incorporated to ensure that computer output is complete, accurate and correctly distributed.

Output controls ensure that all output is:

- Produced and distributed on time,
- Fully reconciled with pre input control parameters,
- Physically controlled at all items, depending on the confidentiality of the document and
- Errors and exceptions are properly investigated and acted upon.

The completeness and integrity of output reports depends on restricting the ability to amend outputs and incorporating completeness checks such as page numbers and check sums.

The Audit program is included in section **6.0 of Appendix D- IT Application Controls**

5.7 Master/Standing Data File Controls

Master Data files controls ensure integrity and accuracy of reference data. Accuracy of data on Master data files is of vital importance, to the auditor. Information stored in master and standing data files is usually critical to the processing and reporting of financial data. Information on master files can affect many related financial transactions and so must be adequately protected.

These controls have to ensure that:

- Amendments to Master data are properly authorised and controlled.
- Integrity of Master data files is verified by checking, control totals and periodic reconciliation with independently held records.
- Physical and logical access to application data files are restricted and controlled.

The State has an Integrated Financial Management Information system (SIFMIS) which maintains various standing data in the Payroll, Human Resource, General Ledger and other operational systems.

The Auditor should ascertain that standard procedures exist for the management of these applications.

The Audit program is included in section 5.0 of Appendix D- IT Application Controls

6.0 Auditing the MDAs and the Annual Financial Statements

The audit findings and conclusions are to be supported by appropriate analysis and interpretation of the evidence. Today's information processing environments pose a stiff challenge to an auditor to collect sufficient, relevant and useful evidence since some of the evidence exists on magnetic media and can only be examined using CAATs.

With systems having different hardware and software environments, different data structure, record formats, processing functions, etc., it is almost impossible for the auditors to collect evidence without a software tool to collect and analyze the records.

Some of the accounting records that will be audited by the office of the Auditor General are automated. These include:

- Payroll System
- Cash Book
- Vote Books
- Revenue Collection
- Bank Reconciliation
- E-payment

These accounting records have been automated through the implementation of the State Integrated Financial Management Information System (SIFMIS). The State has deployed Microsoft Dynamic Navision to implement the SIFMIS consisting of the following main functions:

- General Ledger
- Budget
- Treasury Management
- Releases & Virement
- Projects
- Procurement
- Accounts Payable
- Accounts Receivable
- Debt Management
- Human Resources
- Payroll
- Administration

The auditor must ascertain that the amounts reported in the financial statements are in agreement with the accounting records of the State and in the SIFMIS. The financial statements of the State are to be generated from the accounting records in the SIFMIS.

However, for continuous audit during the year, the following accounting records should be provided to the Office of the State Auditor General:

- Monthly payroll transactions for each employee as generated by the payroll system. This must include all essential data items such employee number, MDA code, gross pay, net pay and all deductions.
- Monthly transactions of all e-payment of salaries to the individual employee Bank.
- Monthly detailed collection of the revenue heads through the direct payment system. The consolidated detailed collection for the year should also be provided.

These various reports are to be provided in electronic format using excel spread sheet.

The Office of the Auditor General should be provided access to the SIFMIS to have direct enquiries and extraction of essential reports. The office should evolve a program to ensure that Resident auditors and other selected auditors in each department are proficient in the use of audit software and excel spread sheet.

Appendix A - IT General Controls

1.0 Organisation

| ROLES AND RESPONSIBILITIES | | | | | |
|----------------------------|---|-----------------------------|---|--|---------------------------------|
| 1.1 | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[[Insert the finding on the procedure]]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[[If No, raise an audit query]]</i> | Audit query raised / References |
| 1.2 | IT HR Management | | | | |
| 1.2.1 | Job descriptions | | | | |
| 1.2.1.1 | Obtain an organisational chart of the Department | chart of the ICT Department | Ineffective individual performance. | | |
| 1.2.1.2 | From the organisational chart, identify the different IT positions within the organisation and ensure that there is a job description for | | Staff unaware of duties | | |

| | these functions. | which they need to perform. | |
|--------------|--|-----------------------------|--|
| 1.2.1.3 | For the inspected job descriptions, determine when the last update was done. | | |
| 1.2.2 | Rotation of staff | | |
| 1.2.2.1 | Does the organisation have a rotation policy? | Fraudulent system usage. | |
| 1.2.2.2 | Inspect the rotation policy and determine how regularly personnel are required to rotate? | | |
| 1.2.2.3 | Enquire from the head of the information systems department whether they rotate the staff according to the policy and the last time the staffs were rotated. | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures [Insert the finding on the procedure] | Is the risk adequately prevented or mitigated? (Yes / No) [If No, raise an audit query] | Audit query References | raised / |
|---------|--|---|--|---|------------------------|----------|
| 1.2.3 | <u>Segregation of duties</u> | | | | | |
| 1.2.3.1 | Determine if there is segregation of duties between the following positions: <ul style="list-style-type: none"> • System design and programming; • Systems support; • Routine IT operations; • Data input; • System security; • Database administration; and • Change management. • E-payments | Inappropriate supervision of critical IT processes. Financial loss and reputational damage. Malicious or unintentional damage to system. Non-compliance with policies. | | | | |

Appendix B: IT General Controls (SECURITY)

| 2.0 SECURITY | | | | | |
|--------------|--|--|---|---|---------------------------------|
| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[[If No, raise an audit query]</i> | Audit query raised / References |
| 2.1 | Physical and environmental security | | | | |
| 2.1.1 | Inspect documented measures that are in place to prevent unauthorised access to: <ul style="list-style-type: none"> • Computer terminals; • Workstations; • Disks; • Tapes; • Computer programs; and • Other media where data is stored. | Threats to the physical security environment not properly identified. Visitors gaining unauthorised access to IT equipment and information. | | | |
| 2.1.2 | Does the organisation have a procedure where data is in transit to an offsite location? | | | | |

| | | | | |
|-------|---|---|--|--|
| 2.1.3 | Enquire what type of fire suppression system is used in the buildings? | Unauthorised entry to restricted areas. | | |
| 2.1.4 | Take a tour through the building and determine whether there are enough fire extinguishers and when last the fire extinguishers were serviced. | Facilities exposed to environmental factors. | | |
| 2.1.5 | Inspect the computer room and determine whether only authorised personnel have access to these facilities or can any employee or visitor enter the computer room. | IT systems failure due to improper protection from power outages. | | |
| 2.1.6 | Does the organisation have a maintenance plan for hardware? | | | |
| 2.1.7 | Obtain a copy of the plan and determine whether the schedule is up to date. | Non-compliance to health and safety legislation. | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[If No, raise an audit query]</i> | Audit query raised / References |
|-------|--|---|---|--|---------------------------------|
| 2.2 | Logical security | | | | |
| 2.2.1 | Enquire the process to register new users to the system. | Unauthorised access to modules. | | | |
| 2.2.2 | Enquire what process is followed when a user's access is revoked, especially when an employee is requested to leave the organisation. | User accountability cannot be established. | | | |
| 2.2.3 | Establish whether there is a mechanism to track security incidents and inspect the log. | Users failing to comply with security policy. | | | |
| 2.2.4 | Establish the mechanisms in place to enable the types, volumes and costs of incidents and malfunctions to be quantified and monitored. | | | | |
| 2.2.5 | Inspect proof that the following has been | Undetected security | | | |

| | | | | | |
|--|--|-----------|--|--|--|
| | <p>documented and implemented:</p> <ul style="list-style-type: none"> • Periodic review of user access • User passwords are encrypted; • User passwords are frequently changed (enquire how frequent the passwords need to be changed) • Number of attempts the user has before logged out of the system; • User's access rights are defined; • User's rights defined when accessing the application; and • Minimum length of passwords is defined. | breaches. | | | |
|--|--|-----------|--|--|--|

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[If No, raise an audit query]</i> | Audit query raised / References |
|-------|---|--|---|--|---------------------------------|
| 2.3 | Network security | | | | |
| 2.3.1 | <p>Establish whether the entity have third parties accessing the network and establish whether:</p> <ul style="list-style-type: none"> • There is adequate documentation on the parties accessing the network including reasons for the access; • The process followed including the type of access given to third party is defined; • Relationship is managed by either a service level agreement, contract or license agreement; • Responsibilities of third parties is properly defined in the document; and • The access given on the network is according to the responsibilities of the third party. | <p>Failure of firewall rules to reflect the organisation's security policy.</p> <p>Undetected unauthorised access to the organisations' network.</p> <p>Security breaches not detected timely.</p> | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[[If No, raise an audit query]</i> | Audit query raised / References |
|-------|---|--|---|---|---------------------------------|
| 2.4 | Data protection | | | | |
| 2.4.1 | Inquire from operational staff members as to their knowledge and use of policies and procedures. | Lack of defined and documented management policies and procedures. | | | |
| 2.4.2 | Identify whether there is a defined process when employees violate the organisational security policy. | Data not protected from unauthorised viewing. | | | |
| 2.4.3 | Establish whether there are procedures for the disposal of storage device that contain sensitive information. | Unauthorised access to data. | | | |
| 2.4.4 | Inspect monitoring mechanisms to enforce compliance with this procedure. | | | | |

| | | | |
|--------|--|---|--|
| 2.4.5 | <p>Inspect proof that the following measures are in place:</p> <ul style="list-style-type: none"> • Use (and regular updates) of antivirus program; • Regular and scheduled backups by using up to date software; • Safe storage of backups; • Testing of backups to identify incorrect backup runs; • Review of operator logs; and • Management of removable media, such as disks, tapes and printed reports. | Backups unavailable when needed. | |
| 2.4.6 | Establish that there are measures in place to ensure the confidentiality of sensitive information that is sent over the internet or e-mail. | Disclosure of sensitive corporate information. | |
| 2.4.7 | Inspect the guidelines on the retention, storage, handling and disposal of records. | Unauthorised access to backup media. | |
| 2.4.8 | Inspect the entity's retention schedule, identifying record types and the period which it should be retained. | Inappropriate time for performing backups. | |
| 2.4.9 | Inspect the entity's list of key information that should be maintained. | Incompleteness and inaccuracy of backups stored off site. | |
| 2.4.10 | Where an entity has a legacy system, enquire what measures are in place to ensure that the backups of the system are compatible with the | Sensitive data retrieved from computers sold. | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[If No, raise an audit query]</i> | Audit query raised / References |
|----|--|-------|---|--|---------------------------------|
|----|--|-------|---|--|---------------------------------|

2.5 Business continuity & disaster recovery

| | | | | | |
|-------|---|---|--|--|--|
| 2.5.1 | Does the organisation have an approved business continuity and disaster recovery plan? | Inability of the organisation to recover appropriately from a disaster. | | | |
| 2.5.2 | Does the key personnel aware of their duties when the plan is activated? | | | | |
| 2.5.3 | From the list of key personnel which should be contacted, determine whether their contact details are correct and up to date? | Failure to recover IT systems and services in a timely manner. | | | |
| 2.5.4 | Enquire from the list of key personnel if they have a copy of the business continuity plan and which version they have? | Lack of required resources to recover from disaster. | | | |
| 2.5.5 | Enquire whether copies of the business continuity plan are kept off-site. | | | | |

| | | | | | |
|-------|--|--|--|--|---|
| 2.5.6 | How regularly is the plan tested? | | | | |
| 2.5.7 | Are results documented after the tests, and are the plan updated according to the results of the test? | | | | Increased dependency on key personnel. |
| 2.5. | Establish whether the organisation have: | | | | IT continuity services not properly managed. |
| .8 | <ul style="list-style-type: none"> • A backup generator; and • Uninterruptible power supplies. | | | | Unavailability of critical IT services. |
| | | | | | Prioritisation of services to recover not defined. |
| | | | | | Plans not updated to reflect the current business needs and technology. |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[[f No, raise an audit query]</i> | Audit query raised / References |
|-------|--|-------|---|---|---------------------------------|
| 2.6.0 | IT Infrastructure | | | | |
| | Hardware and Software | | | | |
| | Background | | | | |
| | The Organisation must have a detailed records of the resources in its infrastructure | | | | |
| 2.6.1 | Does the Organisation have adequate inventory of its Hardware and Software? | | | | |
| 2.6.2 | Obtain a detailed inventory of the hardware and Software in the Organisation | | | | |

APPENDIX C: IT General Controls (IT Policies and Procedures)

| IT POLICIES AND PROCEDURES | | | |
|----------------------------|--|---|-------------|
| 3.0 | Indicators for assessment of the Control Environment | Risks | Audit query |
| No | Adequacy of management measures <i>[insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? <i>(Yes / No)</i> | References |
| 3.1 | E-mail policy | | |
| | Inspect the policy and identify whether there is provision made for the following: | | |
| 3.1.1 | Prohibiting the sharing of e-mail accounts? | | |
| 3.1.2 | Prohibiting the user from forwarding chain / hoax | Lack of defined and documented management policies and procedures mean that staff may not be aware of the policies and so not implement them. | |
| | E-mails? | | |

| | | | |
|-------|---|--|--|
| | | Lack of establishing user accountability. | |
| | Prohibit the sending of private emails | Staff may spend a lot of time sending private emails | |
| 3.1.3 | The user's responsibility to keep a back-up of the mail file? | Loss of information | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[If No, raise an audit query]</i> | Audit query raised / References |
|-------|--|---|---|--|---------------------------------|
| 3.2 | Malicious or unauthorised software | | | | |
| 3.2.1 | Does the policy include the use of virus software? | Lack of defined and documented management policies and procedures resulting in the following: | | | |
| 3.2.2 | Does the policy prohibit users to download unauthorised software? | <ul style="list-style-type: none"> • Violation of legal and regulatory requirements; • Exposure of organisation's | | | |
| 3.2.3 | Does the policy provide guidance on the process which needs to be followed when a virus is detected on the computer? | | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures | Is the risk adequately prevented or mitigated? (Yes / No) [[If No, raise an audit query] | Audit query raised / References |
|-------|--|---|--|--|---------------------------------|
| | | | [[Insert the finding on the procedure] | | |
| 3.2.4 | Does the policy specify that users are not allowed to turn off the anti-virus program? | <ul style="list-style-type: none"> information; and Systems and data are prone to virus attacks. | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures | Is the risk adequately prevented or mitigated? (Yes / No) <i>[If No, raise an audit query]</i> | Audit query raised / References |
|-------|--|--|--|--|---------------------------------|
| 3.3 | Program change controls | | <i>[Insert the finding on the procedure]</i> | | |
| 3.3.1 | Inspect the policy and evaluate whether it includes the following: | Lack of priority management of changes. | | | |
| | <ul style="list-style-type: none"> • Definition of program change control; • Classification and definition of different changes; • Definition for emergency changes; • Procedure to be followed for changes; • Definition of the procedure to be followed for emergency changes; • Definition of the roles and responsibilities; • Assessment of impact, authorisation and approval of changes; • Tracking of changes; • Version control mechanism; • Impact on data integrity; • Management of change from initiation to | Changes not recorded and tracked. | | | |
| | | Failure to update system documentation. | | | |
| | | Configuration documentation failing to reflect current | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures [Insert the finding on the procedure] | Is the risk adequately prevented or mitigated? (Yes / No) [If No, raise an audit query] | Audit query raised / References |
|-------|---|--|--|---|---------------------------------|
| | <ul style="list-style-type: none"> • review and closure; • Definition of rollback procedures; • Use of emergency change procedure; • Business continuity planning; • Use of good record management systems; • Audit trails; • Segregation of incompatible functions; and • Updating of the documentation. | <p>configuration.</p> <p>Failure to properly test changes before introduction to production environment.</p> <p>System security compromised with introduction.</p> | | | |
| 3.3.2 | Does the organisation have a standard change control form which needs to be compiled when requesting a change to application software? | Change controls may not be implemented as required | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures [Insert the finding on the procedure] | Is the risk adequately prevented or mitigated? (Yes / No) [If No, raise an audit query] | Audit query raised / References |
|-------|--|--|--|---|---------------------------------|
| 3.3.3 | <p>Does the change request form include as a minimum the following:</p> <ul style="list-style-type: none"> • Date of requested change; • Person requesting the change; • Approval of change request; • Approval of change made - IT section; • Approval of change made - users; • Documentation update date; • Move date into production; • Quality assurance sign off of change; and • Acceptance of change by operations. | Changes may not be adequately documented | | | |

| No | Indicators for assessment of the Control | Risks | Adequacy of management measures [Insert the finding on the procedure] | Is the risk adequately prevented or mitigated? (Yes / No) [If No, raise an audit query] | Audit query raised / References |
|-------|---|---|--|---|---------------------------------|
| 3.4 | Access control | | | | |
| 3.4.1 | Inspect the policy of inclusion of the | Users failing to comply with security policy. | | | |
| 3.4.1 | The process which is to be followed to grant access to users' accounts. | Security breaches. | | | |
| 3.4.2 | The reason for the prohibition of user ID's. | Failure to terminate unused user accounts in a timely manner. | | | |
| 3.4.3 | The process for identifying unauthenticated. | | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[If No, raise an audit query]</i> | Audit query raised / References |
|-------|---|---|---|--|---------------------------------|
| 3.4.4 | The process which will be followed where users resigned voluntary or involuntary. | <p>Misuse of users' account;</p> <p>Unreliable security logs.</p> | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) <i>[If No, raise an audit query]</i> | Audit query raised / References |
|------------|---|--|---|---|---------------------------------|
| 3.5 | Third party(External service providers) | | | | |
| 3.5.1 | Does the policy provide guidance on the disclosures made to third parties? | Unclear roles and responsibilities of third party contractors. | | | |
| 3.5.2 | Does the policy specify the process which needs to be followed to provide access to third parties? | Inadequate service quality. | | | |
| 3.5.3 | Does the policy indicate under which circumstances the entity should have non-disclosure agreements with third parties? | Financial losses and reputational damage because of service interruptions. | | | |

| No | Indicators for assessment of the Environment | Risks | Adequacy of management measures [Insert the finding on the procedure] | Is the risk adequately prevented or mitigated? (Yes / No) [If No, raise an audit query] | Audit query raised / References |
|-------|---|---|--|---|---------------------------------|
| | | Supplier not committed to the relationship. | | | |
| 3.5.4 | Contractors and consultants should be restricted on the use of mobile | Failure to meet customer service requirements. They may tamper with the data and commit fraud etc. | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures | Is the risk adequately prevented or mitigated? | Audit query raised / References |
|------------|--|--|---------------------------------------|--|---------------------------------|
| | | | [Insert the finding on the procedure] | (Yes / No) | |
| | | | | [[If No, raise an audit query] | |
| 3.6 | Information security responsibilities | | | | |
| | Inspect the policy with regard to security responsibilities. Does it include at a minimum the following: | Lack of IT security governance. | | | |
| | Definition of the information owners? | Misaligned IT and business objectives. | | | |
| 3.6.1 | | | | | |
| 3.6.2 | The responsibilities of the information owners? | Unprotected data and | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures | Is the risk adequately prevented or mitigated? (Yes / No) | Audit query raised / References |
|-------|--|---|---------------------------------------|--|---------------------------------|
| 3.6.3 | Define information custodians? | information assets. | [Insert the finding on the procedure] | [If No, raise an audit query] | |
| 3.6.4 | Identify the responsibilities of the information custodians? | IT security policy or plan | | | |
| 3.6.5 | Does it specify the type of access users is allowed? | not aligned with business requirements. | | | |
| | | Business exposed to threats not covered for in plan / policy. | | | |
| | | Users unaware of security policy / plan. | | | |

assessment of the Control Risks

Adequacy of the risk management measures

Is the risk adequately prevented or mitigated? (Yes / No)

Audit query raised / References

sensitivity classification

Policy to determine if it includes at least one of the following:

Sensitive data misused or destroyed.

classification of information is Unauthorised data access to sensitive data.

different levels of classification.

