

AUDIT OFFICE OF GUYANA



2006 AUDIT PROCEDURES MANUAL VOLUME I

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VOLUME I

GENERAL AUDITING PRINCIPLES AND PROCEDURES

TABLE OF CONTENTS

GENERAL AUDITING PRINCIPLES AND PROCEDURES

Chapters		Page #
	Message from the Auditor General	
1	Background of Audit office, Mandate, Legislature and Oversight role.	1
2	Introduction-Purpose and Usage Modality of Manual	7
3	Ethics as it relates to the Auditor and the Profession	8
4	Auditing Standards	10
5	Assessing and Planning of Audits	15
6	Execution, Supervision and Review of Audits	27
7	Audit Completion and Review	38
8	Preparation of Management Letter and Audit Reports	46
9	Internal Control Review using ICQ's	54
10	Auditing in a Computerised Environment	60
11	Audit Documentation and Work Papers	65
12	Internal Auditing and Impact	70

MESSAGE FROM THE AUDITOR GENERAL

1. This is the first official Financial and Compliance Audit Procedures Manual of the Audit Office of Guyana highlighting the Offices' Auditing Standards approved by the Auditor General and the General Auditing Principles and Procedures in conducting an audit. The preparation of this Manual is in compliance with Sections 11(2) and 12(c) of the Audit Act of 2004 and Section 5(1) of the Regulations of the Audit Act.

2. This Manual will guide Officers of the Audit Office to ensure that they achieve the main objectives as stated in the Mission Statement:

“the promotion of good governance including openness, transparency and improved public accountability”.

3. Part One of the Manual includes the various steps to carry out any audits. That is:

- (i) Planning of audits;
- (ii) Execution, supervision and review of audits; and
- (iii) Reporting.

4. The procedures and standards as stated in the Manual will also ensure that the Office produce high quality audits of the Public Accounts, Entities and Projects. In accordance with Section 24(1) (v) of the Audit Act, the Auditor General is responsible for conducting financial and compliance audits and performance and value for money audits with respect to “the accounts of all projects funded by way of loans or grants by any foreign State or organization”. There is a special section in the Manual with detailed procedures to carry out these audits.

5. The Manual also contain detailed procedures for the conduct of financial and compliance audit as mandated by the Audit Act. These include: -

- (i) Neighbourhood Democratic Councils;
- (ii) Trade Unions;
- (iii) Municipal and District Councils;
- (iv) Statutory Bodies; and
- (v) Ministries/ Departments/Regions.

6. In addition, it re-emphasizes the procedures for contracting Technical Experts and Chartered Accountants in public practice and the Audit of Public Enterprises. This Manual has been placed on our audit ‘intranet’ webpage and is intended for practical use today and progression into a better tomorrow. The format of the Manual is designed so that Internal Control Questionnaires may be reproduced for utilization in actual audits.

7. It should be noted that Section 24 (1) (b) of the Audit Act gives the Auditor General the mandate to carry out performance and value for money audits. However, this Manual does not contain detailed procedures with respect to these audits. It is expected that a separate manual will be prepared to cover these audits.

8. It is hoped that by using this Financial and Compliance Audit Procedures Manual, the Audit Office will benefit intended from the utilization of the Manual. That is to:

- (i) provide guidance to Auditors in complying with policies;
- (ii) assist Auditors in achieving the highest possible quality of audits;
- (iii) promote the highest level of professional competence in Auditors;
- (iv) provide a basis for measuring audit performance; and
- (v) allow others outside the Audit Office to gain a better perspective and understanding of the practices and professionalism of the Audit Office of Guyana.

With best wishes.

DEODAT SHARMA
AUDITOR GENERAL (ag.)

**1. BACKGROUND OF THE AUDIT OFFICE, MANDATE
AND LEGISLATURE OVERSIGHT ROLE**

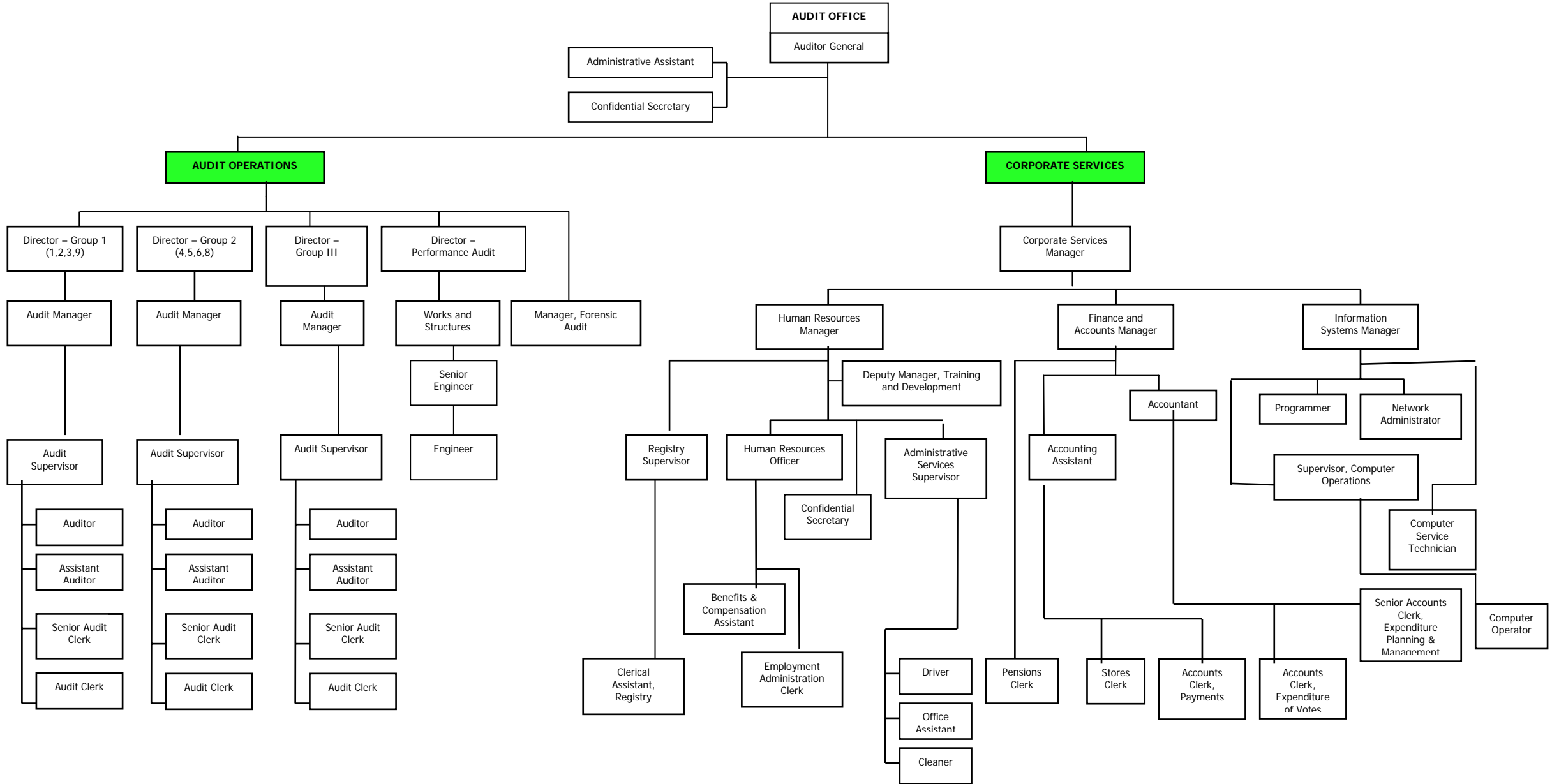
	Page #
Mission Statement	1
Organisation Chart	2
General Principles	3
Audit of Government Companies / Entities	4
The Mandate of the Auditor General and the Audit Office	5
Government Structure	6

MISSION STATEMENT

As the Supreme Audit Institution of the State we are committed to the promotion of good governance including openness, transparency and improved public accountability through:

1. the execution of high quality audits of the public accounts, entities and projects assigned by the Audit Act,
2. timely reporting of the results to the legislature and ultimately the public,
3. ensuring that the independence, integrity and objectivity of the Audit Office is recognized,
4. the provision of cost effective service by the implementation of the most up-to-date Audit Practices,
5. the recruitment and retention of the best qualified personnel to achieve set targets, on a sustained basis and
6. developing professional relationships with our clients, and producing reports which facilitate improvements in their operations.