Information can be released to the Data altered by unauthorised users.

is labelled.

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures <i>[Insert the finding on the procedure]</i> | Is the risk adequately prevented or mitigated? (Yes / No) | Audit query raised / References |
|-------|---|-------------------------------|---|--|---------------------------------|
| 3.7.5 | What happens if information cannot be classified in one of the groups as disclosed in the policy? | Disclosure of sensitive data. | | <i>[If No, raise an audit query]</i> | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures [Insert the finding on the procedure] | Is the risk adequately prevented or mitigated? (Yes / No) [If No, raise an audit query] | Audit query raised / References |
|-------|--|--|--|---|---------------------------------|
| 3.8 | Password management | Unauthorised access to organisation's systems. | | | |
| 3.8.1 | Inspect the policy for the following: Does the policy contain the minimum criteria for passwords? (i.e. the length, should the password only consist of characters, numeric or should it be alpha-numeric and how regularly passwords need to be changed) | Weak passwords. | | | |
| 3.8.2 | Does the policy provide guidance on the protection of passwords? | | | | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures | Is the risk adequately prevented or mitigated? (Yes / No) | Audit query raised / References |
|------------|--|---|---------------------------------------|--|---------------------------------|
| | Does the policy clearly prohibit the use of other person's user names and/or passwords? | | [insert the finding on the procedure] | [If No, raise an audit query] | |
| 3.9 | Use of internet | | | | |
| 3.9.1 | Does the policy make provision for the usage of the internet? | Reduced system availability. | | | |
| 3.9.2 | Does the policy make provision for circumstances where software is downloaded from the internet? | Virus attacks on system when unauthorised software is downloaded. | | | |
| | | | | | |

Appendix D: - IT Application Controls

| | | | |
|--------------|--|--------------|--|
| Auditee: | | Reviewed by: | |
| Period end: | | Level 1 | |
| Prepared by: | | Level 2 | |
| Rank: | | Level 3 | |
| Date: | | Date: | |

| No | Indicators for assessment of the Control Environment | Risks | Adequacy of management measures | Is the risk adequately prevented or mitigated? | Audit query / References |
|----|--|-------|---|--|---|
| | | | <p><i>[Insert the finding on the procedure]</i></p> | <p>(Yes / No)</p> | <p><i>[If No, raise an audit query]</i></p> |

| | |
|-------|---|
| 1. | Organisation and Documentation |
| 1.1 | Identification of Application Systems |
| | <p>Background</p> <p>Management responsibility for every aspect of maintaining and running applications should be properly allocated.</p> <p>All necessary documentation should exist considering the type of application concerned and the organization's needs.</p> <p>The Auditor must identify all application systems owned by the Auditee.</p> |
| 1.1.1 | <p>Obtain a detailed list of all software mapped to them, Functions, Server, location of server, the operating systems, number of users.</p> |
| 1.1.2 | <p>Obtain a description of the modules in each application systems and their functions</p> |
| 2.1 | Responsibility for applications |
| | <p>Background</p> <p>To ensure that management responsibility for every aspect of maintaining and running applications is properly allocated.</p> |

| | | | | | | | |
|-------|--|--|--|--|--|--|--|
| 2.2 | Documentation | | | | | | |
| | Background | | | | | | |
| 2.2.1 | Operators' Instructions are up-to-date and cover any special action required e.g. response to error messages, abnormal termination, etc. | | | | | | |
| 2.2.2 | User Manuals fully describe responsibilities and procedures and are systematically kept up to date. | | | | | | |

| | | |
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| 3.10 | Input - Authorization | |
| Background | | |
| To ensure that only authorized items, and all authorized items, are input. | | |
| 3.1 | Access controls ensure that only those authorized have access to input processes. | |
| 3.2 | Items from authorized documents, which are checked for authority (usually a signature) by the person doing the input, or in a preliminary clerical checking stage. | |
| 3.3 | Documents used for input are serially numbered and there is a check for validity and for correctness of sequence either by the computer or manually. | |
| 3.4 | Validity of authorized and checked documents is controlled by batching. | |

| | | | | |
|---|--|--|--|--|
| <p>Confirmatory prints of input are sent to authorizing officers, who sign for approval.</p> | | | | |
| <p>3.4 Changes to permanent data are properly authorized.</p> | | | | |
| <p>3.5 Programmed checks prevent validation and processing of input which logically cannot have been authorized, e.g. payments in excess of available budget.</p> | | | | |
| <p>3.6</p> | | | | |

4.0 Completeness and accuracy

Background

To ensure that data input to applications is accurate and complete. (Input comprises both transaction and permanent/reference data.)

4.1 Validation checks are carried out by program to ensure that the data entered:

- have the format expected for each field;
- are within appropriate ranges (e.g. do not exceed pre determined reasonable amounts; are within the known sequence of items of their kind (cheque numbers, etc.).

For on-line entry, input reports are produced showing aggregated totals, which are checked or matched with totals established separately for the session.

| | | | | |
|-----|--|--|--|--|
| 4.2 | Validation includes tests of self-consistency of the data input (e.g. debits = credits, reference numbers match related descriptive material). | | | |
| 4.3 | Logical checks are made with accessible existing records e.g. account balances. | | | |
| 4.3 | Permanent data (and other key data) are printed out and positively approved by the responsible user before being used in processing. | | | |
| 4.4 | | | | |

| | |
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| 5.0 | Continued correctness of standing data |
| | Background |
| | To ensure that all data stored in the system as a permanent record or for reference remains correct and complete. |
| 5.1 | Responsibility for checking the continued correctness of data is allocated either to a database administrator or to appropriate users. |
| 5.2 | Print-outs of standing or reference data are checked periodically to source documents by the responsible user. This can be done on a cyclical or statistical basis, depending on the risk represented by incorrect data. |

| | |
|-----|---|
| 6.0 | Correct distribution of output |
| | Background |
| | . To ensure that output reaches all and only those for whom it is intended. |
| 6.1 | Mailing lists for output are regularly reviewed and unnecessary or incorrect addressees removed. |
| 6.2 | The general security rules applied to PCs, terminals and printers located with end-users ensure sufficient privacy for output, taking into account the level of building security and the quality of password etc. controls. |
| | The person responsible for security decisions for the application has a clear picture of the various user groups with access to output in any form and makes decisions on control accordingly. In particular, logical access controls for the application take account of possible approaches |

| | | | |
|-----|---|--|--|
| 6.3 | through all networks in which the installation is involved. | | |
| 7.0 | All expected output is accounted for (e.g. use of serial numbering to detect unauthorized suppression of exception reports). | | |
| | Developed Systems | | |
| | Background | | |
| | It is important that new information systems should be designed in such a way that they are auditable and that there is sufficient internal control | | |
| 7.1 | Are formal project management procedures applied to the system development and implementation | | |
| 7.2 | Are the developed Systems properly tested before implementation? | | |
| | Are appropriate support and maintenance | | |

| | | | | | | | | | | |
|-----|---|--|--|--|--|--|--|--|--|--|
| 7.3 | agreements in place to ensure continued availability and integrity? | | | | | | | | | |
| 7.4 | Does adequate documentation exist for systems and programs? | | | | | | | | | |

Conclusion

The following risks have been identified:

[All risks identified will be taken to the of Risk of material misstatement on financial statement level working pap

VOLUME IV

Section I

Introduction

Purpose of the Manual

1. The purpose of this Performance Audit Manual is to:
 - a. Provide a general guide concerning the methods of approach and the practices to be adopted in the conduct of performance audits in Kaduna state ministries, departments and agencies (MDAs)
 - b. Enhance the capability and skill level of Auditors within the Office of the Auditor General Kaduna State, in the conduct of performance audits of an acceptable standard and uniform quality
 - c. Provide a guide for training of Performance Auditors within the Office of the Auditor General Kaduna State
 - d. Form the basis for decision-making within the performance audit process
 - e. Enhance standardisation in the performance audit
 - f. Facilitate the communication of reports of findings on the completion of each performance audit assignment.

Organisation of the Manual

2. This manual consists of nine main sections as below:
 - **Section I** is the introduction to the Performance Audit Manual as given above
 - **Section II** is the context within which performance auditing takes place
 - **Sections III and IV** provide guidance for the Planning of Performance Audits
 - **Section V** describes how to execute performance audits. It includes collection, documentation and analysis of audit evidence and development of audit findings
 - **Sections VI** provide guidance on writing, clearance and presentation procedures of performance audit reports
 - **Section VII** deals with the follow-up in the performance audit cycle

Section II

The Context of Performance Auditing

Definition of Performance Auditing

1. Performance audit is the audit, review and appraisal of the process, economy, efficiency and effectiveness with which an audited entity (MDA) selected has applied its resources to achieve the set goals. It is aimed at optimising the effectiveness of the resources available to a MDA in the accomplishment of its programs, projects and the procurement process generally, using laid-down and clearly explained auditing standards and practices, within the mandate of an independent audit institution whose authority is defined by relevant acts.
2. In general, performance auditing involves three key elements as below:
 - a. Audit of the **economy** of administrative activities in accordance with sound principles, practices and management policies
 - b. Audit of the **efficiency** in the utilisation of human, financial and other resources, including the examination of information systems, performance measures and monitoring arrangements, and procedures followed by an audited entity for remedying identified deficiencies
 - c. Audit of the **effectiveness** of performance, in relation to the achievements of the set objectives of an MDA and the audit of the actual impact of activities as contained in the mandate that establishes it, compared with the intended impact.
3. Taken together, economy, efficiency and effectiveness constitute the three Es and form the basis of performance auditing. Strictly speaking, INTOSAI defines the three Es as follows:

| | |
|-----------------------------|---|
| <i>Economy</i> | Minimising the cost of resources used for an activity, having regard to the appropriate quality and the ultimate aim |
| <i>Efficiency</i> | The relationship between the output, in terms of goods, services and results, and the resources used to produce them |
| <i>Effectiveness</i> | The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity |
4. All other things being equal, economy is about keeping the cost of input low without compromising on the quality; efficiency is about getting the best output from available resources while effectiveness is about achieving the stipulated aims or objectives. None of the three Es however should be assessed in isolation. When evaluating for example the effects, it is necessary to take into consideration the cost of the inputs used to generate the effects and similarly when assessing economy, the usefulness of the inputs for producing the outputs has to be taken into account.
5. "The three Es" are useful concepts established to guide the performance auditor when planning and outlining the general direction of each performance audit assignment. To define these concepts and facilitate the analysis, the input-output model can be used. It provides a useful tool for handling different situations and for different purposes. Also, it enhances the Auditor's understanding of the three Es, to describe processes,

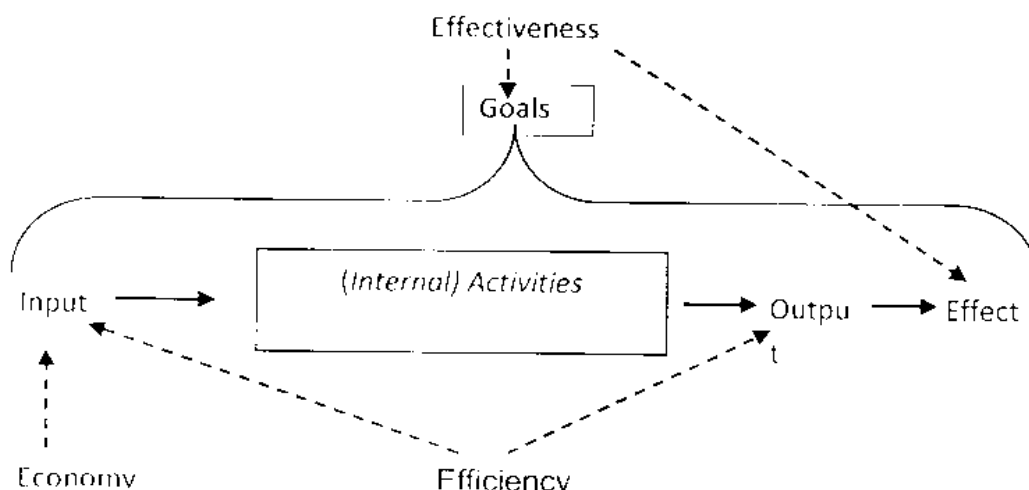
organise thoughts and observations. The model is based on the assumption that it is possible to arrange concepts in chains and to identify how they influence each other as causes and effects. Another assumption is that an organisation has a set of established goals that it wishes to achieve or that such goals can be deduced. Summarily put:

- o) **Economy** is concerned with the inputs
- o) **Efficiency** is about how these inputs are transformed into outputs, and
- o) **Effectiveness** relates to the effects generated by the outputs.

6. How the three Es fit into the input-output model is illustrated in the following figure:

Figure 1

The input-output model



The Special Features of Performance Auditing

7. Whereas regularity (or financial audit) apply relatively fixed standards, performance audit is more flexible in its choice of, for example, audit objects and methods. Performance audit is not based on formalised opinions and does not have its roots in private sector auditing. It is an independent examination made on a non-recurring basis. By nature, performance audit is wide-ranging and open to judgements and interpretations. It must have at its disposal a wide selection of investigative and evaluative methods and it operates from a knowledge base; by some means different from that of traditional (c.g. financial) auditing. The special feature of performance audit is the variety and complexity of questions relating to the work. Within its legal mandate, performance audit is free to examine all government activities from different perspectives.

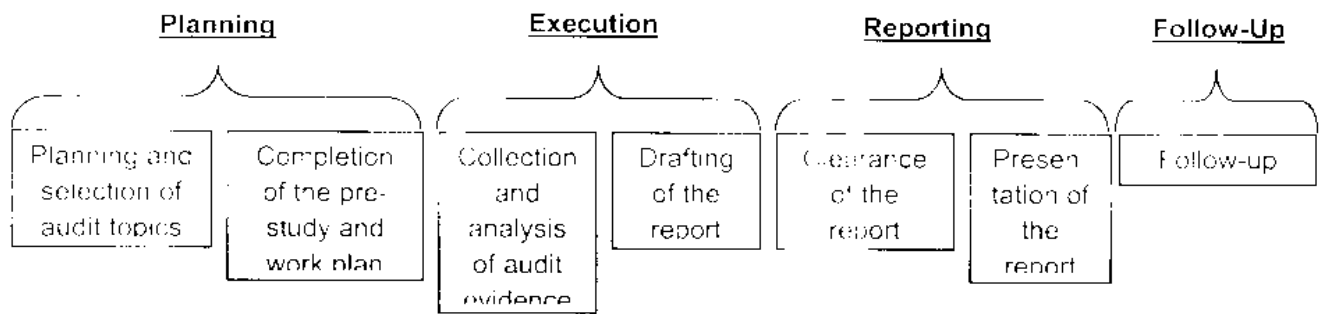
Some Differences between Performance Audit and Regularity (Financial) Audit

| | Performance Audit | Regularity Audit |
|----------------------------|--|---|
| <i>Purpose</i> | Assess whether the performance of the auditee meets the three Es, namely economy, efficiency and effectiveness | Assess whether the accounts presented provides a true and fair representation of the financial position as at the date stipulated |
| <i>Focus on</i> | The organisation/programme and its activities | The accounting system and management systems |
| <i>Academic base</i> | Economics, political science, sociology, etc.. | Accounting |
| <i>Methods</i> | Varies from project to project | Standardised |
| <i>Assessment criteria</i> | Unique criteria for the individual audit | Standardised criteria suitable for all audits |
| <i>Reports</i> | Varying structure and contents. Published on an ad hoc basis | Standardised structure. Published on regular basis |

8. Nevertheless, collaboration between the two sets of auditors (i.e. regularity and performance auditors) is often required in order to achieve the objectives of the Office of the Auditor General Kaduna State. Generally speaking, performance audit and regularity audit have a number of similarities. The two types of auditors for instance carry out the same types of tasks, namely to assess the performance of the auditee especially with regards to the mandate it was given. In this way, they may also apply similar methods for collecting data. While the performance auditors focus primarily on economy, efficiency or effectiveness, the regularity auditors focus on the correctness and fairness of the accounts and the financial statements. Regularity and performance auditors most often have the same mandate namely to carry out the audit, the same obligations to the auditee and the same type of support in the form of international cooperation, standards and discussions.