ORGANISATION CHART



1. BACKGROUND OF THE AUDIT OFFICE, MANDATE AND LEGISLATURE OVERSIGHT ROLE

GENERAL PRINCIPLES

- 1.1 The basic principles in government auditing are enshrined in the Code of Ethics and Auditing Standards of the International Organization of Supreme Audit Institutions (INTO SAI). Section 1.03 of Chapter 1 which states” the basic principles for auditing standards are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the auditors in forming their opinions and reports, particularly in cases where no specific standards apply. With the increasing call for “accountability”, INTOSAI states in 1.020 “ With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively”.
- 1.2 Guideline 2 –Applicability of International Standards on Auditing to Audits of Financial Statements of Government Business Enterprises –issued by the International Federation of Accountants (IFAC) are relevant for the guidance of the staff of the Audit Office of Guyana (AOG) as Guyana’s Supreme Audit Institution (SAI) in the audit of government entities that are normally required to operate commercially, i.e. to make profits or surpluses or to recoup, through user charges, their operating costs. Guideline 2 states “The audit objectives for auditing and reporting on financial statements of government business enterprises are similar to those for private sector entities. As such, the same standards should apply regardless of the nature of the enterprise. Users of financial statements are entitled to a uniform quality of assurance and would not be well served by differing standards.” Therefore wherever possible, the audits of financial statements should confirm with International Standards on Auditing (ISAs). ISAs describe the basic principles which govern the auditor’s professional responsibilities, his or her qualifications or essential characteristics (e.g.training, independence, due care etc), the standards and practices for performing audits (e.g. planning and supervision, assessment of risks, the determination of the procedures to be performed etc.) and the form and content of the audit report. As quoted under ISA 200, the principles governing the auditors’ professional responsibilities are independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior and technical standards.
- 1.3 The United States General Accounting Office in its Government Auditing Standards states in 1.11 “The concept for accountability for public resources is key to our nation’s governing processes. Legislators, other government officials, and the public want to know whether (1) government resources are managed properly and used in compliance with laws and regulations, (2) government programs are achieving their objectives and desired outcomes, and (3) government services are being provided efficiently, economically, and effectively. Managers of these programs are accountable to legislative bodies and the public. Auditors of these programs, provide reports that enhance the credibility and reliability of the information that is reported by the audited entity.” The Government Auditing Standards at 1.12 states “Financial audits contribute to making government entities more accountable for the use of public resources. The

auditors, in providing an independent report on whether an entity's financial information is presently fairly in accordance with recognized criteria, provide users with statements concerning the reliability of the information. Financial audits also provide information about internal control, compliance with laws and regulations, and provisions of contracts and grant agreements as they relate to financial transactions, systems, and processes".

AUDITS OF GOVERNMENT COMPANIES/ENTITIES

- 1.4 The external audit of government companies is governed by several legislative instruments, the most significant being the Companies Act 1991, the Fiscal Management and Accountability Act (2003) and the Audit Act 2004.
The Companies Act 1991 (S344) defines a government company as a company in which not less than 51% of the paid up share capital is held by the government and includes a company that is a subsidiary of a government company. The Fiscal Management and Accountability Act (2003) appoints the Auditor General to audit all entities in which a controlling interest vest in the State. This is strengthened by the provisions of the Audit Act 2004 (S24) where the Auditor General shall be responsible for conducting-
- a. financial and compliance audits; and
 - b. performance and value-for-money audits
- with respect to the accounts of all bodies and entities in which the State has a controlling interest.
- 1.5 The Companies Act 1991 gives clear guidance on the requirements of government companies and the duties of the Auditor.
- 1.6 **S346(1)** A government company shall submit, within six(6) months after the close of the year, to the Minister, an annual report of its transactions, audited accounts and the audit report.
- 1.7 **S346(2)** This annual report together with the Auditor's report shall be printed and laid before the National Assembly within nine (9) months after the close of the year.
- 1.8 **S185(3)** The Auditor's report shall state whether in the Auditor's opinion the financial statements have been prepared in accordance with the Act and whether a true and fair view is given of the entity's state of affairs (balance sheet) and profit and loss (income statement).
- 1.9 **S185(4)** If the Auditor is of the opinion that proper books of accounts have not been kept, that inadequate returns have not been received from branches not visited, or that the financial statements are not in agreement with the books of accounts and returns, he must state that fact in his report.
- 1.10 **S185(5)** If the Auditor fails to obtain all the information and explanations that he considers necessary for the audit, he shall state that fact in his report.

- 1.11 **S168(5)** If the Director's annual report is incomplete or inaccurate in any way, the Auditor shall include in his report on the accounts of the company under section 185, a statement or correction giving the correct and complete information as required by this section.
- 1.12 **S163(8)** Where Director's emoluments are not disclosed in the manner required under this section, the Auditor in his report shall, as far as possible, provide the particulars to meet those requirements.
The Audit Act 2004 also gives the Auditor General wide powers and responsibilities in conducting financial and compliance audits as follows:
- 1.13 **S24(2)** The Auditor General shall examine in such manner as he deems necessary the relevant financial statements and accounts and ascertain whether-
- (a) the financial statements have been properly prepared, in accordance with applicable law, and properly present the operations and affairs of the entity;
 - (b) the accounts have been faithfully and properly kept;
 - (c) the rules, procedures and internal management controls are sufficient to secure effective control on the assessment, collection and proper allocation of revenues;
 - (d) all moneys expended and charged to an account have been applied to the purposes which they were intended; and
 - (e) essential records are maintained, and the internal management controls and the rules and procedures established and applied are sufficient to safeguard the control of stores and other public property.
- 1.14 There may be instances when special assignments are directed to the Auditor General. In these cases the mandates involved would be set out in writing and referred to in any reporting. However, under the provisions of the Audit Act 2004, (S26), the Auditor General may choose to conduct special audits and at his discretion prepare special reports when such audits are completed.

THE MANDATE OF THE AUDITOR GENERAL AND THE AUDIT OFFICE

- 1.15 The Auditor General's role and functions are enshrined in the Constitution of Guyana (section 223). His Office is a public Office and he is responsible to Parliament.
- 1.16 Under the Audit Act of 2004, Section 4(1), the "Auditor General shall be the external Auditor of the public accounts of Guyana and, in the discharge of his functions, shall have complete discretion in examining and reporting on the receipt, disbursement, and control of public moneys and on the economy, efficiency and effectiveness in the use of such moneys." Section 5 of the said Act states "the Auditor General shall, in accordance with article 223(4) of the Constitution, act independently in the discharge of his functions."

The Audit Act of 2004 gives the Auditor General wide powers and authority for the establishment and administration of an independent Audit Office, and to regulate such other matters connected with or incidental to the independent auditing of the finances of the State. The provisions of the Audit Act also strengthen parliamentary oversight over the work of the Auditor General in the discharge of those functions.

GOVERNANCE STRUCTURE

- 1.17 Under Section 25 of the Act, the Auditor General is required to report annually, and within nine months of the end of the fiscal year, on the results of the consolidated financial statements and the accounts of budget agencies in relation to that fiscal year. As per the Constitution (Section 223(3), the Auditor General shall submit reports to the Speaker of the National Assembly, who shall cause them to be laid before the National Assembly.
- 1.18 This responsibility of the Auditor General to report annually to the National Assembly is reiterated by Section 74(2) of the Fiscal Management and Accountability Act of 2003, which states:
“The Auditor General shall, within nine months following the end of the fiscal year to which the consolidated financial statements relate, present these financial statements together with the audit report thereon to the Speaker of the National Assembly in accordance with law and who shall cause them to be laid before the National Assembly in accordance with Article 223(3) of the Constitution.”
- 1.19 In accordance with Article 223 of the Constitution, the Public Accounts Committee (PAC) of Parliament will exercise general supervision over the functioning of the Audit Office, in accordance with rules, policies and any other law.
- 1.20 Under the Audit Act, the Auditor General is authorized, with the approval of the PAC to make regulations for the administration of the Act, and in the exercise of these functions, the Auditor General shall not be subject to the direction or control of any person or authority.

**2. INTRODUCTION - PURPOSE AND USAGE
MODALITY OF MANUAL**

Page #

Introduction-Purpose and Usage Modality of Manual

7

2. INTRODUCTION - PURPOSE AND USAGE MODALITY OF MANUAL

- 2.1 The 2006 Audit Procedures Manual sets out the audit framework and related policies that govern the conduct of audit work by the Audit Office of Guyana (AOG). It also includes a professional code of conduct that is expected to be followed by audit Staff during the execution of audits.
- 2.2 Due to recent legislation, the Auditor General and the AOG have been given a lot of responsibility and powers and therefore a systematic and more uniformed and standardized approach to the audit of Government entities is needed.
- 2.3 This Manual and the audit policies it contains are based upon current standards of the audit profession and other disciplines. Following this guidance and these policies will permit the Audit Office to achieve its audit mandate and the standards for compliance and performance auditing in the public sector.
- 2.4 The 2006 Audit Procedures Manual is a result of an extensive research and consultation of standards and best practices of other legislative audit Offices, audit standards-setting bodies and other disciplines and the previous Draft Manual of 1997.
- 2.5 The Manual also contains various schedules of audit programs that Audit Staff will use in the conduct of audits.
- 2.6 The Manual is not intended to be used as a textbook on auditing but represents the minimum requirements that must be met in the conduct of audits by the AOG and other institutions that carry out audit work on behalf of the Audit Office.
- 2.7 Audit programs in this Manual are designed in such a way that they can be used in the execution of audits. However, modifications may be necessary for specific audit assignments.
- 2.8 The purpose of the Manual is to:
- provide guidance to Auditors in complying with these policies;
 - assist Auditors in achieving the highest possible quality of audits;
 - promote the highest level of professional competence in Auditors;
 - provide a basis for measuring audit performance; and
 - allow others outside the Audit Office to gain a better perspective and understanding of the practices and professionalism of the AOG.