Stages in the Performance Audit Process

9. The performance audit process covers a number of steps. It comprises the planning, carrying out of the main study (execution), reporting and follow-up. Each one of these processes can be divided into different stages as below:



Planning Concept

10. The purpose of planning in performance auditing is to select suitable areas for audit, identify audit problems and prepare the execution of the main study. Before the planning of the individual audits can begin, it is necessary for the Office of the Auditor General to make strategic choices on criteria and priorities that can guide the auditors through the selection process. The first stage after this is usually **area watching**, followed by **general surveys**, if that is required for the analysis of potential themes and topics. Once an audit area has been selected for performance audit, a pre-study - resulting in a work plan for a main study - should be undertaken to obtain required information in order to be able to design a proposal for a main study.
11. Conducting the main study involves the collection, documentation and analysis of audit findings and ultimately the drafting of the audit report. The report-drafting stage is a continuous analytical process of formulating, testing and assessing audit findings, conclusions and recommendations. Issues such as the expected impact and value of the audit should also be considered throughout the documentation and analysis of audit evidence. The emphasis should be on the production of a final report which will be considered by Kaduna State House of Assembly on one hand and the State Executive arm (including the management of the audited entities) on the other.
12. The reporting stage would involve clearance of the report through reviews, quality controls and exit meetings with the auditee, and finally the submission of the report to the House of Assembly and the management of the auditee.
13. The follow-up process identifies and documents audit impact and the progress the auditee has made in implementing audit recommendations. Such processes are vital for providing feedback to the Office of the Accountant General Kaduna State and to the State House of Assembly.

The Mandate of the Auditor-General

14. As a rule, the audit mandate and the general goals concerning performance auditing should be adequately defined. The basic audit powers of the Auditor General Kaduna State are embodied in the relevant legislation.
15. Among other issues, the mandate regulates the extent to which the Auditor General Kaduna State can audit public sector programmes and organisations. Special regulations are often needed that specify the conditions for performance audit, for example, access to information from sources other than the auditee's, the ability to make recommendations, the mandate to scrutinise government undertakings and programmes, and the effectiveness of legislation. The mandate ordinarily specifies the minimum audit and reporting requirements, specifies what is required of the Auditor-General, and provides the Auditor-General with authority to carry out the work and report the results. The mandate also covers the entire budget, including commissions, agencies and all corresponding government programmes within the state's public service.

The Performance Audit Department

16. A distinct department within the Office of the Auditor General Kaduna State, the performance audit department shall perform the function of auditing of programmes, projects, organizations etc. perpetually within Kaduna State. To be designated Performance Auditors, the staff of the performance audit department shall be professionally qualified accountants suitably trained for the specialized task. It is the responsibility of the team leader of each performance audit group to administer the audit project in a professional and satisfactory manner. The performance auditor must be able to plan and carry out each performance audit project in an economic, efficient and effective way, supported by convincing evidence, and ensuring high quality work.
17. Other key players within the office are the Auditor-General and other departmental heads that takes decisions on what to audit and they participate in the approval of the final report. The senior members of the performance audit department are responsible for ensuring that workable systems exist to facilitate management reporting, review and quality assurance. In addition, sustained training of performance auditors is imperative in order to meet the quality requirements specified in the Auditing Standards. The Office of Auditor General Kaduna State shall therefore ensure that its workforce maintain professional proficiency through continuous training including exposure to relevant local and international conferences/seminars.

Key Units and Roles in the Performance Audit Set Up

18. **The Auditor-General of Kaduna State** - He/she approves the annual plans and individual performance audit plans. Moreover, he/she decides whether or not to circulate or include the final reports in the Auditor General's report on the accounts and also signs the final performance audit report. The Auditor General Kaduna State is expected to further interact with and provides the Public Accounts Committee (PAC) with up-to-date information regarding performance audit reports and related matters.
19. **The Audit Chief (Performance Audit)** - Usually in the grade of Director, He/she compiles the departmental annual plans based on the information generated and the audit plans developed at the lower level. He/she recommends the plans to the Auditor General for approval. The Audit Chief (Performance Audit) has overall responsibilities for managing the entire performance audit cycle. He/she organises and assigns work to audit teams. Other responsibilities pertaining to the Audit Chief are as follows:
 - Directing, supervising and monitoring the activities of the performance audit department
 - Assurance of quality in performance audit process and in the final reports
 - Training of Performance Auditors.
20. **Team Leader:** Normally of the rank of Principal Auditor and above, He/she supervises the audit team(s) to which he/she is assigned during the course of the audit. It is the responsibility of the Team Leader to continuously review the project files during the fieldwork of performance audit and to point out deficiencies to the lower auditors. Other responsibilities of the Team Leader are as follows:
 - Coordination of performance audit plans

- Reporting audit findings, conclusions and recommendations
- Undertaking follow-up audits
- Training of lower level performance auditors.

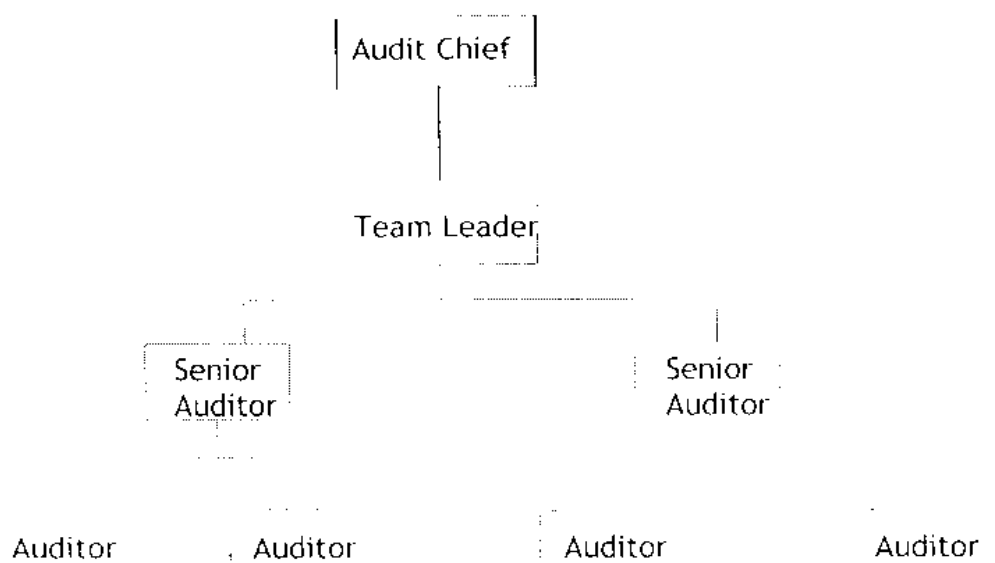
21. **The Senior Auditor:** He/she is responsible for executing the audit work as well as allocating tasks to her/his team members as per the activity plan. The Senior Auditor ensures high quality of the output and its timely production. He/she ensures that all data collected is analysed and the conclusions arrived at are consistent with the data collected; ensures that the team has thoroughly analysed its findings and recommendations and presents them for discussion to the whole department. The Senior Auditor, together with the team, prepares and submits a draft report with the working paper file for discussions with the Team lead. Some of the other responsibilities of Senior Auditor are as follows:

- Production of draft performance audit plans
- Allocating tasks to the team members
- Supervision during execution of performance audits
- Reporting audit findings, conclusions and recommendations
- Undertaking follow-up audits
- Training of performance auditors
- Maintaining a good team spirit within the group

22. **Auditor:** He/she participates in the actual audit of the entity in question under guidance of the Senior Auditor. Some of the responsibilities of team members are as follows:

- Collection of data
- Documentation of collected data
- Classification of files
- Participation in in-house training.

23. The figure below depicts the organogram of the Performance Audit Department



Internal Communication

24. The organisational set-up prescribed above recommends roles and responsibilities for performance auditors. The operational strategy should clearly specify the channels of communication and the feedback mechanism between audit staffs and the seniors.

25. **Format for internal organisation of a performance audit function:** The following is guide provided for the internal workings of the performance audit department

- **Top management meetings**

Frequency: Monthly.

Participating: The Auditor-General and the management team

Chairing: The Auditor-General.

Contents: Short, medium and long-term issues affecting performance audit operations, e.g. staffing, delegation of assignment, fixing deadlines for completing mandatory assignments, delegations for training, delegations for international conferences and seminars, budgeting and controls of expenditures.

- **Departmental meetings**

Frequency: Monthly.

Participating: The Directors

Chairing: Director

Contents: Audit teams report on progress and obstacles in audits, other departmental issues.

Further reporting: The Director reports back to top management.

- **Progress reports**

Frequency: Monthly and sometimes also weekly.

Participating: Team leaders.

Contents: Team leaders submit to the Director the teams' progress on a specially designed form showing budgeted output, actual output and remarks on the differences.

Further reporting: The Director reports back to top management.

External Communication

26. Communication shall be with the purpose of enhancing the establishment and implementation of a strategy and policy for external communication with regard to performance auditing. This strategy is in line with the overall strategic plan which guides the Office of the Auditor General Kaduna State and how it should communicate with stakeholders and others in different situations. The main external key players or stakeholders are the people and organisations - the House of Assembly (through the Public Accounts Committee), the audited entity and ultimately the public - taking an interest in the findings, conclusions and recommendations of the audits.

27. The Office of the Auditor General Kaduna State will ensure that senior performance audit staffs are aware of the strategies for external communication and are able to interact in a proper manner with the auditee, and with any other party that provides information essential for the performance audit project. Before any other contact is made with the auditee, a formal introduction should take place. This should be through a **Letter of Notification to Conduct Performance Audit (WP 1A)** signed by the Auditor-General Kaduna State. This will be followed by a formal meeting of the senior members of the audit team with the management of the auditee. Regular contact should be maintained throughout the audit, preferably through a contact person appointed by the audited entity. Before the finalisation of a performance audit assignment, a draft report should be sent to the auditee and discussed at an exit meeting. There will also be an established practice (in line with the communication policy of the Office of Auditor General Kaduna State) regulating to whom any report should be routinely delivered.

Code of Ethics

28. Every performance auditor must be independent of the auditee; this is confirmed through the completion of the Code of Ethics Statement (Working Paper 1B) prior to commencing a performance audit assignment.

Code of Ethics Statement

29. The following code is a guide for the performance auditors regarding his/her conduct in the course of performing a performance audit.

30. **Code of Ethics for Auditors:** The code of ethics guides the work of every Auditor. In addition, the code of ethics recognizes that the objectives of the job are to work to the highest standards of professionalism. These require four basic components thus:

- i. **Credibility** - The development of any society is based on credible information
- j. **Professionalism** -The obvious need for individuals who can be clearly identified by the MDA, and other interested parties as a professional Auditor
- k. **Quality of Services** - The assurance that all audits are carried out to the highest standards
- l. **Confidence** - The auditee and users of the related audit reports should feel confident that there exists a framework of professional ethics for the audit.

31. Specifically, the following shall be observed:

Integrity: An Auditor has the exceptional duty to adhere to high standards of behaviour in the course of his/her work

- .. **Independence:** Auditors must be independent of the audited entity and other outside interest groups. Auditors are to be objective and impartial in dealing with issues and topics
- .. **Political neutrality:** It is important for Auditors to maintain political neutrality
- .. **Conflict of interest:** The various aspects are listed thus:
 - f. In the course of his/her work, an Auditor shall not take management responsibilities or powers, which must remain solely with the auditee organization.

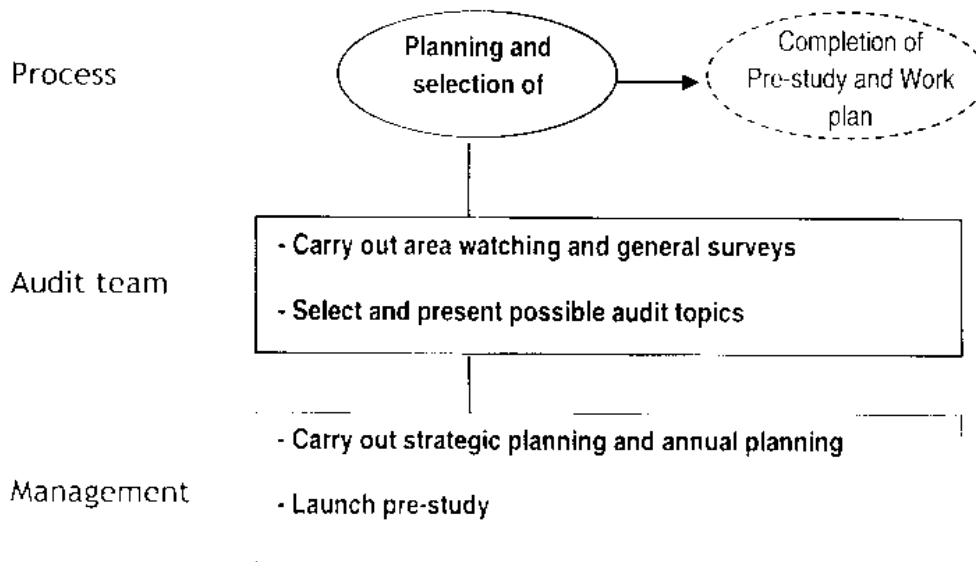
- g. Auditors are to protect their independence and avoid any possible conflict of interest by refusing gifts or gratifications
- h. The Auditor shall avoid relationships with officers and staff of the auditee which may influence, compromise or threaten his/her ability to act independently
- i. An Auditor is not to use his/her official position to promote private interests and therefore must avoid relationships which involve the risk of corruption
- j. An Auditor is not allowed to use information received during his/her duties as a means of securing personal benefit. Divulging of information that would provide unfair advantage to other individuals or organizations is not permissible
- o **Confidentiality or professional secrecy:** An Auditor shall not disclose information obtained in the auditing process to third parties, except for the purposes of meeting the auditee's statutory or other identified responsibilities as part of the organization's normal procedures or in accordance with relevant laws.
- o **Professional competence and due care:** It involves the following:
 - g. In carrying out their work, Auditors are to apply high professional standards always
 - h. An Auditor shall apply applicable auditing policies, procedures and practices; they should have a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity
 - i. An Auditor shall exercise due professional care in conducting and supervising the audits and in preparing related reports
 - j. The legislative and/or executive authority, the general public and the audited entities need to be fully assured of the fairness and impartiality of the Auditor
 - k. It is essential that the reports and opinions of an Auditor be considered to be accurate and reliable by knowledgeable third parties
 - l. The Auditors' work must stand the test of legislative and/or executive scrutiny, public judgments on propriety and examination against this Code of Ethics.

Declaration on Compliance with the Code of Ethics

32. Each performance auditor shall declare his/her compliance with this code of ethics before commencing each audit assignment using the Code of Ethics Declaration Form (Working Paper 1B). Also, at the end of every audit report, the performance auditor shall conclude that the statements included in this Code of Ethics have been duly observed.

Planning and Selection of Audit Topics

1. The purpose of planning in performance audit is to identify, prioritise and select audit objects that should be included in an overall programme of work for a particular period. It would be useful to have a three-year rolling plan - the strategic plan at the beginning of which a high-level strategic planning meeting will be held to identify areas of focus during the period being covered. The fiscal/economic position of Kaduna state - meaning the areas of high expenditure should form the foundation of focus for the performance audit strategic plan.
2. Moreover, possible requests from either the legislature or the executive arms of Kaduna State Government may form part of the basis of planning focus in the medium term (the strategic plan). Performance audit topics would be considered according to the list of suggestions of the Auditor General or any of the Directors. The diagram below illustrates a model of planning in performance audit.



3. **Objective of planning:** Planning in performance auditing should be aimed at making the actual audit work more effective. The planning process leads to appropriate decisions on the nature, extent and timing of the performance audit work to be undertaken. The programme of performance audits would be based on strategic choices as conceived by the Office of Auditor General Kaduna State as a whole. Moreover, it is considered helpful to adopt a structured approach to performance audit, whilst still allowing flexibility in the timing and priority of particular subject or topic.
4. The planning should be at two levels thus:
 - The overall level (strategic and annual planning)
 - The area level (area watching/general surveys and later the pre-studies)

Planning at the Overall Level

5. The overall planning would deal with strategic and annual planning.

Strategic planning

6. The adopted method for strategic planning would support the overall vision and mission of the Office of Auditor General of Kaduna State which in turn would align with the overall mandate of the Office of Auditor General of Kaduna State as specified in the relevant legislation. It should also aim at enhancing the independence of the Office of Auditor General Kaduna State and address the demands of the stakeholders namely - improved accountability and transparency as regards the utilization of public funds of Kaduna State.
7. Strategic planning itself is a process of defining goals, setting objectives and examining the current situation, future developments and the ways and means to be adopted in order to achieve the goals set. The strategic plan provides an opportunity to direct the audit activities in order to meet the responsibilities in terms of audit legislation and international auditing standards.
8. The overall performance audit strategies would be developed on the basis of the policies/corporate goals of Kaduna State and also based on issues that have been raised in previous audit reports. Strategic choices should be made in respect of broad focus areas, e.g. infrastructure development, healthcare, education, poverty reduction, or the criteria to use when selecting areas for audit. Such would deal with broad policy issues including the determination of overall priorities and resource allocation. Therefore, strategic planning represents policy decisions that provide a starting point for the planning of performance audits. The strategic plan should cover a period of three years, and should be reviewed annually to reflect the changing needs and circumstances of Kaduna State.
9. Summarily put, the purpose of strategic planning as regards performance audit is to ensure that:
 - a. A comprehensive and well-planned performance audit programme is in place
 - b. Audit methodologies are progressively developed
 - c. Audit priorities are adequately determined
 - d. An adequate skill - base is developed and retained
 - e. Resources are allocated to areas with the greatest potential impact and in a cost-effective manner
 - f. Monitoring arrangements are in place to review progress on delivering the agreed audit program
 - g. An effective quality assurance process is in place.