**3. ETHICS AS IT RELATES TO THE AUDITOR
AND THE PROFESSION**

	Page #
Ethics	8
Integrity	8
Objectivity and Independence	9
Competence	9
Confidentiality	9

3. **ETHICS**

- 3.1 In all economies, large or small, there are always high ethical demands placed on public sector Auditors since the position comes with great power and responsibility.

According to The International Organisation of Supreme Audit Institutions (INTOSAI) - **Code of Ethics** (Chapter 1, paragraph 2) :

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

- 3.2 Auditors of the Audit Office must understand that they are public servants and they owe a duty to the public at large to carry out the task assigned to them in a professional manner taking into account that the work of one member of the audit institution, whether junior or senior can have major implications for the entire Department and can place doubts as to the quality of work if a member acts in an improper manner.

In carrying out audit functions, there are certain ethical guidelines that should be adhered to :

INTEGRITY

- 3.3 Integrity is the foundation of any ethical guidelines or code of ethics. Auditors should, at all times follow the ethical and auditing standards in the course of their work and also when they retire from the job at the end of the day.
- 3.4 Staff of the Audit Office should conduct themselves properly when they interact with their co-workers and Staff of the state entity. They must not be seen to be and act in a lethargic manner and be reckless in doing their job so as to arise doubts regarding the quality of the audit work. The Auditor should also be honest in executing his duties and refrain from making false or misleading statements or omit information that would cause misleading reports. There are cases when the audit will not run in accordance with audit plans especially with regards to time but ‘Audit Staff’ should not try to fast track the audit and risk omissions and jeopardize the quality of the audit work. In this case revised audit plans can be produced by the audit Manager or Director.
- 3.5 Decisions should be made and work should be scheduled and followed taking into account what is right and just. In other words, decisions should be made with the Public’s interest in mind.

OBJECTIVITY AND INDEPENDENCE.

- 3.6 The Audit Office needs to be objective by producing reports based on findings during the audit and not on opinions and not behave in any manner that decreases their independence. The Auditor should also avoid situations that would influence his professional judgement. This is where proper planning comes into play because there are circumstances where there will be relatives of Audit Staff that are employed by the state entity being audited. In this case, that Auditor should not be a part of the audit. In instances where Staff of the Audit Office have financial dealings with the state entity, they should not be a part of the audit since their independence will be impaired.
- The receipt of gift and other tangibles from the state entity by Audit Staff should not be encouraged by the Audit Office since this will be seen as a deterrent to the independence of the Auditor and can also impair his professional judgement.

COMPETENCE

- 3.7 The Audit Office needs to ensure that Staff assigned to audits have the necessary competences to carry out the audit task. Suitable Staff with the necessary qualifications, experience and knowledge of auditing standards and practices must therefore be selected for every audit task.
- 3.8 It is common practice for Auditors to return to the same State Entity that was audited by them in the previous year. In this case, the AOG needs to assess the current state of the Entity because situations might have changed which will make the Auditor illegible to perform his duties there.
- 3.9 Auditors of the Audit Office need not only to achieve competence but also to maintain it. There are regular developments in the auditing and accounting profession and standards change frequently therefore the Auditor needs to be aware of them in order to be effective. Members of the Audit Office who are affiliates of members of professional bodies receive regular updates on development in the profession through magazines and e-mail etc. This can be shared with the entire audit Office during normal interaction or during training sessions by those qualified to do so.

CONFIDENTIALLY

- 3.10 In the course of an audit, Staff of the AOG will be privileged to a great deal of information about the operations, laws and characteristics of the State Entity. Auditors therefore have a legal and professional obligation not to disclose any information to third parties about matters of the entity during the audit and also when the audit has been completed.
- 3.11 Auditors of the AOG also should not use or appear to have used information from the client for personal benefit or the benefit of anyone associated with them.
- 3.12 There are cases where the entity being audited may authorize the release of information for the purpose of an investigation by a professional or regulatory body or there may be a legal requirement where the Auditor is summoned to give information or he stumbles upon some

4. AUDITING STANDARDS

	Page #
Basic Principles in Auditing	10
General Standards in Auditing	11
Field Standards in Auditing	
Financial Audits	12
Compliance Audits	12
Performance Audits	12
Reporting Standards in Auditing	13

sort of legal infringement.

4 AUDITING STANDARDS

- 4.1 In every organization or institution, standards that were developed by regulatory bodies have to be adhered to. Standards results in the formulation of proper principles and procedures to be followed including audit plans, measurable objectives and performance targets to ensure that the necessary standard is adopted depending on the circumstances or environment of the state entity.
- 4.2 Since audit procedures are consistent with Auditing standards and provides guidance for Auditors on the job, this would in turn work as a benchmark for the evaluation of audit work done to ensure that they were of the desired quality and to assess whether the relevant standards were applied and done so consistently.

INTOSAI - Auditing Standards (Chapter 1, paragraphs 1.0.3 and 1.0.4) states that “

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

and

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

BASIC PRINCIPLES IN AUDITING

- 4.3 Auditing standards are particularly important in cases where there is a matter of material importance and its interpretation is of a technical nature. In this case, auditing standards should be complied with. There may also be cases where the use of a particular standard may not be applicable, in this case the Auditor should use sound judgment in deciding which action to take.
- 4.4 In the case of Audit Institutions, and especially the AOG’ the need for proper standards are more apparent since they are seen as ‘watchdogs’ for public / state entities. In Guyana, due to the tense political situation and the increased public awareness on issues of accountability, audits of the highest quality and consistency are required.

To this end, several auditing standards were developed by the INTOSAI and IFAC as follows:-

1. General Standards
2. Field Standards
3. Reporting Standards

GENERAL STANDARDS IN AUDITING

4.5 The general standards are the basic standards that the AOG should adhere to. They basically describe the features that should be in place before the AOG can carry out an efficient and effective audit.

Qualifications and Training

4.6 Audit work should be carried out by Staff who are qualified to do so having the right combination of the necessary skills, training and experience. It is important that the AOG recruit and deploy Staff that are suitably qualified and in the right number to carry out audit tasks so that it will be done efficiently. For Staff of high quality to be recruited, the AOG will need to ensure that remuneration etc are attractive and that schemes are in place to reward employee who advance themselves academically and on the job. This would in turn challenge Staff to improve themselves resulting in audits of high quality and a well qualified work force. Regular reviews of entry requirements should also be done to grab the best possible combination of Staff.

4.7 The AOG should also ensure that regular training takes place to sensitize Staff of new developments in the auditing and accounting profession that may embrace them when they go out to carry out their audit task. This would include new techniques and methodologies applicable to audits.

4.8 This training should be carried out by a suitably qualified Staff or a consultant and the AOG should ensure that there are no absentees. Since there might be pressing deadlines at state entities, training can be done in groups to ensure that Staff can be regulated on audits.

4.9 Up to date Manuals of standards, policies of the Audit Office and other written procedures and guidelines should be well documented and accessible by all Staff of the Audit Office. Staff should also have an in-dept knowledge of the legal environment in which they are working in as it relates to state entities etc.

4.10 The AOG also has to ensure that there is a suitable pool of Staff and that there is cross training in the Office, where Staff work at different state entities and not only at one so that if a Staff resigns or is unable to continue in employment for whatever reason, there will not be a void in the AOG and someone else can continue right away where that person left off. This can also apply for different Departments in the AOG.

- 4.11 When Auditors are on the job, they must do so in objective manner and not allow bias to cloud their judgment whether it be a personal, social or political bias against an organization or individual. This also applies within the Audit Office where Staff should interact freely with each other. This will result in the flow of knowledge and the sharing of experiences which will help them to cope with circumstances as they arise.
- 4.12 Staff should understand the concept of Teamwork and realize that they are working with one common goal which is to enhance the reputation of the Audit Office. It will be helpful for the Audit Office to carry out training sessions on Teamwork. This should ideally be done by an outsider.

FIELD STANDARDS IN AUDITING

- 4.13 Field standards are basically the steps that the Auditor will have to take to perform and properly manage his audit duties. It covers mainly the criteria for approaching the audit and includes auditing and reporting standards. There are usually various approaches that can be taken towards an audit by Auditors therefore the most effective and efficient approach should be adopted.
- 4.14 In order for an audit to be performed that is of a high quality and performed in a timely manner and with efficiency, there needs to be proper planning by the Auditor. These plans should be based around the Auditor's knowledge of the state entity being audited either from previous audits done or by well documented information by those who have audited that entity before. During the course of the audit, as more information about the entity is gathered, plans will have to be modified to account for these changes.
- 4.15 An important aspect of the audit is whether or not the Auditor can place reliance on internal controls. This means that the Auditor has to carry out tests to see what level of reliance he can place on internal controls if any. Tests would vary depending on what type of audit he is carrying out and the reliance actually needed on the internal controls.

Financial Audits

- 4.16 For financial audits he will do his evaluations on controls that are in place to safeguard the entity's assets and other valuable resources and also do tests to see if proper and complete accounting records are being kept. This could be done by walkthrough tests where a transaction is followed from the cradle to the grave to point out any deficiencies in the recordkeeping and recording of transactions.

Compliance Audits

- 4.17 For compliance audits, evaluations and studies will be directed towards controls that have been implemented by management to assist in following and complying with laws and regulations.

Performance Audits

- 4.18 In this case, evaluations are made on controls that govern the operations of the state entity. These controls help those in charge to operate the entity in a economic and efficient manner

and allows the presentation of proper reports for the use by management.

- 4.19 A proper test of this is to review issues that were highlighted in the previous year's audit and see if any improvements have been made and if not, the reliance on the internal controls might not be recommended.
- 4.20 The need for careful supervision and review cannot be over emphasized. Senior Auditors should review the work of junior Staff at every level of the audit process to ensure that work programs and work schedules are being followed as planned and any deviations dealt with.
- 4.21 If the workforce consists of suitable Staff, and they have a clear understanding of the audit plan, the senior Auditor will not have a lot of issues in the supervision and review stages but despite the individual competences of the audit Staff, proper supervision and reviews should be done in all cases.
- 4.22 Reviews should be done therefore on a timely basis so that any hiccups can be sorted out early before the problem is compounded.
At every stage of the audit process, the documentation of work done is of utmost importance. Audit Staff need to be sensitized about the importance and ensure that work at every stage of the audit process is well documented from the planning stage to the reporting stage. Proper documentation by Audit Staff will assist greatly in the review stages since all the work done will be laid out and it will be easy see if there were any deviations from the work planned and if the deviation was not authorized, why so.

REPORTING STANDARD IN AUDITING

- 4.23 At the end of every audit, there must obviously be an audit report giving the opinion of the Auditor General on the statements of the state entities that his Office has performed numerous test and other work on.
- 4.24 This is usually in the appropriate written form, as stipulated by legislation and signed by the Auditor General or acting Auditor General and should be clear, concise and easy to understand.
Some of the most common features of audit reports will include the entity's compliance with laws and regulations in its operations, the strength of internal controls and reports on illegal actions and fraud if they are discovered.

The basic characteristics are :-

a. Title

The Auditor's report should have an appropriate title. It may be appropriate to use the term "Independent Auditor" in the title to distinguish the Auditor's report from reports that might be issued by others, such as by Officers of the client, the board of Directors, or from the reports of other Auditors who may not have to abide by the same ethical requirements as the independent Auditor.

b. Addressee

The Auditor General's report should be appropriately addressed as required by the circumstances of the engagement and local regulations. The report is usually addressed to the speaker of the national assembly.

c. Opening or Introductory Paragraph

The report should identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.

d. Scope Paragraph

The Auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with International Standards on Auditing or in accordance with relevant national standards or practices as appropriate.

e. Opinion Paragraph

The report should clearly state our opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with the financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements.

f. Date of Report

8.23 The report should be dated as of the completion date of the audit. This informs the readers that the Audit Office has considered the effect on the financial statements and on the report of events and transactions of which the Auditors became aware of and that occurred up to that date.

g. Auditor General's signature

The report should be signed by the Auditor General or in the current situation of the Audit Office, by the acting Auditor General. By doing this, he assumes full responsibility for the audit.

4.25 Since financial audits deal with the entity's policies on safeguarding of assets and other resources, the audit report should also state whether the state entity has utilized these resources in an economic and efficient manner to meet their main objective or goal. In the audit report, it is common practice for the 'Auditor General' to make recommendations as regards the change of policies if he believes, based on tests and tangible evidence that resources have not been applied in the best way possible

4.26 The audit report should be factual and based on actual findings that can be supported by tangible evidence and not based on opinions or hearsay.

5. ASSESSING AND PLANNING OF AUDITS

	Page #
Assessing of Audits	15
Planning of Audits	16
Planning Responsibilities	17
Timing Considerations	18
Preparatory Work	19
Staff Scheduling	21
Planning Procedures	21
Control Risk Assessment	23
Information Technology Considerations	24
Additional Planning Considerations	25
Documenting Audit Plan	25
Administration	26
Approval and Communication of Audit Plan	26
Audit Plan Forms and Programs	

5 ASSESSING AND PLANNING OF AUDITS

ASSESSING OF AUDITS

- 5.1 It is important to have a clear understanding of the state entity's operations that is much deeper than the knowledge of the accounting system and records on which Auditors have traditionally concentrated. This understanding helps to:
- identify where misstatements could occur in the financial statements and to better focus audit efforts.
 - tailor audit procedures to achieve an effective and efficient audit.
 - determine whether special skills are needed to achieve the audit objectives.
- 5.2 An important function of the Audit Office is to make recommendations based on work done, therefore an in-depth understanding of the operations of the state entity will provide the Audit Office with a basis to make constructive recommendations when necessary. It is important that the audit is seen by those in control as a process to add value to the entity and to help them to monitor the success and development of plans and to evaluate the effectiveness of their systems including internal controls.

PLANNING OF AUDITS

- 5.3 All audits need to be adequately planned. The need to plan exists regardless of the size and complexity of the state entity to be audited. However, the extent of audit procedures that need to be performed will be affected by factors such as the nature of the engagement, the size and complexity of the entity, past experiences and the specific terms of the engagement.
- 5.4 It is at the planning stage where all of the skills and experience of the audit Staff come into play to create an audit plan that will be tailored in order to address the risks and needs of each State Entity.
- 5.5 Planning is done mostly at the beginning of the audit but aspects of planning occurs throughout the audit process.
- 5.6 Planning is done throughout the audit to accommodate changes in the economic environment and in professional pronouncements, governmental regulations, etc. During fieldwork, changes may have to be made to planned procedures because of unexpected circumstances.
- 5.7 The importance of effective planning cannot be overemphasized. It is absolutely vital that an audit approach is designed that appropriately meets professional standards, but does not cause the Audit Staff to over audit. All members of the audit Team are expected to contribute to this objective.
- 5.8 Planning identifies the work to be done, by whom and when. The main objectives of planning are to:
- establish an audit strategy
 - help direct and control the audit work
 - ensure appropriate attention to important aspects of the audit
 - make the most effective use of available Staff (this is essential to maximize audit efficiency)
 - ensure the work is completed efficiently.
- 5.9 One of the key planning decisions is the determination of critical and not critical assertions. If this determination is not made properly, the wrong strategy may be applied resulting in an ineffective or inefficient audit.

PLANNING RESPONSIBILITIES

- 5.10 In the Audit Office, specific Audit Managers are assigned to particular State Entities, Regions etc. from year to year and they are responsible for initiating the planning process and retains overall responsibility for the audit plan.
- 5.11 Audit Supervisors along with the Audit Team are the ones who perform many of the steps outlined in the planning stage , but in the case of the AOG the Audit Managers are the ones who prepare the audit plans to ensure that the audit plan properly addresses the risks associated with the engagement. However, especially in first-time audits or where the in-charge supervisor may be new to the particular engagement, it might be more efficient for other audit Team members who have worked on the audit previously to participate in the detailed planning.
- 5.12 Regardless of who performs the detailed planning work, because of its importance, sufficient time should be allotted to the planning process, including appropriate time and attention by the Audit Director and Audit Manager. Within the constraints of the particular engagement discussed above, the audit Manager is generally responsible for the direct supervision of the planning, however the Audit Director should be involved throughout the planning process and should approve the audit plan, after ensuring that planning objectives are accomplished and documented.
- 5.13 Specialists, if any, need to be involved as early in the process as possible. For example, a professional with specialized computer audit knowledge may need to be involved to assist the audit Team in understanding the complexity of an automated accounting system, designing appropriate audit strategies and testing of internal controls, if members of the audit Team do not already have the background and experience to do this. This is particularly important now in the case of the Audit Office since state entities are beginning to use computerized accounting packages.

TIMING CONSIDERATIONS

- 5.14 Effective planning enables the Audit Office to ensure that audits are performed in a way that ensures performance in accordance with professional standards and within reasonable time limits. Generally, such planning should be performed as early as possible. The following should be done to contribute significantly to this objective:
- Prepare the overall engagement plan well in advance of the time when the current year's fieldwork is to be started. This allows for individual job planning and maximum utilization of available Staff time.
 - Audit planning should usually take place prior to the financial statement date. For most audits, planning should start no later than the close of the third quarter of the entity's fiscal year. (However, planning for audits of many smaller entities might be later in the year, and for some, just prior to the start of substantive fieldwork.) For audits in high risk entities, the planning might occur continuously throughout the year.
 - Sensitise audit Staff of special investigative and analytical auditing approaches that will ensure an efficient and effective audit. This type of knowledge results in far more effective auditing than can be accomplished through a vast volume of detailed work.
 - Assign new personnel to the engagement to provide them with opportunities for learning and to permit audit Staff to develop supervisory capabilities. Effective utilization of personnel increases the flexibility in Staff scheduling and lessens unproductive time.
 - Consider the availability of entity's personnel to prepare schedules and other mechanical assistance in relation to the entity's normal operating demands for such personnel.
 - Arrange for qualified technical personnel to perform computer controls reviews and develop any necessary computer-assisted audit procedures for interim or final work.
- 5.15 Regardless of the intended approach, certain planning procedures can always be done during the "non-busy season". These include:
- Interaction with the entity on a regular basis to obtain a better knowledge and appreciation of the operations of the state entity.
 - Updating documentation of the client's accounting system and control procedures (and performing tests of controls, when necessary)
 - Consider likely areas of client advisory comments and similar Communications.
- 5.16 Procedures such as confirming the understanding by the Audit Office of the accounting system and internal control, including walk-through tests, can be performed shortly after other planning procedures.