Annual Planning

10. The strategic planning will normally lead to an annual plan for all performance audit activities to be carried out during the immediate year ahead. Development of the annual performance audit plan shall be the responsibility of the head of the performance audit division (the Audit Chief or Director). The plan should comprise a detailed approach for the expected nature, timing and extent of the audits. Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of audit; that potential problem areas are identified early and that the work in each area selected is completed expeditiously.

11. The annual plan of the Office of Auditor General, Kaduna State would incorporate the performance audit department's work plans for ongoing audits and the new performance audits that will be undertaken during the year. It must necessarily focus on strategic priorities, on significant matters listed in memos from area watching or general surveys, on pre-study reports and on follow-up of work done during the previous year. The aim of the annual plan is to determine the annual programme of performance audit work to be undertaken and the staff and other resources required to deliver the programme. The annual plan should be based on a sound knowledge of the audit field and a considered view of prospective changes to ongoing operations.
12. Furthermore, the annual plan will enhance effectiveness in the allocation of work to team members and in the coordination of work performed by the different audit teams. This is a basis for development of a detailed work programme that identifies the specific audit tasks to be undertaken. An annual plan would normally entail departmental objectives, intended outputs and outcomes, areas to be audited, time frames and resource allocation for each audit.

Planning at the Area Level

13. **Area watching and general surveys** are part of the strategic annual planning processes in a performance audit system. While considering the priorities laid down in strategic planning documents, such would determine the potential audit areas from which topics for pre-studies will be selected.
14. **Area watching:** Area watching entails the monitoring of key issues within MDAs in Kaduna State, to keep abreast of developments. The key purpose of area watching is to identify indicators for possible performance audit ranges. It is carried out through reading of relevant publications and previous reports relating to performance and regularity audits; attending conferences and seminars; discussions with colleagues, stakeholders and specialists; listening to radio and television broadcasts; listening to or reading transcripts of parliamentary debates; and reading newspapers and journals. Area watching should be a continuous process which ensures that the Office of Auditor General Kaduna State is always in possession of updated information about areas that may require focus or attention regarding performance auditing. Moreover, and as may sometimes be indicated by the executive arm of Government (e.g. in the beginning of the annual planning process), results from area watching should be presented to Government (the executive) for a decision on whether a general survey or a pre-study should be carried out.

General Survey

15. The purpose of general surveys should be the collection and evaluation of relevant information in order to provide an understanding of a particular sector or programme, identify potential audit areas and allow the performance auditor to direct his or her attention to the most important areas and issues. It should be a process that provides a relatively fast way of gathering information, without detailed verification of the activities or operations of the organisation.
16. The general survey should include the same activities as area watching, but will go deeper and study particular Acts and Regulations referring to the auditee. It will also include a literature search, annual reports from the auditee, consultation of regularity audit files, reports from the public accounts committee and contact with professional bodies. When necessary, information shall be collected directly from the relevant organisations through interviews and/or written communication.

17. The general survey will be used by the Office of Auditor General Kaduna State in the case when it enters into a completely new area where the Office has little previous knowledge of. The results from the general survey may consist of a number of different ideas for performance audit and will be kept as a 'bank of ideas'. These ideas will later be used as a starting point for a pre-study or sometimes even directly for a main study.
18. When a general survey has been completed, the results should be summarised in a memorandum and submitted to the Auditor General for his perusal and opinion.
19. Some differences between area watching and a general survey are highlighted in the following table:

| | Area watching | General survey |
|-------------------------------|---|---|
| <i>Purpose</i> | Keeping updated information on key issues | Identify possible problem areas |
| <i>Time frame</i> | Continuous | Ad hoc |
| <i>Focus</i> | Broad | Specific target |
| <i>Sources of information</i> | Various sources | Various sources and information from auditees |
| <i>Documentation</i> | Oral or written | Memorandum |

20. During both the area watching and the general survey phases, vast amounts of information are obtained. A number of potential audit areas would probably have been identified. To make recommendations about the topics that warrant further examination, the performance auditor could require some form of basis for evaluating the information collected.
21. In this situation, a number of factors should be taken into account to compare and eventually rank potential audit topics. Some important factors to consider as regards Government MDAs are the following:
 - a. Performance targets are not being met
 - b. The entity is carrying out activities outside its mandate
 - c. Unauthorised amounts are expended; rising costs resulting in demands for more resources
 - d. Projects are not completed on time
 - e. Complaints from contractors due to long waiting time in payments despite release of funds
 - f. Complaints from staff
 - g. Tender procedures not being adhered to
 - h. Changes in legislation or government policies
 - i. New technologies introduced or other circumstances that have changed
 - j. Complexity due to scattered activities.

Presentation of Possible Audit Topics

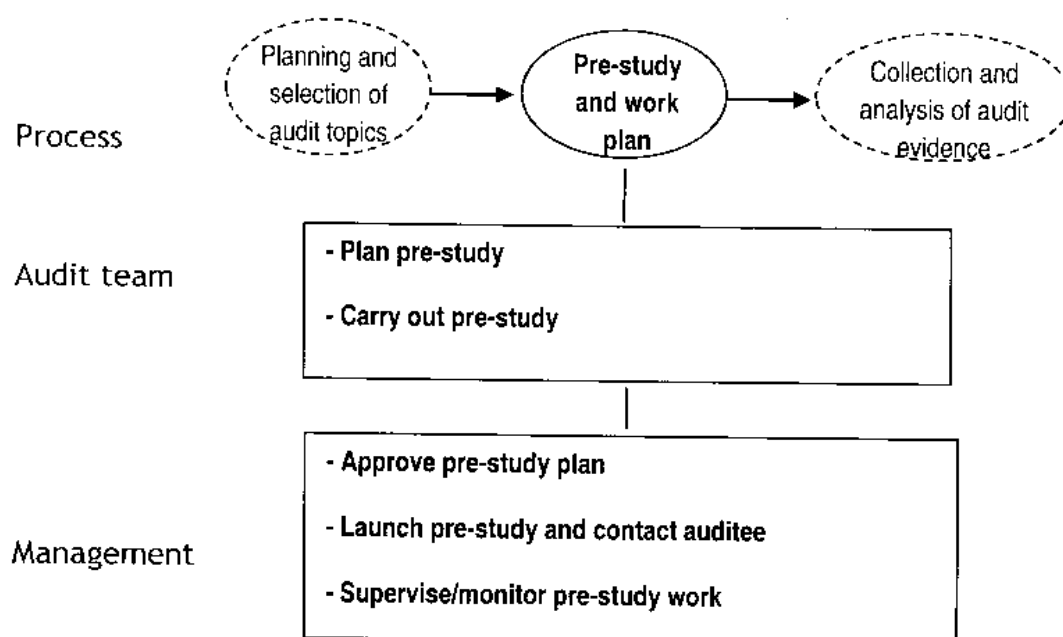
22. The Office of the Auditor General Kaduna State shall establish how results from area watching and general surveys are to be presented and decided on. Results from area watching are normally not documented in a structured format but should, at times as indicated by the concerned senior member of the performance audit team, and thereafter presented to the Auditor General for a decision on whether a general survey or a pre-study should be carried out. Where the problem indicators are broad and need to be specified further, the decision would normally be to carry out a general survey. If, on the other hand, specific problems have been identified, the process could continue into a pre-study or sometimes even a main study stage.
23. Whereas the results from area watching could be presented orally or in writing, the results from the general survey should be presented in a structured memorandum. The memorandum should provide background information on the auditee, such as legislation, goals, objectives, structure/organisation, outputs, costs, etc. It should also contain an analysis of problems encountered and recommendations as to the way forward. The memorandum should be submitted to management (the Auditor General) for a decision on whether to carry out a pre-study or go ahead with a main study.
24. A model for the general survey memo could be as below:
- Background
 - Risks
 - Materiality
 - Conclusion
 - Recommendation
- i. **Background:** It is a description of the sector and the relevant part of the entity under audit, including the auditee's:
- Task, objectives and undertakings
 - Organisational structure
 - Division of responsibilities within the body.
- ii. **Risks:** It is an appraisal of the risks due to the auditee's shortcomings within the audit area. The risks should be divided into:
- ✓ Inherent risk, i.e. factors that are embodied in the nature of the auditee but fall outside its control, e.g. new legislation, complex area, etc.
 - ✓ Identified risk, i.e. factors identified by the audit team or others, which were created by the way the auditee performs its duties, e.g. the auditee's practices or internal organisation.
- iii. **Materiality:** It is an assessment of the extent to which the auditee's shortcomings within the audit area affects the state and the public, namely:
- Materiality by value, i.e. the amount of money spent or the relation between expenditures and revenues

- Materiality by nature, i.e. how people are affected by the audited area, e.g. people's time, health or rights.
- iv. **Conclusion:** It should point out the main results from the general survey and identify potential audit problems.
- v. **Recommendation:** Based on the overall conclusion, the audit team should recommend whether or not to launch one or more pre-studies.

Section IV

Pre-Study and Work Plan

1. The purpose of the pre-study is to identify possible audit problems, establish whether the conditions for a main study exist and to produce a main study proposal with a work plan. In addition, it provides background knowledge and information required to understand the entity, programme or function. The outcome of the pre-study should result into an internal pre-study memo which is normally not intended for publication. An idea of a pre-study approach is presented using the flow diagram as below:



Planning a Pre-study

2. The pre-study plan is a definitive plan for the execution of the pre-study. A pre-study plan should contain the necessary information regarding approach, timing and the resources required for conducting the proposed pre-study. The following issues should normally be included in the pre-study plan:
 - a. **Motive** i.e. the reasons why it was decided to carry out the pre-study
 - b. **Objectives and issues to be investigated:** focus on the chosen audit object and illustrate what the auditors hope to achieve by means of a pre-study
 - c. **Collection of information:** mention the type and sources of information that will be required and what methods will be used to gather the information. Sources of information could be people (e.g. interviews), documents and objects
 - d. **Organisation and need for resources:** it will indicate who will be involved and what role each would play. All other resources, such as money and time, should be indicated. Also to be specified is an assessment of whether the issues to be clarified by the pre-study justify the amount and level of resources to be deployed.
3. The Office of the Auditor General will also decide on how long a pre-study could take (from one month to a maximum of three months).
4. For members of the performance audit team, the plan serves as the guideline upon which the project is to be pursued. The team should decide:

- a. What information is required for the pre-study
- b. How the information will be obtained
- c. How the information will be applied to select the audit problem.

Conducting the Pre-study

5. The pre-study has the character of a trial and error process, where it is possible to test different ideas, alternative audit problems and methods. It is a broad-based appraisal of the operations of the auditee.
6. The pre-study takes the assessment made during area watching and general survey work further and provides sufficient justification to proceed with the main study or else to conclude any further work. It defines the most important effectiveness problems for an entity as a guideline for the main performance audit and determines whether or not there are indications of non-compliance or shortcomings within the area in question.

Collection and Documentation of Data

7. Data can be obtained through a number of methods in the form of reference facts, physical observations and documents etc. The audit team may interview people with special knowledge of the audit object and people who are willing to assist in giving information and discussing possible audit problems. The performance audit team may also devote time to studying basic documents and other literature. The primary objective of data collection is to collect enough information in order to assess alternative audit problems.
8. The documentation of data is of great importance in performance auditing. This is true for the pre-study phase as well as the main study. During the pre-study phase, it is important to bear in mind that properly documented data might later be used as audit evidence in the main study. Therefore, all data should be carefully documented and the information collected should be filed in accordance with the general filing policy within the Office of the Auditor General of Kaduna State

Analysis of Data

9. Data collected during the pre-study phase will be analysed and converted into meaningful information. It can be done using the following means:
 - a. Identify the key factors most likely to influence economy, efficiency and effectiveness
 - b. Where possible, indicate if and why the operations did not meet the three Es
 - c. Brainstorm ideas using the problem indicators gathered and group them into possible problem areas
 - d. Rank the possible problem areas using the criteria described in the paragraphs 12 to 17 below.

Selecting the Audit Problem

10. From a performance auditor's perspective, a situation or event in an organisation or programme where performance is not satisfactory may be defined as a problem. A well-formulated audit problem is an identified problem and fact that can be audited. It may be linked to one or more of the three concepts of economy, efficiency and effectiveness. Performance audit can focus on a range of different problems. However,

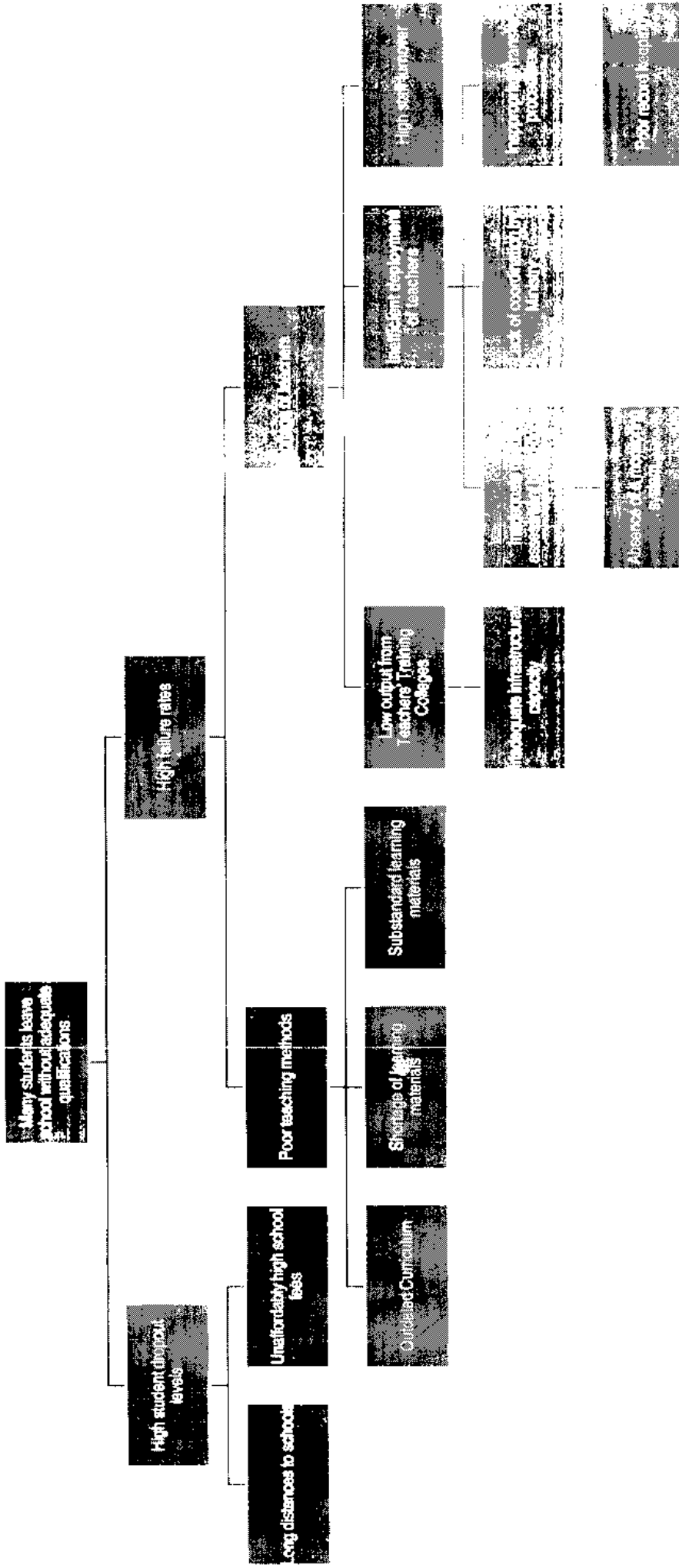
performance audit gives priority to problems that are relevant for groups of people and not only to one individual, and which are of a long-term and structural nature. Problems may also be looked at from different perspectives. What is defined as a problem by the headmaster of a primary school may not be regarded as a problem by the teachers or the pupils, parents, administrators, cleaners or politicians. Therefore, the performance auditor will make an independent assessment, approaching the problem from different angles.

11. Possible audit problems emanate from the findings of the pre-study. During the pre-study stage, the performance auditor will identify and analyse the characteristics of the problems found. When several problems have been identified, the team has to limit the scope by choosing the audit problem judged as the most important to the audit. This is done because it is usually impossible to audit all the problems identified during the pre-study. The most important audit problem can be determined by using selection criteria within the Office of the Auditor General of Kaduna State in conjunction with the statistical problem-tree and/or the input/output model.