- 5.17 The results of planning helps to determine the nature, timing and extent of substantive audit procedures, and the identification of any additional work that can be performed prior to year end. It may also make audit Staff aware of matters which should be immediately brought to the client's attention. Accordingly, early identification of important issues enhances the quality of work by the AOG and helps to provide outstanding service in all areas.

PREPARATORY WORK

a. Discussions with the Client

- 5.18 Usually, there should be preparatory discussions with the state entity to enable the audit Office to update acquired knowledge of the entity and to develop our preliminary audit strategy. Reliance should not only be placed on knowledge gained from previous audits since situations could have changed in the entity to be audited which the Auditor may not be aware of. These discussions should be held as early as practicable before the fieldwork begins or early in the planning stage. The Audit Manager and Supervisor should be involved in this process and the Audit Director for that Department fully briefed.
- 5.19 A meeting should be held with the client to make necessary arrangements for the conduct of the engagement and to assist in gaining knowledge of the client's business. The agenda of this meeting might include:
- updating Staff's knowledge of the operations of the state entity.
 - identifying matters and events that occurred during the year that could influence audit approach or the entity's financial statements.
 - identifying specific laws and regulations, or changes in such, that might directly affect the financial statements.
 - defining the scope of the engagement, including any known restrictions or limitations.
 - arranging for necessary records (e.g., electronic data files) for use during the audit.
 - ascertaining a tentative timetable, including inventory observations and entity's subdivisions to be visited.
 - reviewing prior year, and, if available, interim reports to establish current year needs and to identify format changes.
 - reviewing new professional pronouncements expected to be applicable.
 - gathering information to assist in assessing the risk of misstatements resulting from errors or fraud.
 - discussing fee arrangements and the payment schedule.

- arranging to receive an engagement letter.
- reviewing the manner in which and to whom any advisory comments will be delivered (for example, will the report be written or oral).
- establishing physical work-space requirements for each phase of work.
- appointing a member of the entity's Staff to act as audit liaison with the Audit Office so that the work of the entity is not hindered by the presence of Auditors.

b. Engagement letter

5.20 An engagement letter should be obtained to document the AOG Staff understanding of the terms of engagement with the client. If the engagement letter is not obtained annually, the AOG should review the continuing engagement letter as part of the planning and consider whether it needs to be revised and reissued. The 'Audit Office' should also consider whether there is a need to remind the entity of the existing terms of the engagement.

c. Planning Meeting

5.21 A planning meeting should be held with the key Staff to be involved in the audit. The meeting should be held very early in the planning process. The objectives of the meeting should be to:

- discuss the nature and condition of the operations of the state entity, including any changes, developments, etc., that have occurred or may occur during the period of audit.
- discuss the general audit strategy, including transaction cycles and assertions judged to be critical, reliance on the work of other Auditors, the use of computer audit tools and the involvement of Specialists, so that the audit program can be prepared consistent with that strategy.
- consider Staff use, to ensure that experienced Staff are available when needed and that continuity is maintained wherever possible.

d. Other Preparatory Work

5.22 In addition to preparatory discussions with the 'State Entity' and among members of the Audit Team as discussed above, the Audit Team should also talk to other Staff of the AOG who have done work for the client during the year and may also wish to talk to key Staff involved in the previous year's audit.

This may help identify matters that Staff should be aware of, or suggestions for performing the work more efficiently. A brief review of the previous year's work papers should also be carried out to make sure that points noted in the previous year are adequately covered in the planning. The correspondence file which should be maintained for all 'State Entities' should also be reviewed to make sure that knowledge about the 'Entity' and its operations are up-to-date.

In addition to the above procedures, the Audit Team should scan the prior year's work papers of the state entity and correspondence with the 'State Entity' during year, noting any significant matters that will affect the audit.

STAFF SCHEDULING

- 5.23 Staff scheduling is an important aspect of planning. While the scheduling process which is usually done by the Audit Manager may differ depending on the size of the entity being audited and the Staff availability, effective scheduling recognizes the exercise of judgment in choosing among alternatives that may affect the assignment of Staff.
- 5.24 Audit Managers usually assigns Staff to specific engagements after considering the requests made by Audit Supervisors and factors such as Staff utilization, Staffing requirements, personnel skills, individual and overall Office needs. The Audit Managers are expected to satisfy themselves that the assigned personnel have the background and training requisite to their professional responsibilities on the engagement.
- 5.25 The experience and training of personnel assigned to significant engagement responsibilities should be commensurate with the assessment of risk of material misstatement for the engagement. Ordinarily, higher risk requires more experienced personnel or more extensive supervision by the Audit Manager during the planning and execution stages of the audit.
- 5.26 The following factors should ordinarily also be considered in relation to Staff schedules.
- engagement size and complexity;
 - matching of entity and Staff personalities;
 - personnel availability;
 - efficient conduct of the engagement;
 - continuity and periodic rotation of personnel;
 - special expertise;
 - opportunities for on-the-job training;
 - circumstances where questions about independence or conflicts of interest might be raised;
 - ability to perform the work within a reasonable period of time;
 - involvement of supervisory personnel.

PLANNING PROCEDURES

5.27 a. Understanding the Operations of the Entity

This is important because it forms a basis to prepare audit plans and gives the Auditor a clear view of where to concentrate efforts to obtain audit evidence and test of controls. Staff of the Audit Office need to be aware of the authorities that govern state entities and how the state entities are structured to carry out their work effectively. This can be done by receiving copies of organisation charts and also by :-

- interviewing senior Managers of the entity;
- reading of board minutes;
- reviewing work papers of previous audits ;
- observation of the operations on site;

5.28 Audit planning should first be directed toward updating (or, in an initial audit, gathering) the information in files about the entity's operations that will enable Staff to plan and carry out the audit work more effectively and efficiently by:

- early identification of significant and unusual transactions;
- identifying changes in the entity's accounting system and internal control policies and procedures;
- assessing the risk of material misstatements in the financial statements;
- determining if either no procedures will be performed or less extensive audit procedures will be applied to assertions that are identified as not critical;
- identifying potential analytical procedures and the information that can be utilized;

5.29 A proper understanding of the operations of the State Entity will also enable Staff of the Audit Office to communicate effectively by demonstrating an appreciation of the business and by providing relevant management advisory comments.

b. Materiality for Audit Planning

5.30 During audit planning, Audit Managers should document an assessment of materiality for the purpose of determining the scope of audit procedures. This planning materiality helps to develop an audit strategy and determine the extent of audit work by setting the scope of audit procedures.

c. Inherent Risk Assessment

5.31 An important tool used in the planning phase is risk assessment. Risk is defined as the probability that an event or action may have an adverse effect on the intended outcome.

5.32 Risks can also be threats that might have an impact on the achievement of an entity's objectives. In a risk assessment, the audit Team should ask the following types of questions:

- What can go wrong?
- What opportunities can be missed?
- What is the probability of it going wrong or being missed?

- What are the consequences?
- Can the risk be minimized or controlled?

5.33 Audit Managers should concentrate on the environment in which the entity operates and the risks posed by the engagement in assessing inherent risk. This encompasses general and industry economic trends, the interrelationship between the entity's operations and environment, its management, the fraud factors and many other factors that impact audit risk. This, in turn, focuses on the early identification and consideration of critical assertions, the nature of internal control (including assessments of control risk) and the entity's personnel involved in critical assertions, situations that have caused financial statement difficulties in the past; and other similar factors.

5.34 "Inherent Risk Assessment" is a term used to describe the process of evaluating the applicability of inherent risk indicators to the audit engagement. Inherent risk indicators are evaluated at the entity level and also at the assertion level for the critical assertions. The entity-level inherent risk indicators assist the Auditor in identifying critical assertions. The assertion-level inherent risk indicators assist the Auditor in assessing inherent risk for each critical assertion. The inherent risk assessment for each critical assertion is a significant component in determining the nature, timing, and extent of audit procedures performed.

5.35 In addition, when the evaluation of the inherent risk indicators is completed, an analysis of six financial statement risks results in a "low", "medium", or "high" risk assessment for each. These assessments alert the engagement Team to the presence of these financial statement risks. In addition, the financial statement risks are linked to audit procedures designed to address the risks.

5.36 The Auditor should consider whether it is necessary to tailor or supplement the suggested procedures to address the risk of a material misstatement related to the following financial statement risks:

- errors produced by the accounting systems;
- fraudulent financial reporting;
- misappropriation of assets;
- errors in accounting for non-routine transactions;
- errors in significant accounting estimates that are highly dependent upon management judgment and in an extreme case;
- entity cannot continue in existence;

CONTROL RISK ASSESSMENT

5.37 Assessing control risk is the process of evaluating the effectiveness of the internal control process to prevent or detect material misstatements in the financial statements.

- 5.38 During the planning stage, the Audit Office assesses control risk for critical assertions. Control risk is considered in more detail later.

INFORMATION TECHNOLOGY CONSIDERATIONS

- 5.39 Over the years, the use of the computer has become very popular and are being used to carry out various audit functions and therefore the 'Audit Office', through Audit Managers and Audit Directors need to sensitise Staff as to the approach required to perform an effective audit. Most ministries (ministry of finance etc) have started to use the accounting programs therefore the AOG need to sensitise Staff on the use of this package and its applications.

- 5.40 Accordingly, audit work will require documentation and review of the IT environment. This will aid us in :-

- assessing audit risk and developing an appropriate audit strategy;
- developing an understanding of the IT function;
- determining the effect of computer processing on the audit trail;
- determine whether IT controls are designed and being implemented effectively;
- determining whether the use of computer-assisted audit techniques may enhance the efficiency of the audit.

- 5.41 The extent of involvement of a professional with specialized computer audit knowledge will depend on the complexity of IT used in the significant transaction cycles, control risk assessments and the IT skills available in the audit Team. The role of this Specialist should be to assist the audit Team in the following areas:

- documenting IT controls;
- evaluating the design effectiveness of IT controls;
- designing and implementing tests of controls and substantive tests related to IT, including the use of computer-assisted audit techniques (CAATs);
- interpreting the test results;
- preparing comments for the management letter.

- 5.42 When a computer audit Specialist is used, the audit Team's responsibility for the IT aspects of an audit cannot be transferred to that Specialist. The audit Team is responsible for:

- determining, in consultation with the computer Audit Specialist, the objectives of the review of IT and the procedures to be performed;
- participating appropriately in performing the work;

- reviewing the results of the Specialist's work;
- evaluating the results of their work and determining how it will affect audit risk, audit strategy and tailoring appropriate audit ;
- ensuring that the workpapers adequately document all IT aspects of the engagement;

ADDITIONAL PLANNING CONSIDERATIONS

5.43 The following additional matters need to be considered by the audit Team:

- the need to send a letter of inquiry to the client's attorney(s) requesting information about litigation, claims and assessments;
- additional planning procedures that might be necessary for a specialized entity, or due to regulatory requirements;

DOCUMENTING THE AUDIT PLAN

5.44 The audit planning process should be adequately documented. The nature, form and extent of the documentation will depend on the size and complexity of the State entity to be audited.

5.45 For many audits, the completed audit planning program with appropriate commentaries will suffice. For larger entities, an Audit Planning Memorandum may be written to summarize the decisions taken. The Audit Planning Memorandum or other appropriate documentation would normally include the following points:

- reporting instructions;
- target dates for all stages of the audit;
- Staffing;
- budget and time analysis. The audit program should be evaluated in terms of time and the total cost included in the overall audit budget;
- participation by others outside the Office;
- preliminary analytical procedures;
- review of regulatory filings and reports of internal Auditors, governmental or regulatory Auditors;
- events and transactions that may have a significant effect on the entity's financial statements;
- identification of critical assertions;
- locations to be visited and procedures to be employed.

- 5.46 Commentaries written to support the audit plan should focus on the audit strategy and on important or unusual aspects of the nature, timing and extent of the planned audit procedures. In doing so, they should not contain speculation or extraneous data, but should be limited to factual matters (e.g., pertinent discussions or documents and direct observations about relevant conditions or events).
- 5.47 It is likely that documentation developed for prior engagements will continue to be pertinent and may be carried forward, or referred to in the permanent file.

ADMINISTRATION

- 5.48 Before concluding the audit planning process, the Audit Manager or the 'Audit Team' depending on who works on the audit plan should consider matters that affect the administration of the audit. These matters include:
- preparing a time budget to determine Staffing requirements and schedule fieldwork
 - determining that assigned Staff have the appropriate background and experience to fulfill their responsibilities
 - preparing a schedule for completion of the audit
 - ensuring the audit program considers any additional reports or other services required

APPROVAL AND COMMUNICATION OF THE AUDIT PLAN

- 5.49 The audit plan and audit programs to be used should be reviewed and approved by the Audit Manager, Audit Director and Auditor General before fieldwork is started.
- 5.50 The extent of communicating the audit plan will vary and, depending on the circumstances, may be oral or in writing. At a minimum, the plan should be communicated to all Staff assigned to the audit to the extent that they are affected and should include the information necessary to enable such personnel to have an appropriate understanding of their individual role in the audit.
- 5.51 The overall audit plan should be discussed with client management to ensure that the AOG Office' will obtain appropriate assistance from the entity and that their expectations are in line with the plan. The State Entity also should be aware of the anticipated time table.

19 July 200..

Mr.
.....
.....
.....

Dear Sir,

RE:

The purpose of this letter is to set out the basis on which we act as auditors of the company for the year ended 31 December and the respective areas of responsibility of the directors and of ourselves.

Responsibilities of directors and auditors

As directors of the above company, you are responsible for ensuring that the company maintains proper accounting records and for preparing financial statements which give a true and fair view and have been prepared in accordance with the Companies Act 1991. You are also responsible for making available to us, as and when required, all the company's accounting records and all other relevant records and related information, including minutes of all management and shareholders' meetings.

We have a statutory responsibility to report to the members whether in our opinion the financial statements give a true and fair view and whether they have been properly prepared in accordance with the Companies Act 1991. In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied:

- (a) whether proper accounting records have been kept by the company and proper returns adequate for our audit have been received from branches not visited by us;
- (b) whether the company's balance sheet and profit and loss account are in agreement with the accounting records and returns;
- (c) whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit; and
- (d) whether the information given in the directors' report is consistent with the financial statements.

We have a professional responsibility to report if the financial statements do not comply in any material respect with International Financial Reporting Standards, unless in our opinion the non-compliance is justified in the circumstances. In determining whether or not the departure is justified we consider:

- (a) whether the departure is required in order for the financial statements to give a true and fair view; and
- (b) whether adequate disclosure has been made concerning the departure.

Our professional responsibilities also include:

- including in our report a description of the directors' responsibilities for the financial statements where the financial statements or accompanying information do not include such a description; and
- considering whether other information in documents containing audited financial statements is consistent with those financial statements.

Scope of audit

Our audit will be conducted in accordance with international auditing standards, and will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities as we consider necessary. We shall obtain an understanding of the accounting and internal control systems in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained by the company. We shall expect to obtain such appropriate evidence, as we consider sufficient to enable us to draw reasonable conclusions therefrom.

The nature and extent of our procedures will vary according to our assessment of the company's accounting system, and where we wish to place reliance on it, the internal control system, and may cover any aspect of the business's operations that we consider appropriate. Our audit is not designed to identify all significant weaknesses in the company's systems but, if such weaknesses come to our notice during the course of our audit which we think should be brought to your attention, we shall report them to you. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the company in mind and that we accept no duty or responsibility to any other party as concerns the reports.

As part of our normal audit procedures, we may request you to provide written confirmation of certain oral representations which we have received from you during the course of the audit on matters having material effect on the financial statements. In connection with representations and the supply of information to us generally, we draw your attention to the Companies Act 1991 under which it is an offence for an officer of the company to mislead the auditors.

In order to assist us with the examination of your financial statements, we shall request sight of all documents or statements, including the chairman's statement, operating and financial review and the directors' report, which are due to be issued with the financial statements. We are also entitled to attend all general meetings of the company and to receive notice of all such meetings.

The responsibility for safeguarding the assets of the company and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with yourselves. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records, but our examination should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliances as may exist.

Fees

Our fee for the audit is based on the time spent and the level of staff involved in the assignment. We shall agree the fees annually at the commencement of the audit. Our propose fee for the audits for the year ended 31 December ... is \$.....

Out of pocket expenses will be billed as incurred.

Agreement of terms

Once it has been agreed, this letter will remain effective, from one audit appointment to another, until it is replaced. We shall be grateful if you could confirm in writing your agreement to these terms by signing and returning the enclosed copy of this letter, or let us know if they are not in accordance with your understanding of our terms of engagement.

Yours faithfully,

.....
The Audit Office of Guyana

We agree to the terms of this letter

.....
Signed for and on behalf of

Date:

**THE AUDIT OFFICE OF GUYANA
TIME BUDGET SUMMARY**

NAME OF AUDITEE: **YEAR**

NATURE OF JOB:

DETAILS	PRIOR YEAR ACTUAL		CURRENT YEAR BUDGET		
	HOURS	COST	HOURS	RATE	COST
PLANNING					
Audit Director					
Audit Manager					
FIELD WORK					
Audit Manager					
Audit Supervisor					
Auditor					
Assistant Auditor					
Senior Audit Clerk					
Audit Clerk					
FINAL WORK					
Audit Director					
Audit Manager					
Audit Supervisor					
Secretarial Duties					

Approved per Estimates

Starting Date:

Total Receipts

Total Payments

Estimated Months:

Materiality

Prepared by:

Reviewed by:

Date	Initials

**THE AUDIT OFFICE OF GUYANA
JOB AUTHORISATION FORM**

Group Ref: **Div Ref:** **Date:**

Name of the organisation: **Job Ref:** **Location :**

Nature of the assignment:

Objectives of the Assignment:

STAFF REQUIREMENTS	AD	AM	AS	A	AA	SAC	AC	ENGINEER	TOTAL
MAN HOURS									
RATE PER HOUR									
TOTAL COST (G\$)									

Proposed starting date Proposed completion date

Prepared by
(**Audit Manager**)

Checked by:
(**Audit Director**)

Approved by:
(**Auditor General**)

**AUDIT WORK PROGRAM
CASH AND BANK**

CLIENT:
YEAR-END:

Audit Objective:

- (1) To ensure that cash balances represent cash funds on hand or held on deposit by third parties and include all of the company's cash accounts;
- (2) To ensure that all cash balances are appropriately and completely recorded in the underlying financial records;
- (3) To ensure that there are sufficient and effective controls in place relating to cash movement;
- (4) To ensure that cash balances are not misstated by improper recognition of period-end transactions;
- (5) To ensure that cash balances reflect all events and circumstances that affect their underlying valuation;
- (6) To ensure that foreign-denominated accounts are converted appropriately and any gains/losses are taken to the profit and loss account.