The Problem-tree Analysis Technique

12. The problem-tree analysis is used to relate and link different problems to each other hierarchically according to how they influence each other. Any box in the tree can be defined as a problem. Causes of that problem will then be found as you move downwards in the tree and the consequences as you move upwards. The main purpose is to identify possible audit problems from the observations and findings made during the pre-study.
13. An example of a problem-tree is shown in the figure below:

Problem Tree - Poor Performance of Students at Secondary School Level



14. Before arriving at the final version of the problem tree, the performance audit team would have reformulated many problems and eliminated others. Interrelated problems that have the same causes and consequences would have been merged. In this example, problems such as inadequate facilities, poor attitudes or poverty have been left out, since they lie outside what can be audited in this example. Other problems may have been eliminated simply because the performance auditor considers them to be too insignificant.
15. If, in the example above, the audit problem is chosen at a very high level (e.g. high failure rates), it will probably be of great interest to the stakeholders, but it might not be possible to deal comprehensively with the problem since there is a risk that the audit will either be shallow and trivial or demand unreasonably large resources to cover all important aspects of the audit problem. If, on the other hand, the audit problem is chosen at a very low level (e.g. poor record keeping), it might be possible to investigate it very well, but it may be of little interest to the stakeholders. In the example, we have chosen 'inefficient deployment of teachers' as the audit problem.
16. When in doubt, it is generally better to choose an audit problem at a lower rather than a higher level. Problems are usually more complex and complicated than initially envisaged. With good arguments, the performance auditor can explain to stakeholders how a problem at a lower level relates to problems at higher levels. It is also possible to launch parallel audits that deal with related problems at a lower level. The results of these separate (but coordinated) audits could then be used in a synthesis report, addressing higher level problems.
17. Organising thoughts in the form of a problem-tree will take quite some time, as the tree will probably have to be revised several times before the team is satisfied with the result. There are different phases in the problem-tree analysis. Firstly, new and innovative ideas are generated, and secondly, the ideas put forward are critically assessed. The team should not try to be creative and critical at the same time. Staff members from outside the project team could be invited to provide feedback on the problem-tree. This will most likely offer new insights and generate a better understanding of the problems at hand.

The Selection Criteria

18. A performance audit project represents a major investment in terms of time and money. Therefore, the Office of the Auditor General Kaduna State can undertake only a limited number of performance audits each year. All projects must be carefully selected and designed to bring maximum benefits to the Government and other stakeholders. Selecting an appropriate audit problem is a prerequisite for successfully meeting this target. Below are examples of selection criteria that can be used.

Mandate

19. Does the problem fall within the mandate of the Office of the Auditor General Kaduna State?
20. **Materiality:** This should be viewed from the following angles:

- a. To what extent does the problem affect the citizens, the economy and government finance?

- b. Is it a general problem throughout the organisation or confined to a small part of it?
- c. Is it a long-term or a short-term problem?

21. **Risk:** It can be considered from the following perspectives:

- i. Is there a risk that money may be lost or used wastefully?
- ii. Is there a risk that shortfalls in the audited entity's performance could lead to poor performance?
- iii. Is there a risk that important objectives will not be achieved?

22. **Auditability:** Viewed from the dimensions as below:

- Are relevant and accepted audit methods applicable?
- Are sufficient resources available, i.e. budget, transport and human resources?

23. **Potential for change:** This should be considered from the following perspectives:

- i. What are the possibilities that the conclusions and recommendations of the audit will be accepted?
- ii. Are there political, financial, ethical or other factors that limit the possibilities for change?
- iii. Can the problem be solved without an increase in resources?
- iv. Are there other bodies already considering how the problem could be solved?

Pre-study Memorandum

24. At the end of a pre-study, the audit team will present a written report (a pre-study memo) summarising the findings of the study and recommending further action(s). This written documentation of the results is normally an internal document. The pre-study memo should be written as precisely and unambiguously as possible. The information included and the structure should help the reader to understand why the team:

- a. Selected this audit area
- b. Selected the specific audit problem
- c. Believes it is possible to carry out a main study.

25. The following should be covered in a pre-study memorandum:

- a. **Background** to the pre-study: It gives the reasons or explanation for conducting the pre-study
- b. **Design** of the pre-study: It is a brief outline as to how the study has been carried out in terms of scope and what methods and sources of information have been used

- d. **Description of the audit area:** It should provide sufficient background information to understand the area which has been under review
- e. **Results of the pre-study:** This would be in terms of problems identified
- f. **Recommendation to management:** On whether to carry out a main study
- g. **Description of the selected audit problem.**

Work Plan

26. When the audit problem suggested by the team has been decided on, a work plan for a main study has to be prepared by the team leader. This is reviewed by the Audit Chief and approved by the Auditor General. The purpose of the work plan is to design and describe how the audit of the specific problem will be carried out in the main study. The work plan will help the team to structure their assumptions; it will also guide them through the audit process. In addition, it provides a basis for monitoring by the Auditor General throughout the process. The performance auditor concerned (the team leader) should plan the audit in a manner to ensure that an audit of high quality is executed in an economic, efficient and effective way and in a timely manner. To illustrate the key components of the work plan, a pattern from the problem-tree described above can be used.

27. The work plan should include the following:

- a. Audit problem
- b. Audit objective
- c. Audit scope
- d. Audit questions
- e. Assessment criteria
- f. Methodology and sources of information
- g. Resource planning including budget, human resources and activity plan etc.

Audit Problem and Audit Objective

28. The audit problem as defined in the pre-study memo provides the starting point for the planning of the main study. Also, the audit objective relates to the reason for carrying out the audit. As a rule, an audit objective is a precise statement of what the audit intends to accomplish and/or the question the audit will answer. It is linked to and can be derived from the audit problem. Also, it states what the audit intends to accomplish. When defining the audit problem, the audit team needs to specify whether the problem is related to certain time periods, geographical areas, population groups, seasons, etc.

Audit Scope

29. The audit scope defines the framework or limits and subjects of the audit, i.e. it expresses the extent to which the main study is being limited. The scope of a performance audit is determined by answering the following questions:

- a. **What?** What is the audit object, i.e. the activities, programmes or processes that will be audited?

- b. **Who?** Who is the auditee, i.e. the ministry/entity responsible for the audit object?
- c. **When?** Are there limits on the time frame to be covered, e.g. a specific year or period of time?
- d. **Where?** Are there geographical limits concerning the area to be covered, e.g. one or more regions?

Audit Object

- 30. The audit object is an ongoing or terminated activity carried out by an auditee. It could cover the whole process, from input of resources to output and effects, or merely a part of that process. The same limitations in time, geographical areas, etc. that apply to the audit problem will also apply to the audit object.
- 31. **Auditee:** After having defined the audit object, it is necessary to indicate clearly who is responsible for carrying out the activity under audit.
- 32. **Time coverage:** The purpose of performance audit is usually to form an opinion about an on-going or completed project/programme or activity. It may not be possible to study the whole period that is relevant to the audit problem and the audit object. In such a case, the period to be covered by the audit has to be limited. It is advisable however, that the performance audit should cover a longer time frame than just one or two years. It might, for example, be of interest to illustrate developments in a certain field over a series of years. The availability of data and changes such as major reforms launched by government should also be taken into account when defining the time coverage for the study.
- 33. **Geographical coverage:** The definition of the audit problem and of the audit object will already be known if the problem is a general one or one particular to certain geographical areas. The audit will always have to stay within the limits defined by the audit problem. If those limits are broad, the audit team will need to further reduce the coverage of the audit. How this coverage is defined is crucial for the performance auditor to generalise their conclusions and recommendations at the end of the audit so that they cover the whole audit object. Selecting a few representative locations could be one way of limiting the study. Applying sampling methods to select a limited number of interviewees in each location could be another.

Audit Questions

- 34. After determining the audit scope, the team has to define the specific audit questions that will be examined.
- 35. A few examples of audit questions common to most performance audits are the following:
 - a. Do the means chosen represent economical use of public funds?
 - b. What causes the rapid increase in costs?
 - c. Are the services provided client - oriented and of good quality?
 - d. Why are the services not delivered on time?
 - e. Are the programmes implemented efficiently?
 - f. Are the costs of operation justifiable?

- g. Are the goals and objectives met?
 - h. What is the reason for any poor impact of the programme?
36. In formulating the audit questions, performance auditors must rely on the information collected and their own skills and experience. Techniques such as the problem-tree analysis, brainstorming, etc. are sometimes used at this stage. The audit questions will deal with issues such as “what is” or “why is it”. It will also be an advantage if the questions indicate who is responsible. When answered, they should provide sufficient information about the audit problem and its causes within the given scope. It is advisable to formulate between three and five specific audit questions. In general, a larger number of questions will increase the risk of the performance auditor losing his/her focus on the key issues of the audit.
37. Audit assumptions may often be used together with audit questions. This is especially true in audits where statistical tests can be applied to test the hypotheses. It can be argued, however, that formulating questions is better than assumptions as it helps the performance auditor to employ an open and inquisitive mind throughout the audit.

Assessment Criteria

38. Assessment criteria are the standards against which the performance of the audited entity will be measured. These standards determine whether or not the operations or the programme meet or exceed expectations. They will also help the performance auditor to create a common understanding with the auditee. It is important to note that satisfactory performance does not mean perfect performance, but is based on what could reasonably be expected, taking the auditee’s circumstances into account.

Sources of Criteria

39. When developing audit criteria in performance auditing, it may be useful to consider the following:
- i. Standards and measures set by the auditee
 - ii. Laws governing the operations of the audited entity
 - iii. Planning documents, contracts and budgets
 - iv. Organisational policies and procedures
 - v. Standards set by the performance auditors in previous audits
 - vi. Comparison with corresponding activities in the private sector
 - vii. Comparisons with international benchmarks
 - viii. Criteria used by professional organisations and standard-setting bodies
 - ix. The expectations or experiences of the citizens affected.

Characteristics of Useful Criteria

40. For the criteria to be useful, such should meet certain standards for instance:
- a. *Objective* criteria are free from any bias on the part of the auditor or the audited entity

- b. *Understandable* criteria are clearly stated and are not subject to significantly different interpretations
- c. *Comparable* criteria are consistent with those used in performance audits of similar entities or activities and with those used in previous performance audits
- d. *Complete* criteria refer to the development of all significant criteria appropriate to assessing the performance
- e. *Acceptable* criteria are those that independent experts in the field, audited entities, the legislature, media and general public are agreeable to.

Developing Assessment Criteria

- 41. The process of identifying assessment criteria requires rational consideration and sound judgement. Goals and objectives set by a law, by the government or by the auditee are sometimes vague or very broad. Under such conditions, the performance audit team might have to interpret the goals to make them more specific or measurable.

Methodology and Sources of Information

- 42. Performance audits can draw upon a large variety of data-gathering techniques that are commonly used in the social sciences, such as surveys, interviews, observations, and studying written documents. For each individual audit question, the audit team should indicate sources of information and methods for data collection. To be able to corroborate the data at a later stage, it is usually preferable to combine different sources and methods. The selection of sources and methods in the work plan should be as complete as possible, yet allowing additional ones to be included if necessary during the main study. Unavailability of data may, however, restrict the choice of methods. As a general rule, it is advisable to be open and pragmatic in the choice of methods. Nevertheless, the approach in the work plan document has to be detailed enough to allow for proper resource planning. Data collection and analytical methods are described shortly.
- 43. Wherever possible, the performance audit team should assess the practicability of the proposed audit methods, the availability of data in the required forms and the team's ability to collect, analyse and interpret the data. Any foreseeable problems should be identified at this stage and strategies for overcoming them developed.

Resource Planning

- 44. Both human and financial resources, including time required to complete the main study, need to be specified. Also, the resource plan should specify how the resources will be used.

Human Resources

- 45. The names of the performance auditors who will conduct the audit and the team leader's responsible should be mentioned in the resource plan. In accordance with INTOSAI Auditing Standards, no member of the audit team should have any affiliation, e.g. kinship or other relationship, with the auditee which could affect his/her objectivity or/and independence. Accordingly, each member of the team shall complete the Code of Ethics Form (WP 1B).

46. It is usually not practicable for a single auditor to singlehandedly accomplish a performance audit assignment. Nevertheless, too many auditors in the team may also lead to problems of internal communication, coordination, etc. The size and complexity of the audit will determine the number of performance auditors needed. In a sense, performance auditors are generalists who use audit methods to analyse organisations. However, there may be cases when the audit team needs specialised knowledge regarding other fields. In such cases, the possibilities for using the expertise of consultants e.g. doctors, engineers, surveyors etc. should be considered. Also in such cases, the assignment and the role of the expert should be clearly specified.
47. A Specialist could be obtained either in-house (i.e. within Government) by requesting for such from MDAs assuming they are available and where there would be no clash of interest, or by hiring an independent expert at a fee. Responsibility within the team should also be clarified and work should be allocated appropriately. All members of the team should have insight into the overall development of the project. Nevertheless, the most experienced or highest ranking performance auditor within the team will usually be appointed as team leader. As such, he or she has specific responsibilities when it comes to planning the project, reporting to management, contacts with the auditee, etc.

Financial Resources

48. Budgeting involves deciding on the amount of money needed for the project. Salaries, accommodation, transport, stationery and printing, various allowances, etc. for staff conducting the audit must be determined in planning the project's budget. Budget for a performance audit project must be realistic in order to achieve the desired effectiveness. Therefore, the plan should focus on what is reasonable and realistic and not what is desirable.

Time Schedule and Activity Plan

49. The resource plan should include a time schedule and an activity plan for all main activities, and should be as realistic as possible.
50. The following are suggestions for drawing an activity plan:
- a. **Do not be over-optimistic** when compiling the plan. Performance auditors might have to spend time on other tasks, such as seminars and training programmes. They should also consider public holidays and vacations
 - b. **Take into consideration the logistics for travelling**, weather conditions and the working hours of the client
 - c. **Compare activity plans from previous audits** in order to estimate the amount of time that will be needed to complete a specific activity.

Contacts with the Auditee

51. The planning process also includes reflections considering the relationship to the auditee. Contacts with the auditee would have already been established during the pre-study through a formal letter (Notification - WP 1A) to that effect and signed by the Auditor General. The audit team should specify the need for a contact person and the role of that person. An indication must be

given of the person in the audit team (usually the team leader) or from management who will be involved in direct contacts with the auditee.

Monitoring and Supervision

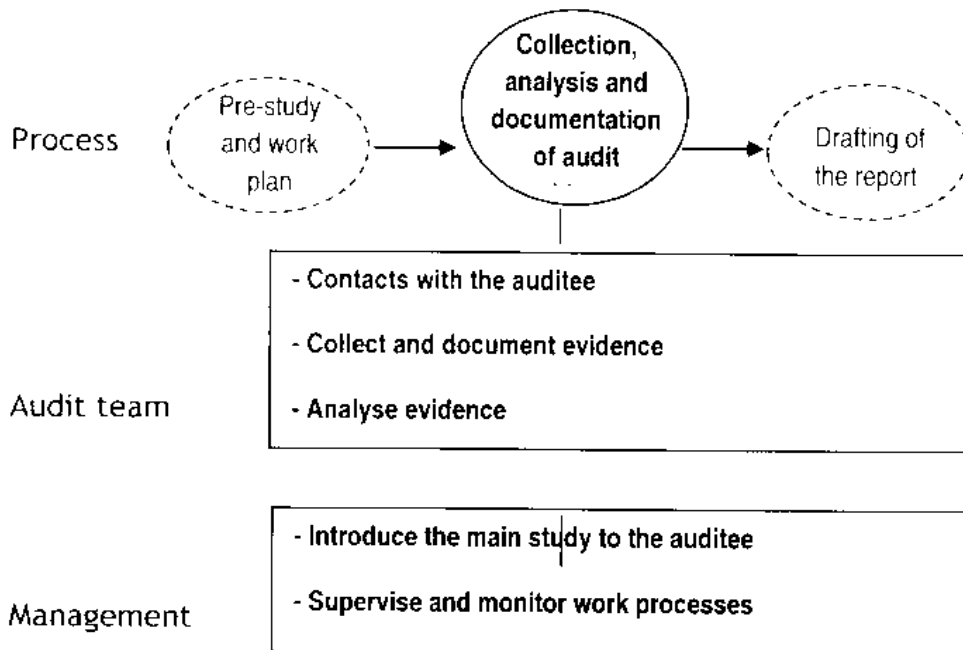
52. It is important that the role of different levels of hierarchy within the Office of Auditor General Kaduna State is made clear in the work plan. The work plan should be decided by an appropriate level within the Office of the Auditor General. The decision should encompass milestones and monitoring plan for the project.
53. According to the INTOSAI Auditing Standards, the work of the performance auditors at each level and at each audit phase should be properly supervised during the audit. Supervision is essential to ensure that audit objectives are achieved and the quality of audit work is maintained. Supervision should involve ensuring that:
- a. All members of the audit team have a clear and consistent understanding of the work plan and how it should be implemented
 - b. The audit is carried out in accordance with the standards and practices of the Office of Auditor General Kaduna State
 - c. The work plan and action steps specified in that plan are followed unless variation is authorised by the appropriate senior
 - d. The audit team achieves the stated performance audit objectives.
54. Supervision, whether within the audit team or at a higher level is only one aspect of the leadership and direction required. To achieve good results, it is imperative that the Auditor General or his delegated official should also play a proactive, supportive and visionary role throughout the performance audit project.

Section V

Executing a Performance Audit

Collecting and Analysing of Audit Evidence

1. The purpose of data collection and analysis of audit evidence in the process of performance audit is to be able to answer the audit questions and to develop audit findings, conclusions and recommendations. The diagram below is a suggestion of approach to be adopted:



Introduction of the Main Study to the Auditee

2. Contacts with the auditee should have already been established during the pre-study through the Notification Letter. However, an introduction to the main study is also necessary in the form of a follow-up letter and a meeting. The letter, to be signed by the Auditor General or someone with delegated authority for that purpose, will inform the auditee about the decision of the Office of Auditor General of Kaduna State to launch a main study and explain its purpose. At the meeting, the Auditor General could be represented by the Audit Chief (the Director) or his/her delegated official.
3. The purpose of the introductory meeting is to present the forthcoming performance audit. The audit team will inform the auditee about the following:
 - a. Purpose of the main study
 - b. Time schedule for the main study
 - c. Members of the performance audit team
 - d. Methods that will be used in the performance audit
 - e. The information that will be requested from the auditee
 - f. The need to appoint or confirm the contact person.