Audit Procedures:

PROCEDURES	Objective achieved	Schedule reference	Work Done By/Date
<p><u>Analytical Procedures – Final</u></p> <p>(1) Obtain a lead schedule of cash and bank balances and agree prior year balances with prior year working papers,</p> <p><u>DETAILED TESTING</u></p> <p><u>Bank Reconciliation Test</u></p> <p><i>Obtain reconciliations for all bank accounts (including term deposits) prepared as at theand perform the following:</i></p> <ol style="list-style-type: none"> a) Review the statements to ensure that they have been properly prepared; b) Agree the bank balances on the reconciliations to the bank statement; c) Agree the general ledger balance on the reconciliation to the general ledger; d) Cast the reconciliation; e) check subsequent presentation of outstanding cheques and clearance of other items to the following month's bank statement, general ledger and reconciliation statement; 			

**AUDIT WORK PROGRAM
CASH AND BANK**

CLIENT:

YEAR-END:

PROCEDURES	Objective achieved	Schedule reference	Work Done By/Date
<p>f) Enquire into and record findings in connection with long outstanding and un-cleared items;</p> <p>g) Ensure that stale-dated cheques are written back or otherwise transferred to a stale-dated cheque account;</p> <p>h) Ensure that the reconciliation statements are duly signed as evidence of preparation and approval;</p> <p>i) Ensure that the reconciliation statement is prepared on a timely basis.</p> <p><u>Bank Reconciliation Review</u></p> <p><i>Obtain the other reconciliations for all bank accounts (including term deposits) for the period January to November 200- and perform the following:</i></p> <p>a) Agree balances to the bank statements and general ledger,</p> <p>b) Check that reconciliations are signed as evidenced of preparation, reviewed and approval,</p> <p>c) Enquire into long outstanding balances,</p> <p><u>Insurance Coverage</u></p> <p>Based on work carried out on insurance coverage ensure that there is adequate coverage for cash-in-transit, cash on premises and cashier fidelity.</p> <p>(2) <u>Cash-in-hand</u></p> <p><i>Obtain an analysis of cash-in-hand at year end and perform the following: -</i></p> <p>a) Check subsequent deposit of un-banked takings to the bank statement;</p> <p>b) Agree balance to the Cash Count observed by the auditor;</p> <p>c) Agree balances to the general ledger;</p> <p>d) Where significant, obtain a cash-in-hand certificate.</p>			

**AUDIT WORK PROGRAM
CASH AND BANK**

CLIENT:
YEAR-END:

PROCEDURES	Objective achieved	Schedule reference	Work Done By/Date
<p>(3) <u>Cheque Payment Cut-Off</u></p> <p><i>Obtain cheque stubs for all bank accounts for 24 -31 December 200- and 1-7 January 200- and perform the following:-</i></p> <ul style="list-style-type: none"> a) Check that cheques were used in sequential order, b) Check postings to the general ledger, c) Ensured that payments were recorded in the relevant period. <p>(4) <u>Charges or lien on cash balances</u></p> <ul style="list-style-type: none"> a) Inspect bank confirmation letter, b) Review minutes of Shareholders, Board of Directors and Management Committee meetings, c) Discuss with Accountant/Management. <p>(5) Agree figures on the lead schedule to the financial statements ensuring that there is adequate disclosure of cash and bank balances .</p> <p>(6) Discuss with management the recommendations for improvement and summarise these for inclusion in the Internal Control Report.</p> <p>(7) Give a Conclusion on cash and Bank balances.</p>			

PROGRAM APPROVAL

Approved as to the scope of testing and adequacy of execution.

Senior

Date

Manager

Date

Partner

Date

**AUDIT WORK PROGRAM
FIXED ASSETS & CAPITAL COMMITMENTS**

Client:

Year-end:

Audit Objectives:

- (1) To ensure that there are adequate controls to secure fixed assets;
- (2) To ensure that fixed assets acquired are recorded in accordance with acceptable capitalization policies;
- (3) To ensure that cost of fixed assets, including repairs & maintenance, are capitalized or expensed appropriately;
- (4) To ensure that reported fixed assets physically exist;
- (5) To ensure that reported fixed assets are owned by the company;
- (6) To ensure that impairment of assets have been identified and adjusted for where necessary.
- (7) To ensure that disposals of assets have been appropriately adjusted for;
- (8) To ensure that finance leases are appropriately capitalized and disclosed;
- (9) To ensure that fixed asset records are accurate;
- (10) To ensure that depreciation is being accurately charged;
- (11) To ensure that there is proper presentation of fixed assets in the financial statements;
- (12) To ensure that there are proper disclosure of capital commitments;

Audit Procedures:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
<p><u>FINAL</u></p> <p><u>Analytical Procedures</u></p> <p>(1) Explain movements and investigate any unexpected and unusual relationships between current period, prior year and budgeted amounts.</p> <p>(2) Review entries in the following general ledger accounts for large or unusual items:</p> <ul style="list-style-type: none"> • fixed asset costs accounts • fixed asset depreciation accounts • profit/loss on disposals accounts • repairs and maintenance accounts <p>(3) Compare depreciation charges with recorded property and equipment amounts in total or by separate assets class or location for the year.</p>			

**AUDIT WORK PROGRAM
FIXED ASSETS & CAPITAL COMMITMENTS**

Client:

Year-end:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
<p><u>Detailed Test of Transactions and Balances</u></p> <p>(1) Obtain a fixed asset summary as at.....</p> <p>a) Agree opening balances to the prior year audited working papers;</p> <p>b) Check the arithmetic accuracy of the schedule;</p> <p>a) Agree closing balances to the fixed asset register and the general ledger</p> <p>(2) Obtain information on the company's policy towards division of capital and revenue expenditure. Examine the repairs and maintenance and fixed asset ledger accounts to support the policy.</p> <p>(3) Obtain a schedule of additions and for a sample of items perform the following:-</p> <p>a) Check that additions are necessary for carrying on operations and have been authorized;</p> <p>b) Agree value and description of asset acquired to supporting documentation.</p> <p>c) Physically inspect the asset.</p> <p>d) For additions inspect the title (Transport, Certificate of Registration or Invoice) to ensure that they are in the name of the company;</p> <p>e) Ensure that addition is recorded in the fixed asset register and general ledger correctly.</p> <p>(4) For a sample of material assets, excluding additions, perform a physical verification exercise. Select the sample to ensure that items not covered in the prior year testing re included.</p>			

**AUDIT WORK PROGRAM
FIXED ASSETS & CAPITAL COMMITMENTS**

Client:

Year-end:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
<p>(5) Enquire as to whether the company performed a physical verification exercise of its fixed assets during the year. Obtain and review the results thereof.</p> <p>(6) For a sample of ... material assets, perform the following:</p> <ul style="list-style-type: none"> a) Test depreciation calculation is in accordance with stated policy; b) Check that no asset is being depreciated by more than cost; c) Agree depreciation to the fixed asset register and the appropriate expense ledgers; <p>(7) (a) Enquire whether management has carried out an impairment of assets.</p> <ul style="list-style-type: none"> a) Ensure that impairment write-downs have been made where appropriate. <p>(8) Observe security arrangements at the company's place of business and ensure that there is adequate security of fixed assets.</p> <p>(9) By reference to the Insurance section of the audit file, check that there is adequate coverage of fixed assets held.</p> <p>(10) Agree figures on the lead schedule to the financial statements ensuring that there is adequate disclosure of property, plant and equipment balances.</p> <p>(11) Discuss with management the recommendations for improvement and summarise these for inclusion in the Internal Control Report.</p>			

**AUDIT WORK PROGRAM
FIXED ASSETS & CAPITAL COMMITMENTS**

Client:

Year-end:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
(12) Give a Conclusion on property, plant and equipment balances.			

PROGRAM APPROVAL

Approved as to the scope of testing and adequacy of execution.