4. The introductory meeting is usually followed by a meeting between the audit team and the appointed contact person. The contact person will throughout the audit assist the audit team with required information and he/she will be consulted if the audit team needs to make visits to the auditee's regional or local branches.
5. Throughout the audit, it is important to maintain a productive relationship with the auditee.
6. The performance audit team will discharge its mandate freely and impartially, taking the auditee's views into consideration in formulating audit findings, conclusions and recommendations, but with no responsibility to the management of the audited entity for the scope or nature of the audits undertaken. The team of performance auditors must remain independent from the audited entity throughout the audit. As a consequence of this and based on the signed Code of Ethics Statement, none of the audit team members should have any ties to the auditee that could question his/her objectivity and independence as an auditor.

Audit Evidence

7. Audit evidence is information that forms the foundation which supports the findings, conclusions and recommendations of performance auditors. It consists of specific information and facts collected and used to test the assessment criteria, and subsequently to support the audit findings. All works will be planned from the perspective of acquiring the evidence needed to identify findings that satisfy the audit objective. Selection, examination and evaluation of audit evidence are the backbone of a performance audit.
8. Audit evidence can be categorised as:
 - a. **Physical evidence** that is obtained by the direct observation of people, buildings, events, etc.
 - b. **Testimonial evidence** that is obtained through enquiries, interviews or questionnaires
 - c. **Documentary evidence** that consists of all sorts of written documents, e.g. reports, research papers, records, statistical data, etc.
9. When planning the collection of evidence, it is essential that the audit team is aware of the expected standards set by INTOSAI, stipulating that **relevant, reasonable and competent** evidence should be obtained to support the auditors' conclusions regarding the audit object. Later on, when analysing the evidence that has been obtained, these concepts will be used to assess the quality of the audit evidence in terms of:
 - a. **Relevant** evidence which is/are information that can be used to answer the audit questions
 - b. **Reasonable** evidence - meaning the information that can be collected at a reasonable cost and thus allows the auditor to stay within the agreed budget limits

- c. Competent evidence -implying appropriate information in sufficient quantity.

Sources and Collection Methods

10. Data collection is one of the longest phases in the performance audit process and often involves extensive field work at different levels. One approach to planning for data collection is to list, for each audit question, the nature and location of evidence that is needed as well as the audit procedure that is to be implemented. To facilitate this, performance auditors can use a verification form. An audit on government vehicles is used as an example of this as below:

| | Example of Audit Subject | Data Collection | | |
|----|---|--|--|---|
| | | What to obtain? | How to obtain information? | How to compile and analyse? |
| 1. | Are vehicles used efficiently? | Kilometers in line of duty per vehicle | Service records at each depot in the districts | A table showing average kilometers per vehicle, depot and month |
| 2. | What is the cause of high failure rate in SSCE and what is the role of teachers | Managers' assessment of utilisation | Interviews with 10 managers from the districts | Compilation of the assessments in a table |
| | | Number of qualified teachers in school | Staff Nominal Roll | Subject-by-subject qualification of teachers |
| | | Frequency in lecture rooms | Attendance from class prefects | Minimum time required and what is obtainable |
| | | Assessment of quality of teaching | Interview teachers and students | Test result for regularity |

11. It is vital that performance auditors adopt a critical approach, see things from different perspectives and maintain an objective distance from the information put forward by the auditee. At the same time, the performance auditor must consider the views and arguments of the auditee.
12. Data collection methods need to be carefully chosen. The audit team will aim at developing its ability to use different collection methods. Also, there is a need to collect different kinds of data in a performance audit assignment. Audit teams will ensure that findings in different parts of the audit, based on different kinds of evidence, are consistent. When evidence from one source appears inconsistent with that obtained from another, the reliability of each remains in doubt until further work has been done to resolve or explain the inconsistency. When evidence from different sources and findings in related parts of the audit are consistent, it gives assurance that is higher than that attached to the individual parts.
13. In choosing methods for data collection, the performance auditor will be guided by the objective of the audit and by the audit questions. Practical reasons such as availability of data may restrict the choice of methods, so the performance audit team may have to settle for second best. As a general rule, the performance audit team should be pragmatic in the choice of methods.
14. Consultants can provide useful expertise in a number of areas. However, the accuracy of the evidence remains the auditors' responsibility. All work produced by others need to be critically assessed.

Testimonial Evidence

15. Below is a table showing the method of collection, the aim, benefits and the likely challenges that may be encountered in the attempt at obtaining testimonial evidences

| Method | Purpose | Advantages | Challenges |
|--------------|---|---|--|
| Interviews | To fully understand someone's views, impressions or experiences | <ul style="list-style-type: none"> - Obtain full range and depth of information - Develop relationship with client - Possible to ask for clarifications and pose follow-up questions | <ul style="list-style-type: none"> - Each interview can take a long time - Could be difficult to summarise and compare to each other - Could be costly - Interviewer could bias the client's responses |
| Focus groups | Explore a topic in depth by combining different views | <ul style="list-style-type: none"> - Quickly and reliably obtain common impressions - Efficient way to get range and depth of information in short | <ul style="list-style-type: none"> - Could be difficult to analyse responses - Need a skilled facilitator for good discussions |

| | | | |
|----------------|--|--|--|
| | | time Convey key information about Programmes | - Difficult to schedule several people together |
| Questionnaires | To get information from a large number of people | - Could be answered anonymously - Inexpensive to administer - Easy to compare and analyse - Administer to many people - Obtain large amounts of data | - People might not answer - Requires knowledge to construct - Is impersonal and wording could bias client's responses - Requires skills in sampling |

Interviews

16. Interviews should be properly planned. As far as possible, the interviewer (performance auditor) should be familiar with the subject to be discussed and the areas to be covered. The structure of an interview depends on its objective. In the pre-study, the questions will typically be broader, the objective being to formulate possible audit problems. In the main study phase, the focus will shift to verifying the audit problem and the reasons behind it.
17. When asking for opinions on different issues, the performance auditor will usually benefit from not giving the questions to the interviewee in advance. The same applies if for any reason, the audit team needs to interview several people within the same organisation. On the other hand, if the purpose of the interview is to collect specific facts about the audited entity, it is advisable to provide the questions in advance to enable the interviewee collect relevant statistics and other documentation. Whichever the case, questions will normally be prepared in advance in the form of an interview guide.
18. The typical interview is held in the context of a meeting. Sometimes telephone interviews provide an alternative that can save both time and costs, especially if questions are relatively simple, straightforward and standardised.

Focus Groups, Seminars and Reference Groups

- 19 Focus groups, a selection of just a few individuals brought together to discuss specific topics, are primarily used to collect qualitative data that can provide insights into the values and opinions of individuals involved in the process or activity under audit.

20. Seminars have the advantage of bringing together a large number of people representing a wide range of knowledge and perspectives.
21. Reference groups will be composed of people drawn from within or outside the Office of the Auditor General Kaduna State and are usually made up of experts and specialists, e.g. academic researchers etc. The group will usually meet on few occasions during the audit. The reference group may be used both for collecting data and for quality control purposes.

Questionnaire

22. A questionnaire provides a systematic collection of information from a defined population, usually by means of interviews or questionnaires administered to a sample of units in the population. Questionnaires are used to gather detailed and specific information from a group of people or organisations.
23. Questionnaires are mainly used to collect facts that are not available in any documents and that are important as a reference to substantiate an observation. In addition, questionnaires are used when comprehensive knowledge is required. Also, questionnaires may be distributed by using regular post or the Internet. The completed questionnaires are thereafter processed usually on the computer to obtain a summary that would be useful for the assignment.
24. It is important that the questions are easy to understand and correctly articulated. Performance auditors should therefore put a lot of effort into the construction of the questionnaires. The respondents will probably not be able to respond if questions are incorrectly constructed or difficult to understand.

Documentary Evidence

25. Considered exceptionally relevant in all auditing assignments, the table below provides a guide concerning the method, purpose, the value and the challenges normally encountered in obtaining documentary evidence.

| Method | Purpose | Advantages | Challenges |
|-----------------------------|--|---|--|
| Review of written documents | When one wants an impression of how a programme operates without disturbing operations | <ul style="list-style-type: none"> - Gives comprehensive and historical information Information already exists - Does not burden the auditee unnecessarily | <ul style="list-style-type: none"> - Is often time consuming - Info may be incomplete - One needs to be clear about what to look for Not flexible; data is restricted to what already exists |

File Examination

26. A prime source of documentary evidence is the examination of the auditee's files and papers. It can be summarised and recorded in the performance auditor's own words in working papers. In exceptional cases, important

documents and those conveying significant or potentially controversial matters could be photocopied.

27. It is important that the audit team realises that all relevant papers may not be contained on files that are registered. There may be other relevant documents of which the team is unaware. The team will, however, seek to ensure that the evidence obtained is complete enough to answer the audit questions.

Policy Statements and Legislation

28. The performance audit team will assemble policy documents, operating guidelines, manuals, official directives, decisions on delegation, etc. The performance auditor will also consider changes that have been made to legislation and the document trail leading to the need for change, such as submissions, press clippings, complaints, case histories and speeches.

Auditee's Budget Statements

29. The budget statements of the auditee will include overview providing financial information as well as facts about the objectives and performance of the auditee.

Management Reports and Reviews

30. Entities usually generate a number of internal reports or reviews for senior management which could contain a summary of current issues or proposed courses for action. The performance auditor will locate and analyse such reports. Ways of identifying reports include interviews and examination of minutes of management meetings relating to the management reports.

Databases

31. Many organisations have compiled databases, both manual and computerised. Typically, there is a government bureau of statistics and there may be commercial data bases that are run, for example, by banks, which may be useful. These data bases will enable the performance auditor to obtain and use data which has already been collected and compiled. This will also save time and money. It might be possible to order special computer compilations.

Published Information

32. When conducting a performance audit, it is wise to consult academic research and other literature concerning the audit area. This alone may not provide audit evidence, but it could provide the theoretical framework or points of reference necessary to elaborate on other audit evidence.

Physical Evidence

33. These are also normally invaluable. The following table is relevant:

| Method | Purpose | Advantages | Challenges |
|--|--|---|--|
| Observing people/inspecting physical objects | To gather information on how a programme | - View operations as they occur Method can be adapted to | - May be difficult to interpret behaviour May be complex to |

| | | | |
|--|---|---|---|
| | actually operates, particularly with regards to processes | events as they occur - Gives reliable information on easily observed objects/phenomena | categorise observations May influence behaviour of programme participants - May be time consuming |
|--|---|---|---|

Observing People

34. The direct observation method provides the audit team a unique opportunity to understand the reality behind inspection reports and other official documents. It will offer a clearer bottom-up view of essential problems which can be compared to the picture given in official reports or by the executive level of the auditee. It also provides an opportunity to study relationships and processes between staff and management. There are different ways of using this method. The performance auditor may choose to visit workplaces, schools, hospitals, operating bases etc. Another alternative is to accompany inspectors or other officials in their day-to-day work. A further possibility is to sit in the reception hall of, for example, the local clinic to observe how patients are being attended to. Sitting in (without participating) meetings with the auditee will also provide useful information.

Inspecting Physical Objects

35. A wide range of information can be collected by inspecting physical objects, such as buildings and other facilities. Inspection of physical objects is mainly used to study a few objects in order to provide detailed examples of what has been observed. Physical data could also be collected from a large number of objects, compiled and analysed for further use.

Surveys and Case Studies

36. Methods of data collection will be described in terms of how broad they are. At one extreme, the performance auditor may wish to give an overall picture of the situation in the whole geographical area or for the whole population. This type of study is sometimes referred to as a survey and usually uses quantitative data such as results from questionnaires, statistics, etc. In general, it is not necessary to observe the whole population. For example, in hospitals, a sample will be taken. If the audit team wants to apply the description of the studied sample to the whole population, the sample should be large enough, and randomly and independently selected in accordance with statistical practice.

37. On the other hand, case studies which aim at thoroughly exploring a small number of cases as examples of a situation may be prevalent throughout a population. A case study may consist of a specific event or object. It enables the performance auditor to concentrate on details and an understanding of organisational processes. It is wise to choose a case (or a few cases) that is the most or least likely to have certain characteristics. Another option is to choose a case that is considered as representative of the whole population, or to select several cases that together can be argued to be representative. Several different methods can be used in a case study such as interviews, observations, statistics, etc. It is also often useful to combine surveys with case studies.

Preparing for Analysis While Collecting Data

38. The different data-collection methods have so far been treated separately. There are, however, several common traits, especially when it comes to the steps that will be taken to facilitate the future analysis of the collected data.

The More Data, the More Need for Structure

39. The more data that is to be collected and analysed, the more structured the data collection will be. This will facilitate the analysis by providing performance auditors with data that is easy to compare and to categorise further. This is especially relevant for interviews, physical observation and some documents, e.g. worksheets. If a large number of observations/interviews are to be carried out, it is particularly important that the performance auditor start by testing the outline of the programme so that it can be revised and perfected.

Scrutinise Sources Critically

40. The source of information, whether from an interviewee or the author of a written document, may have reasons for not being objective. It is therefore important to carefully consider the possible bias in the collected information and try to adjust for it through double checking and corroboration of data.

Direct Documentation

41. If the data is not properly documented, auditors risk the chances of missing important aspects. This is especially important in cases when the auditor is creating new primary data through interviews or physical observations. Documenting, in this sense, is not about simply recording an interview by taking notes. The auditors' notes will as soon as possible be typed and structured in relation to the audit questions. This facilitates later analysis of the audit evidence. It will also be wise to send the interview notes to the interviewee for confirmation to ensure that the information is not contested at a later stage of the audit.

Analysis of Audit Evidence

42. Analysing quantitative and qualitative data is an important step in all performance audits. When analysing data, the audit team will start by revisiting the audit objective and the audit questions. This will help to organise data and focus the team's analysis in line with the audit questions. To analyse and interpret information effectively will require time, communication, creativity and systematic utilisation of the extracted and summarised data.
43. It is sometimes useful to distinguish between the compilation of data and the analysis of data. For example, when working on a questionnaire, the answers given to each question can be compiled to an average representing all the answers of the respondents. After this, the compiled data will be analysed from different perspectives or together with other data. The distinction between compilation and analysis is not always clear-cut and in the case of interviews it is sometimes not possible to maintain the distinction. From the foregoing, the use of the term "analysis" to cover both analysis and compilation of data is useful.
44. It is also important to study the information received comprehensively. Analysing and interpreting data constitute an interactive process that requires the performance audit team to constantly move between the different stages

as the analysis gives rise to new knowledge and new ideas. This process will go on until the performance auditor is satisfied with the result.

Some Key Concepts

45. It is of great importance that performance auditors critically assess the quality of the audit evidence that has been collected during the main study. To do this, he/she should get familiar with the key concepts that will provide useful tools for the quality assessment.
46. The following provides additional detail concerning the concept of audit evidence in performance auditing:
 - I. **Relevant evidence:** It is evidence that bears a clear and logical relationship to audit objectives, audit questions and assessment criteria. An important aspect of relevance, if the audit object is an ongoing activity, is that the evidence used to reach a conclusion should not be outdated. If recent evidence is not available, the performance auditor will be able to justify why historical evidence is still relevant.
 - II. **Reasonable evidence:** It is evidence that has been collected and compiled in the most cost-effective way and yet allows the audit objective to be achieved. Although most importantly when collecting evidence, applying this concept during the analysis will help the performance audit team to highlight problems that will be avoided in future audits.
 - III. **Competent evidence:** It is usually explained as evidence that is both **sufficient** and **appropriate**, where appropriate, it means that the evidence is **reliable** and **valid**.
 - IV. **Sufficient evidence** relates to the quantity of audit evidence that is needed to support an audit finding. The decision as to whether evidence is sufficient in quantity will be influenced by its quality. An audit team will gather enough evidence to persuade a reasonable person that their findings, conclusions and recommendations are well founded. The judgement on what can be considered as sufficient evidence will be influenced by a wide variety of matters, including:
 - a. The team's knowledge of the audited entity and its environment
 - b. The materiality of the matter in hand
 - c. The risk that insufficient evidence will lead to the wrong conclusion
 - d. The persuasiveness of the evidence
 - e. The likelihood that findings will be challenged by the auditee
47. Concerning the idea of competency in relation to evidence, there is need to examine the following:
 - I. **Reliable evidence:** It is evidence that will lead to consistent findings if the same study is carried out repeatedly in the same environment by different auditors using the same methods and data. Therefore, the performance auditor will make sure that his/her methods are clearly described and generally accepted
 - II. **Valid evidence:** It is evidence that describes what it is intended to present. A correct thermometer-reading, for example, is valid evidence if the auditor wants to measure the temperature of water, whereas a measure of

the depth will produce invalid evidence. Similarly, if the audit team wants to study the quality of schools, people working in the education sector are more likely to provide valid evidence than people working in hospitals. The concept of validity is especially important when findings are based on analytical evidence (“valid arguments”).

48. In addition, the following guidelines will help the performance auditor to **assess the quality of audit evidence**:

- a. Evidence corroborated by several different sources is more valid and sufficient
- b. Evidence collected by several auditors, applying the same methodology is more reliable
- c. Evidence that is old and does not reflect changes might not be relevant
- d. Evidence that is too expensive to obtain may not be reasonable and sufficient
- e. Evidence collected from sources that have a vested interest in the outcome might become less valid
- f. Evidence collected from non-representative samples is not valid for the whole population and therefore insufficient
- g. Evidence from first-hand informers is more valid than the same information obtained indirectly
- h. Evidence obtained from knowledgeable independent sources is less biased and therefore usually more valid than that obtained from within the audited organisation
- i. Evidence from statements made by officials of the audited entity is more reliable when confirmed in writing.

Quantitative Analysis

49. Quantitative analysis is often equated with statistical analysis. Whether or not it can be applied partly depends on the kind of data that has been collected. The difference between quantitative and qualitative analysis is often described as the difference between analysing numbers (quantitative analyses) and analysing texts (qualitative analyses). Information that has been collected as text can, nevertheless, often be transformed into numbers. One can, for example, go through documents to see how many of them include a positive statement about a certain issue. A calculation can then be made, expressing percentage of investigated documents that include this positive statement.

50. The kind of statistical analysis most frequently used in performance auditing is descriptive statistics. More advanced forms of statistical analysis such as regression analysis are valuable tools for performance auditors who are acquainted with statistical theory. Descriptive statistics can be used to describe the following:

- Sample on which the auditors have gathered information

- Whole population of which the sample is a part.

51. A number of statistical concepts can then be used. Some concepts are presented in the table below:

| Concept | Explanation | Useful |
|---------|--|--|
| Mean | Sum of all observations divided by the number of all observations | When scores are more or less symmetrically distributed, e.g. height or weight |
| Median | The observation in the middle if all observations are arranged progressively | When extreme scores distort the mean, e.g. income |
| Mode | The most frequent observation | To describe dichotomous values and proportions, e.g. men and women, or to point out the "typical" value, e.g. the typical number of children in a family |
| Range | The difference between the highest and the lowest observation | To complement the mean/median if scores are widely distributed |

52. When generalising from a sample to the whole population, attention has to be given to the level of certainty with which this can be done. Moreover, such would depend on the size of the sample and the size of the population. In the case of arithmetic mean, the degree of certainty can be calculated by establishing the confidence interval, i.e. the interval within which the "true" mean of the population falls within reasonable doubt.

Qualitative Analysis

53. Qualitative analysis is a broad term used to describe a wide range of methods for structuring, comparing and describing data. It is usually used when combining different kinds of data. Unlike quantitative analysis, qualitative analysis does not use mathematical procedures. Instead, it is based on logical reasoning and arguments. In general, however, qualitative analysis means, creating own ways of systemising analytical thought. Common components of this systematisation are comparing, sorting after differences and sorting after similarities.

54. Generalising through qualitative analysis beyond the cases that have been investigated is a complex and disputed issue that needs careful consideration each time. If there is a reason to believe that the auditee, or other stakeholders, will dispute the generalisation, the performance auditor should exercise particular caution.

55. Qualitative analysis is commonly used when deriving analytical evidence from certain sources of data, such as interviews and documents. An example of how to analyse interviews is as follows:

- a. Choose a method for structuring the information from the interviews, using audit questions as the first choice, and problems, actors, regions, etc. as the next choice if it is not meaningful to structure the information only in line with the audit questions
- b. Read the interview notes again and focus on the structure. If interviews are to be organised according to audit questions, make a note in the margin where something is said that is relevant for question number one, two, etc.
- c. Go through all notes regarding audit question number one. If there are many relevant remarks, make a written summary. If necessary, choose a new factor to structure the remarks. Key players will be used as such a structuring factor
- d. Compile and analyse the opinions of each type of key player, one at a time
- e. Compile and analyse the opinions of all types of key players together
- f. Look for similarities and differences between the opinions of different categories of key players
- g. Summarise the information in few sentences and judge whether or not the audit questions can be answered. Continue with the next audit question.

Mixture of Quantitative and Qualitative Data Analysis

56. Most often, data is analysed using different sources, different methods of data collection as well as different types of data analysis. Consequently, the final step in data analysis consists of combining results from different types of data analysis. This means that, results from interviews will be combined with analysis of statistical records; results from case studies will be combined with results from surveys etc. Some findings will emanate from field studies in one location while other findings refer to another place. The work of combining data from different sources is a process that should be compared to doing a jigsaw puzzle, where the pieces are the results of different data collection activities. There is no general solution as to how to handle these situations, it is, however, of central importance that the performance auditor works systematically and carefully in interpreting the data collected.

Documentation

57. As a rule, performance auditors should adequately document the audit evidence in working papers, including the basis and extent of the planning, work performed and the findings of the audit.
58. Working papers refer to all relevant documents collected and generated during a performance audit assignment. Examples of such papers are interview notes and statistics collected from the auditee. They also include documents recording the audit planning and the nature, timing and extent of the audit procedures, and the findings and conclusions drawn from the audit evidence.
59. Working papers serve as a connecting link between the fieldwork and the audit report and should be sufficiently complete and detailed to provide an understanding of the audit. Thus, they should contain all evidence accumulated in support of the findings, conclusions and recommendations in the report.
60. Working papers assist in satisfactory organisation of the assignment and facilitate access to the evidential documentation, and thus:

Assist in the planning and performance of the audit

Facilitate effective management of individual audits

Assist in the supervision and review of audit work

Record evidence resulting from audit work performed to support the audit opinion.

61. The performance auditor should adopt appropriate filing procedures to maintain the confidentiality and safe custody of the working papers and should retain the working papers for a period sufficient to meet the needs of the legal and professional requirements of record retention policy within the Office of the Auditor General Kaduna State.

Guidelines for Preparation of Working Papers

62. Throughout the audit assignment, the audit team should prepare working papers (most of these are fashioned based on the peculiarity of each assignment) and would contain information that is relevant for achieving the audit objective. These working papers need to be of sufficient quality as described in the following guidelines:

- I. **Completeness and accuracy:** Working papers must be complete and accurate in order to provide proper support for findings, conclusions and recommendations and to enable demonstration of the nature and scope of audit work when necessary
- II. **Clarity:** Working papers must be clear and understandable without supplementary oral explanations. The information they reveal should be clear, complete and yet concise. Anyone using the working papers should be able to determine their purpose, the nature and scope of work and the audit team's observations. Conciseness is important, but clarity and completeness should not be sacrificed
- III. **Legibility and neatness:** Working papers must be legible and as neat as practicable. Sloppy working papers may lose their worth as evidence
- IV. **Relevance:** The information contained in working papers should be restricted to matters that are important, relevant and useful with reference to the objectives established for the audit.

Audit Files

63. Working paper files for each assignment will normally be divided into *current* and *permanent* files. Once the working papers have been prepared, they need to be properly filed. Before filing the working papers, the team lead and the team members have to agree that the working papers meet the quality standards as described above.

Current Files

64. The material placed in current files should contain information primarily relating to the current phases of the assignment. Examples of working papers to be included in the current file are:

- a. Interview notes
- b. Analyses in support of the audit work

- c. Memos from discussions with representatives of the auditee and other officials
- d. Memos comprising analyses of various documents
- e. Correspondence/communication with managers
- f. Work plan
- g. Materials and papers accumulated in report preparations, including drafts
- h. Reviews of management controls.

65. The Table below is a model of Index for a Working paper file

An index for a working file

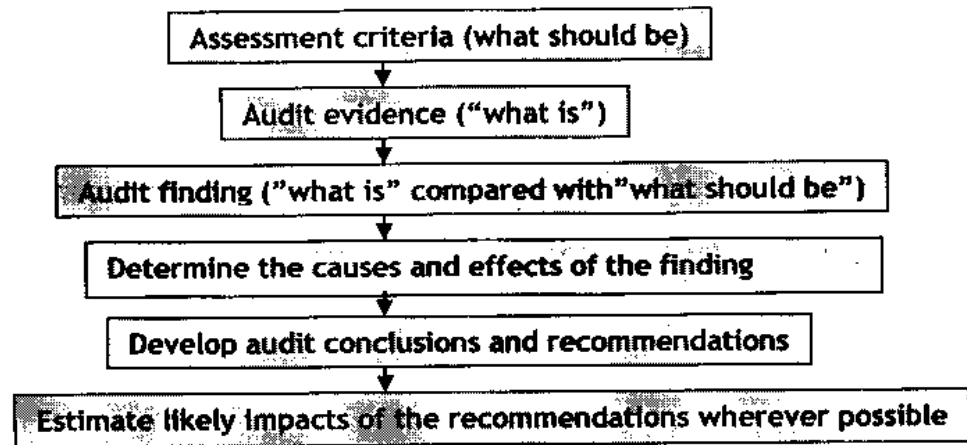
| | | | |
|------------------------|---|--|------------------------------------|
| | B5 Interview guides | C5 Written comments from auditee, exit meeting | |
| | B6 Interview notes and summaries | C6 Final draft | |
| | B7 Analytical review forms | | |
| A Planning | B Execution | C Reporting | D Finalisation |
| A1 Project approval | B1 Minutes of the introductory meeting | C1 First draft report | D1 Final report |
| A2 Project plan | B2 Extracts from relevant documentation | C2 Comments from staff | D2 Letter of submission to auditee |
| A3 Work plan | B3 Walk-through notes | C3 Comments from management | |
| A4 Weekly action plans | B4 Questionnaires | C4 Second draft report | |

Permanent File

66. When the audit report is completed, the performance auditor should transfer the current file to a permanent file. The purpose of the permanent file is twofold. It can be used to check earlier findings particularly if the responsible auditors and seniors have left the Office. It can also be a source of knowledge when planning future work.
67. To establish the permanent file, working papers of less importance should be sorted out while the rest should be organised to facilitate future use.

Developing Audit Findings, their Causes and Effects

68. Findings are the specific evidence gathered by the performance auditor to satisfy the audit objectives. The findings are gathered to be able to answer the audit questions and verify the stated hypotheses. The relationship between assessment criteria, audit evidence, audit findings, conclusions and recommendations is described in the figure below:



69. Findings are based on relevant facts and sound logical conclusions. A finding must always be related to the audit problem. Audit findings are identified by relating audit observations to assessment criteria. In other words, they always compare 'what should be' (*criterion*) to 'what is actually the case' (*condition*). Once the findings have been identified, the performance audit team should determine if and why there is deviation from the criteria (*causes*) and what the consequences (*effects*) of these deviations are. The effects should be noted either as what has already occurred or, based on logical reasoning, as the likely future impact.

70. The term "*condition*" encompasses the evidence relevant to the audit question, which has been collected and analysed throughout the audit.

71. Causes are the reasons why the condition deviates from the criteria. The audit team needs to identify possible causes and then determine the ones that should have been prevented (*actionable causes*). The validity of actionable causes should be confirmed. This will be done through the analysis of management control weaknesses. Below are some examples of how to pursue the analysis once a cause has been identified:

- I. Determine whether the cause is isolated or systematic. Systematic causes generally require more significant corrective action and may be creating other adverse effects outside the reviewed activity. Recommendations to address such causes must consider the potential effects that changing aspect of a system might have on other activities in the system. However, the team should be careful because in some cases, an isolated cause can also create significant problems. There might be a need to assess the materiality of the cause
- II. Determine whether the cause was an error or an omission, or whether it was intentional. Intentional causes generally suggest disregard of procedures and regulations. Errors or omissions generally suggest lack of knowledge of what is expected
- III. Determine whether the cause was internal or external to the audited body. External factors not within the control of the institution (auditee) may have

- significant bearing on the problem. Recommendations for corrective actions must consider these factors and how their effects might be mitigated
- IV. Determine the internal controls and routines that should have prevented the cause from occurring.

72. Once the team has documented the condition, compared it against the criteria, determined that the condition does not meet the criteria, and determined why the criteria are not being met (causes), the team should identify possible consequences (effects) of the criteria not having been met. If possible and in identifying the effects, the *actual* situation (where the criteria are not met) should be compared with the *ideal* situation where the criteria would have been met. To a certain extent, these possible effects would have been considered at an earlier stage as motivation for carrying out an audit of this particular problem.
73. The nature of the findings determines whether the audit team can present actual or potential effects. Actual effects from past or current conditions help to demonstrate the harmful consequences and generally provide the strongest evidence that corrective action is needed. Potential effects are generally described as the logical consequences that should follow if the condition does not meet the criterion. Potential effects are to some extent speculative, so a performance audit team should use them with care, especially in the absence of any related evidence of observed past effects.
74. Performance audit teams should, whenever possible, quantify the effects. In the event that the effects cannot be measured, the team should give sufficient examples. It is worthwhile to report on both negative and positive effects.

Audit Conclusions

75. Audit conclusions should clarify and add meaning to specific findings in the report and reflect the view of the performance auditor as deduced from these findings. The purpose is usually to highlight the need for changes in policies, procedures, practices, approaches, philosophy or even organisational structure. Conclusions should consider causes and effects related to objectives and goals.
76. It is not always easy to make a clear distinction between the findings and the conclusions. One reason for this is that conclusions are based on findings and usually include summaries of the findings. Conclusions, however, go beyond merely restating the findings. Whereas the audit findings are identified by comparing what should be (assessment criteria) to what is actually the position (audit observations), the conclusions reflect the audit team's explanations and opinions based on these findings. This is why findings are usually expressed in past tense and the conclusions in present tense. Conclusions might include identifying a general topic or a certain pattern in the findings. An underlying problem which explains the findings may also be identified.
77. The conclusions should flow logically from the findings, causes and all analytical steps taken beyond the findings should be clearly explained and justified.

Audit Recommendations

78. Recommendations are the performance auditors' proposals that call for improvement in operations and/or performance of either the audited entity as a whole or a particular section or area audited within the entity. Audit findings resulting from an audit may be positive or negative. Where deficiencies in performance have been identified the performance audit team needs to develop recommendations to guide corrective actions.

Formulating Recommendations

79. Audit recommendations emerge from identification of the causes of the audit findings which ought to be addressed by the entity. Recommendations should neither be too detailed nor too general. In developing the recommendations, performance auditors have to concentrate on what should be changed and leave the questions of how to make changes to the auditee.

80. Recommendations should be sufficiently detailed so that they can be understood and implemented by the audited entity and monitored by the Office of the Auditor General Kaduna State. The audit team must develop audit recommendations that can be implemented and that will not necessarily require additional resources. However, the audit team should not prescribe detailed steps to be taken by the auditee in implementing such recommendations. This will be for the auditee to decide at a later stage.

81. The performance audit team needs to consider the following questions in order to develop workable recommendations:

- a. What needs to be done and why?
- b. Where does it need to be done?
- c. Who is responsible for doing it?
- d. What is the expected impact of the recommendations?
- e. Could the implementation have negative effects elsewhere?

Characteristics of Useful Recommendations

82. Below are some characteristics of good recommendations that the performance audit team is expected to develop. Good recommendations should:

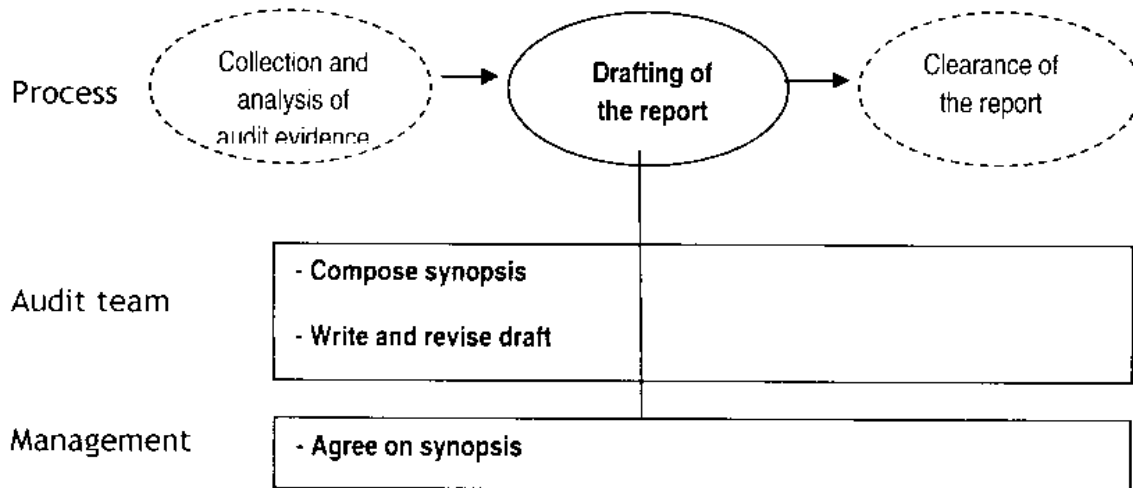
- a. Flow logically from the findings and conclusions, referring only to matters addressed in the report
- b. State what actions need to be taken and by whom
- c. Be directed at those who have authority and responsibility to act
- d. Be stated positively and constructively
- e. Address significant deficiencies and demonstrate that action will improve operations, safeguard assets, reduce costs or bring the condition into compliance with the criteria

- f. Identify and weigh costs and risks against potential benefits
- g. Consider the practical constraints of implementation in the light of limitations such as financial/budgetary constraints
- h. Indicate alternative solutions when more than one course of action could correct the problem
- i. Avoid recommending additional measures if efforts are already underway to remedy the problem. In such circumstances, reference to such efforts may suffice.

Section VI

The Performance Audit Report

1. At the end of each performance audit assignment, a written report communicating the results of the audit to the stakeholders would be prepared. The performance audit report is the product on which the performance audit function is measured by its stakeholders. Inaccuracies in the report could be potentially damaging to its credibility. It is therefore crucial that adequate attention be given to the accuracy, logic and clarity of the report. The diagram below depicts the process of preparing the Performance Audit Report



Reporting Standards

2. As a rule, an audit report should be appropriate and easy to understand. The standards to be met include the following:
 - I. **Timeliness:** The audit report should be prepared and issued in a timely manner in order to be valuable to readers and users, particularly government and the audited entity which have to take the necessary corrective actions. It is therefore important that the report be published within the time schedule set out in the work plan.
 - II. **Completeness:** The audit report should contain all information and arguments needed to fulfil the audit objective and provide answers to the audit questions. The relationship between audit objectives, findings and conclusions needs to be verifiable, complete and clearly stated.
 - III. **Accuracy:** Evidence presented in the audit report should be true and comprehensive and all findings correctly and logically portrayed. The need for accuracy is based on the need to assure the readers that what is reported is credible and reliable. A high standard of accuracy requires an effective system of quality assurance.
 - IV. **Objective and logical:** The presentation of the report should be balanced in content and quality. For the credibility of the report, all evidence should be presented in an unbiased manner. Performance auditors should be aware of the risk of exaggeration and overemphasis of deficient performance. The audit report should only present arguments that are logically valid.
 - V. **Clarity:** The audit report should be clear and easily understood, written to

suit the capabilities, interests and time constraints of the audience. The language should be as simple as the subject matter allows. Technical terms and unfamiliar abbreviations must be defined. Tables, Appendices, charts, photographs and other relevant documents should be used where appropriate to present and summarise complex information. Clarity is improved when the report is concise. Sources of external data used should be quoted clearly.

Format of the Report

3. A number of points need to be emphasised with regard to performance audit reports thus:

The value of concise and sharply focused reports that highlight significant issues of public administration

The need for well-developed audit findings based on relevant, reasonable and competent evidence

The importance of having fewer, but more comprehensive, audit conclusions and recommendations

The importance of a timely final report

The benefits of sound and well-established audit methodology.

4. **Format of a performance audit report:** Below, additional concepts regarding an approach to the draft report are provided.

- I. **Title:** The title should clearly specify what the audit object is and indicate the auditee responsible for the activities audited. For example, if the audit problem is "insufficient supply of water in the rural area", the title could be "Provision of potable water in the rural area by the department of rural water supply in the Ministry of Water Resources"
- II. **Foreword:** The Auditor General presents the report and acknowledges the cooperation received from the auditee by the performance auditors who undertook the audit. The foreword is written on the official letterhead of the Auditor General, including his/her signature and the date. In the letter, reference is made to the relevant statutes and the mandate to undertake special audits in accordance with the Audit law. The report should identify those to whom it is addressed
- III. **Table of contents:** It illustrates the structure of the report
- IV. **Executive summary:** The chapter summarises the background, major findings, conclusions and recommendations. It is designed for those who have little time to read the full report. The summary should normally not be more than two pages
- V. **Introduction:** The objective is to provide background information about the audit, namely the auditee's legislative framework, goals and objectives, resources and organisational structure. This chapter also presents the audit motivation, the audit objective and audit problem
- VI. **Methodology:** This chapter includes the auditing standards and the audit design. If necessary, a more detailed presentation of the data collection

carried out (number of interviews, Questionnaires administered etc..) may be included

- VII. **Description of the audit object:** Description of the system or programme being audited. From this description, it should be clear how the system should work, with all the details, which is responsible for what, etc. Part of this work should have been carried out during the pre-study. The title of this chapter should be the name of the system or programme being audited
- VIII. **Findings:** The chapter clearly describes the criteria and relates them to what has been observed. It presents the findings generated from the comparison between criteria and observations. All findings must be derived from the audit evidence
- IX. **Conclusions:** The chapter contains the conclusions reached by the performance auditors as put together by the team leader
- X. **Recommendations:** The chapter contains the recommendations of the performance auditors as drawn up by the team leader
- XI. **Annexure:** If comprehensive, descriptions of the auditee, many statistical tables, etc. are needed, these should be placed in Annexure in order to facilitate the reading of the audit report. Sources of externally generated or extracted data or information need to be clearly stated in case the reader wishes to verify such source.

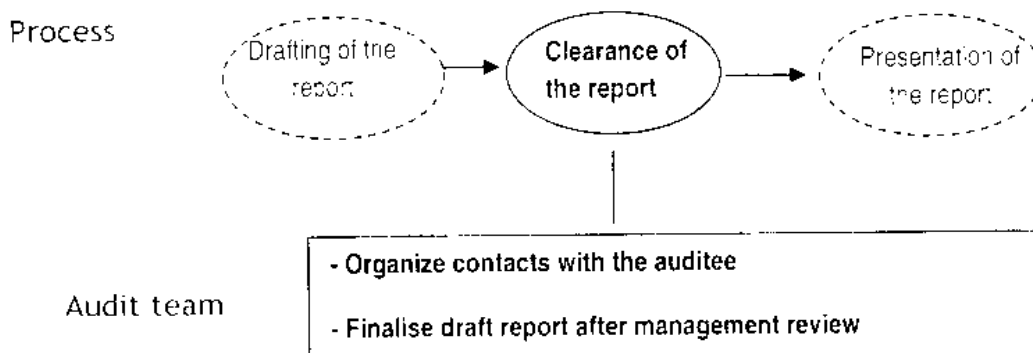
The Writing Process

5. The process of writing the report should be broken down into four stages, namely:

- I. Synopsis
- II. Audience analysis
- III. Drafting
- IV. Revising

Clearance of the Report

6. After receiving the draft report, the overall head of the performance audit department should initially review it and then conduct a final assessment of all working papers. The purpose of the two-stage review is to ensure that the audit meets laid down auditing standards of the Office of Auditor General Kaduna State and to secure a swift initiation of the clearance process. The report is finally laid before the Auditor General for final clearance. Once the report has been cleared by the Auditor General, it is ready for submission to the ultimate recipients (the State House of Assembly and any other stakeholders). The diagram below represents the report writing and clearance process.



Management

- Review draft report and working papers
- Send draft report to the auditee

Review of the Draft Report

7. During the review, top management within the Office of the Auditor General Kaduna State should ensure the:

- a. **Legitimacy** of the report: The report should not stray outside the legal responsibility of the Office of Auditor General Kaduna State. There should be no suggestion that the Office is questioning the merits of political objectives
- b. **Adequacy** of the findings, conclusions and recommendations in addressing the audit objectives. Management should ensure that the report provides complete and conclusive coverage of the audit problem
- c. **Balance** of the various sections: The report should concentrate on the important aspects of the auditee's management and performance and avoid detail on minor issues
- d. **Quality** of presentation: The draft should be well written, in accordance with the standard and policy of report writing within the Office of the Auditor General Kaduna State. Appropriate tables, charts, etc. should be used to enhance reader's understanding of the report.

8. The draft report could be submitted to a team of experts (e.g. the standing team on quality assurance) for further quality review, advice and comments. Once the final adjustments have been made, the draft is submitted to the Auditor-General, or to a Director with delegated authority, for a decision on whether the draft report can be sent to the auditee for comments.

9. Top management within the Office of the Auditor General Kaduna State will not normally review the working papers. Such would have already been done by the performance audit head (Audit Chief). However, where findings, conclusions or recommendations are particularly sensitive, top management may find it necessary to call for the relevant working papers for further scrutiny.

Releasing the Draft Report to the Auditee

10. When the Auditor General or a Director suitably delegated with the authority is satisfied that the draft report meets the laid down standards, he/she will send it to the auditee together with an invitation to submit written comments. The Auditor General will have to decide on whether the draft report to be sent to the auditee should include conclusions and recommendations, or only descriptive facts about the auditee and the findings. The audit team will agree with the auditee on

a date for an exit meeting where the draft report, and possible written comments from the auditee, will be discussed.

Exit Meeting

11. The purpose of the exit meeting is to ensure that the auditee has been given the opportunity to appreciate the report, and also that the management of the entity is given the opportunity to comment on the report before it is finalised. At the exit meeting, it is particularly important that the critical findings of the audit are highlighted. The meeting should ensure that:

- a. All relevant facts have been included in the report and presented in a fair way
- b. The conclusions drawn are rational
- c. It is clear that the auditee agrees on the findings, conclusions and recommendations.

Internal Finalisation

12. If the auditee's comments have not been presented in writing, they should be summarised in agreed minutes from the exit meeting.

13. The performance audit team should carefully consider reservations expressed by the auditee. The team should verify data that has been contested and, if necessary, collect additional information. It might also be necessary to ensure once again that all findings and conclusions are based on relevant evidence. Where differences of opinion cannot be satisfactorily resolved, the relevant leader/head of the performance audit group should consider whether this should be brought out in the report.

14. The main elements of documentation in the clearance stage are the various drafts of the audit report and the Director's (i.e. Audit Chief's) review notes. Few additional working papers will be generated at this stage. It is essential to maintain the standard of documentation, as defined in relevant part of this manual throughout the finalisation of the audit report.

Presentation of the Final Report

15. Once it has been internally finalised, the audit report should be presented to the intended recipients (House of Assembly, stakeholders etc.). Comprehensive reports and wide distribution of the reports are critical to the credibility of the performance audit function. The diagram below illustrates the presentation/distribution of performance audit reports.



Section VII

Follow-Up

Objective and Purpose of Follow-up

1. The key objective of a follow-up to performance audit mission is to determine what measures the auditee has taken on the basis of the conclusions and recommendations presented by the Office of the Auditor General Kaduna State, and whether these measures are adequate in view of the shortcomings or developmental needs that were observed in the audit. In other words, follow-up should provide a picture of whether the problems that were observed have been corrected adequately and what further steps the office of the Auditor General Kaduna State should take with regards to the matter.
2. In addition to the implementation of the recommendations and/or the correction of identified issues, follow-up can also determine whether other essential changes have taken place in the activities of the auditee. The purpose of a follow-up is not to re-evaluate the issues as a whole, however, but to concentrate on the improvements that have taken place based on the recommendations of the performance audit report.
3. Follow-up also strives to determine to what extent an audit has led to changes in the activities of the auditee. Since an audit is only one factor that influences activities and verifying cause-and-effect relations is difficult, follow-up usually has to rely on a reasonable assumption concerning what effect an audit has had on the activities of the establishment.
4. Another purpose of follow-up is to produce information to help the office of the Auditor General Kaduna State in its own planning. Planning is aided by information regarding the current state of audited activities, the extent to which auditees' have implemented the previous recommendations and whether the implementation of recommendations has resulted from the audit or other factors that may have influenced the auditee's activities.
5. As a matter of fact, follow-up is part of the performance audit process by means of which the Office of the Auditor General Kaduna State carries out its statutory task.
6. A follow-up is not an audit but the monitoring of changes in the activities of the auditee. The findings in the audit report on which the positions taken by the Office are based should be verified very carefully. In a follow-up assignment, the need to verify findings is weaker and the focus is narrower, so methods for producing audit evidence and ensuring quality differ from those in an audit.

Conducting the follow-up

7. Every audit report is followed up. An exception can be made if, for example, the audited activities have changed completely and this could not be foreseen when the audit report was submitted. A separate decision must be made in such cases.
8. Follow-up plan is prepared in connection with the final drafting and issuing of an audit report. The subsequent matters are decided in connection with the issuing of an audit report so that they are linked as clearly as possible to the

positions or original findings in the audit, which would still be fresh at the time. The follow-up plan should also be discussed at the final (exit) meeting with the auditee because the decision page in the audit report gives a deadline for the follow-up.

9. The follow-up plan tells a) what matters will be followed up; b) how the follow-up will be conducted and c) when the follow-up report will be submitted.
10. The matters that are monitored in a follow-up should always be measures that are carried out on the basis of the most important conclusions and recommendations in the performance audit report. In some cases, the State House of Assembly may issue a statement or otherwise express her views regarding the conclusions or recommendations in the performance audit report. Special attention should be paid to the views of the House in conducting a follow-up.
11. In a follow-up program, data should be obtained in an on-going manner after an audit report has been submitted. The same methods can be used as in producing audit evidence, e.g. collecting and analysing financial information, documents or statistics, interviews or questionnaires. Since the amount of time that is available for collecting data and reporting in a follow-up is generally short (about 5-10 working days), the basic information source in a follow-up should often be the request for information that has been sent to the auditee. This should be written on a letter template.
12. The deadline for the follow-up report is specified on the decision page of the audit report and in the follow-up plan. This could be between 1 and 3 years after the completion of the performance audit. In deciding on a deadline, it is necessary to evaluate the scope of the measures and changes that are required by the positions in an audit and how long it may take to implement or initiate the measures. Even if a follow-up concerns broad system changes, which can take years to implement, the follow-up should not have to wait more than three years after the performance audit report has been submitted. In the case the House of Assembly has given its own timetable for a follow-up report, this must also be taken into consideration in deciding on a deadline.

WORKING PAPERS TO PERFORMANCE AUDITING

WP 1A

LETTER OF NOTIFICATION TO CONDUCT PERFORMANCE AUDIT

| | | | | | |
|--------------|--|--------------|------|------|------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Address | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | Date: | | | |

On Letterhead of Office of the Auditor General of Kaduna State

Audit of the [insert name of audited entity] performed by Auditor General

Addressee [Applicable title of the accounting officer]

Date

Dear Sir / Madam

Performance audit of Your Establishment [Insert the name of the audited entity] to cover the period [insert relevant years] are subject to performance audit by the Auditor General in terms of [Refer to the relevant section of the act].

The purpose of this letter is to outline: performance audit

- The respective responsibilities of the Office of the Auditor General of Kaduna State in the performance audit are:
 - i.
 - ii.
 - iii.

Objective(s) of the Audit

The objective(s) of the performance audit are:

- [Insert the objectives of the performance audit]

This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of the services we will provide. Auditors will be conducted with the objective of reporting on programs, project [also refer to any other reporting responsibilities if any].

Responsibilities of the Auditor

Our audit will be conducted in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to establish the level of performance within your

institution as compared to the mandate and the resources made available by Government. The procedures selected depends on the judgment of the auditors

Responsibilities of management

The audit will be conducted on the basis that management has responsibility:

- e. To cooperate with the auditors and make available necessary documents and other information that may be required
- f. To provide us with access to all information which is relevant
- g. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of the audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

The following are the key deliverables and target dates that should be met by both parties:

| | Activity | Responsibility | Target date |
|----|---|--|-------------|
| 1. | Meeting between the representatives of the Auditor General's Office and the management of the audited entity to discuss the Overall Audit Strategy. | [Audit Chief, Team lead and officials of the audited entity at relevant level] | |
| 2. | Request information from audited entity. | Team Lead | |
| 3. | Submit information requested for audit. | Management of the audited entity | |
| 4. | Meeting between Auditor General's Office and the management of the audited entity, to discuss the outcome of the audit. | Team Lead and management of audited entity | |
| 5. | Submit draft report to management for study. | Auditor General of Kaduna State | |
| 6. | Discuss draft report with management | Audit Chief, Team Lead and officials of the audited entity at relevant level] | |
| 7. | Management submits written response to draft report to the Auditor General. | Accounting Officer | |
| 8. | Issue of final report | Auditor General of Kaduna State | |

Agreement to Terms

This letter will remain effective until it is replaced. We shall be grateful if you could confirm your agreement to the terms of this letter by signing and returning the enclosed copy, or let us know if the terms of our engagement are not in accordance with your understanding.

We look forward to full cooperation from your staff during our audit.

Yours faithfully

AUDITOR-GENERAL OF KADUNA
STATE

WP 1B - CODE OF ETHICS DECLARATION

| | | | | | |
|--------------|--|--------------|------|------|------|
| Auditee: | | Reviewed by: | Name | Rank | Date |
| Period end: | | Level 1 | | | |
| Prepared by: | | Level 2 | | | |
| Rank: | | Level 3 | | | |
| Date: | | | | | |

[This declaration should be completed by all audit team members including management responsible for the audit]

CODE OF ETHICS DECLARATION

Audited entity: *[insert the name of the audited entity]*

Performance Audit Object: *[insert the object of the Performance Audit]*

For the purposes of the audit of *[insert the name of the audited entity]*, I confirm that:

7. Myself, or my any members of my immediate family do not have a financial interest⁴ in the *[insert the name of the audited entity]*.
8. I do not have any business relationships with the audited entity or any of its directors, officers and employees.
9. I am not, and have not been in the last two financial years, an officer, employee or director of the audited entity.
10. I do not have any immediate or close family member(s)⁵ that currently hold(s) a financial reporting and oversight role⁶ at the audited entity or held such a position during the financial year under audit.
11. I do not have any other relationship with any director officer and employee of the entity under audit that may impair my independence.
12. I understand the requirements in the INTOSAI Code of Ethics as far as:
 - 12.1 I should exercise due care and perform the audit in a professional manner and to the best of my abilities.
 - 12.2 I should perform the audit with honesty, integrity, impartiality and political neutrality.
 - 12.3 The confidentiality of information obtained during the audit process and that I should not disclose such information to third parties

Circumstances which may impair my compliance with the above statements for the audit:

¹ Including the ownership of shares, loans or guarantees to or from the entity, its directors or officers.

² Including any dependents of the team member, parents, step-parents, children, step-children and siblings

³ A financial reporting oversight role refers to those persons exercising influence over the accounting records or financial statements. This would include a member of the board of directors or similar governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, and director of financial reporting, treasurer, or any equivalent position.

[List circumstances where applicable]

DECLARATION

I, the undersigned fully understand the requirements and responsibilities contained in the Code of Ethics. Where applicable, I have documented the circumstances which may impair my compliance.

.....

| Name of team member | Rank | Signature of team member |
|---------------------|------|--------------------------|
|---------------------|------|--------------------------|

CONCLUSION FOR THE AUDIT

[This conclusion should be signed once-off for the audit by the person responsible for the audit]

| Threats identified by team members | Actions taken to address the threats |
|------------------------------------|--------------------------------------|
| | |
| | |
| | |

After consideration of the above declarations by the audit team and interviews with team members, I conclude that the all the requirements contained in the Code of Ethics for Professional Accountants are understood and met for the audit engagement. Any threats to the audit teams' independence have been eliminated or reduced to an acceptable level.

| Signature of person responsible for the report | Date |
|--|------|
| | |