Senior

Date

Manager

Date

Partner

Date

**AUDIT WORK PROGRAM
SALES REVENUE**

CLIENT:
YEAR-END:

Audit Objectives

- 1) To ensure that revenue represents amounts derived from the sale of goods and the performance of services;
- 2) To ensure that terms of sale and returns are appropriately authorized;
- 3) To ensure that credit limits are set and recognized;
- 4) To ensure that sales revenue recorded in the proper period;
- 5) To ensure that sales revenue is accurately recorded;
- 6) To ensure that sales revenue is completely recorded;

Audit Procedures

PROCEDURES	Objective Achieved	Schedule Reference	Work Done By/Date
<p><u>Detailed Testing</u></p> <p><u>CHARGE SALES TEST</u></p> <p><i>Obtain charge invoices from the period of _____, _____ & _____ and perform the following: -</i></p> <ol style="list-style-type: none"> a) check that the customer is an approved credit customer b) customers credit limit and terms is checked and approved to ensure that customers is eligible for credit, c) ensure that sales invoice is signed as prepared by the sales clerk, d) ensure that the invoice is signed as approved by the sales department supervisor, e) agree the sales price to an authorized price list, f) check mathematical accuracy of the invoice, g) check that the store copy of the invoice was stamped by the store as evidence of goods being delivered to customers, h) check that customers signed as evidence of receiving goods, i) trace the invoice to the daily cashier report, j) ensure that the daily cashier report was signed by the cashier as evidence of preparation, k) check that the daily cashier report was checked and signed by an accounts dep't representative, 			

**AUDIT WORK PROGRAM
SALES REVENUE**

CLIENT:
YEAR-END:

PROCEDURES	Objective Achieved	Schedule Reference	Work Done By/Date
<p>l) check that the items sold were taken off the inventory ledger, m) check the customer account in the debtors ledger to ensure that the sales were recorded to the customers, n) check postings to the general ledger</p> <p><u>CASH SALES</u></p> <p><i>Obtain cash invoices from the period of _____, _____ & _____ and perform the following: -</i></p> <p>a) ensure that sales invoice is signed as prepared by the sales/billing clerk, b) ensure that the invoice is signed as approved by the sales department supervisor, c) agree the sales price to an authorized price list d) check mathematical accuracy of the invoice, e) check that the store copy of the invoice was stamped by the store as evidence of goods being delivered to customers, f) check that the invoice was signed and dated by the cashier, g) check that the invoice was stamped as “PAID”, h) trace to the daily cashier report, i) ensure that the cashier signed the daily cashier report as evidence of preparation, j) check that the daily cashier report was checked and signed by an accounts dep’t representative, k) check postings to the general ledger</p> <p>(1) Discuss with management the recommendations for improvement and summarise these for inclusion in the Internal Control Report.</p>			

**AUDIT WORK PROGRAM
SALES REVENUE**

CLIENT:
YEAR-END:

PROCEDURES	Objective Achieved	Schedule Reference	Work Done By/Date
(2) Give a Conclusion on sales amount recorded in the financial statements as at December 31.....			

PROGRAM APPROVAL

Approved as to the scope of testing and adequacy of execution.

_____	_____
Senior	Date
_____	_____
Manager	Date
_____	_____
Director	Date

**AUDIT WORK PROGRAM
DEBTORS & PREPAYMENTS**

CLIENT:
YEAR-END:

Audit Objective:

- 1) To ensure that debtor balances are accurately aged.
- 2) To ensure that debtor balances are authentic and all reconciling items are genuine.
- 3) To ensure that credit limits are adhered to.
- 4) To ensure that all past due balances are authentic, collectable and adequate following up are done.
- 5) To ensure that provision for bad and doubtful debts are adequate and the basis used is adequate.
- 6) To ensure that cut-off is correct.
- 7) To ensure that prepaid expenses are accurately calculated.

Audit Procedures:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
<p><u>Analytical Procedures – Final</u></p> <p>(1) Obtain a lead schedule of debtors and prepayments and compare with prior year to ensure list appears complete and reasonable; Agree balances to the closing trial balance.</p> <p>(2) Explain movements and investigate any unexpected or unusual relationships between current year, prior year and budgeted amounts.</p> <p><u>Trade Debtors</u></p> <p>(1) <u>Debtors Aged Analysis</u></p> <p>Obtain a debtors age analysis as at the end of 31 December and perform the following tests:</p> <p style="margin-left: 40px;">(a) Test mathematical accuracy (b) Investigate large or unusual items (c) Investigate credit balances (d) Ensure that the total of the aged analysis of debtors agrees with the debtors control account in the general ledger. (e) Test accuracy of aging by comparing a sample of individual items to supporting documentation</p>			

**AUDIT WORK PROGRAM
DEBTORS & PREPAYMENTS**

CLIENT:
YEAR-END:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
<p style="text-align: center;">(f) Check subsequent collections to receipts after year end</p> <p>(2) <u>Past Due Balance</u></p> <p>For customers balance outstanding for more than 90 days, select a sample ofcustomers and perform the following:</p> <ul style="list-style-type: none"> a) Agree details to invoices and other supporting documents; b) Discuss collectability with client; c) Consider subsequent payments and payments history; d) Examine correspondence with customer, if necessary; e) Ensure adequate provisions set up if necessary. <p>(3) <u>Sundry Debtors</u></p> <p>Obtain a schedule of sundry debtors as at year end and perform the following:-</p> <ul style="list-style-type: none"> a) The total agrees to the general ledger; b) For material items, amounts agree to supporting documentation for a sample of items; c) Payment received post year-end for selected sample. d) For overdue receipts consider whether these should be written off. <p>(4) <u>Prepayments</u></p> <p>Obtain a schedule of prepayments as at the year-end and Perform the following:-</p> <ul style="list-style-type: none"> a) Agree the total to the general ledger, b) Compare this with the prior year to ensure that list is complete, c) Agree details to supporting documents (e.g. invoices, receipt etc.) for significant pre-payments, d) Check calculation of prepaid amount, e) Pre year-end payments agree to bank statement. 			

**AUDIT WORK PROGRAM
DEBTORS & PREPAYMENTS**

CLIENT:
YEAR-END:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
<p>(5) <u>Cut-off Test</u></p> <p>Receipts Obtain receipt for one week immediately before and after year end and perform the following:-</p> <p style="padding-left: 40px;">a) Ensure that all receipt prior to the year-end and after year end are included in debtors and the general ledger in the relevant period, b) Check sequential order of receipt,</p> <p>Sales Obtain sales invoices for one week immediately before and after year end and perform the following:-</p> <p style="padding-left: 40px;">c) Ensure that all invoices prior to the year-end and after year end are included in the daily sales summary and the general ledger in the relevant period, d) Check sequential order of sales invoices,</p> <p>(6) Agree figures on the lead schedule to the financial statements ensuring that there is adequate disclosure of accounts receivables and prepayments balances.</p> <p>(7) Discuss with management the recommendations for improvement and summarise these for inclusion in the Internal Control Report.</p> <p>(8) Give a Conclusion on accounts receivable and prepayments balances.</p>			

PROGRAM APPROVAL

Approved as to the scope of testing and adequacy of execution.

Senior

Date

Manager

Date

Director

Date

AUDIT WORK PROGRAM CREDITORS & ACCRUALS

CLIENT:

YEAR END:

- 1) To ensure that all liabilities exist and are supported by independent evidence;
- 2) To ensure that trade creditors have been fully and accurately recorded;
- 3) To ensure that proper cut-off has been applied;
- 4) To ensure that all material accruals and other creditors have been accounted for;
- 5) To ensure that expenditure has not been under-recorded.

AUDIT PROCEDURES:

PROCEDURE	Objective achieved	Schedule reference	Work Done By/Date
<p><u>Analytical Procedures – Final</u></p> <p>(1) Obtain a lead schedule of Creditors & Accruals as at December 31 with prior year comparatives.</p> <p>(2) Agree prior year numbers to the prior year audit working papers and agree current year numbers to the general ledger.</p> <p>(3) Obtain explanations and investigate any unexpected or unusual relationships between current year, prior year and budgeted amounts for:-</p> <ul style="list-style-type: none"> - accounts payable, - sundry payable, - accruals. <p><u>Detailed Testing – Final</u></p> <p>(1) <u>Payables</u></p> <p>Obtain payables listing as at the year end and perform the following tests:-</p> <ol style="list-style-type: none"> (a) test mathematical accuracy; (b) trace amounts to appropriate sources; (c) investigate large or unusual items, (d) test translation of foreign currency, (e) agree balance total to the general ledger, (f) check subsequent payment on a sample basis for large supplier balances. (g) where necessary obtain confirmations 			

**AUDIT WORK PROGRAM
CREDITORS & ACCRUALS**

CLIENT:
YEAR END:

PROCEDURE	Objective achieved	Schedule reference	Work Done By/Date
<p>(2) <u>Sundry Creditors</u></p> <p>Obtain a list of sundry creditors at the year-end and perform the following:-</p> <ul style="list-style-type: none"> (a) Review this for completeness based on prior period list and expectations. (b) Check a sample to supporting documentation and post year-end payment. (c) Test mathematical accuracy, (d) Investigate large or unusual items, (e) Agree balances to the general ledger. <p>(3) <u>Accruals</u></p> <p>Obtain a list of Accruals at the year-end and perform the following:-</p> <ul style="list-style-type: none"> (a) Review this for completeness based on prior period list and expectations. (b) Verify period of accruals (c) Test mathematical accuracy, (d) Investigate large or unusual items, (e) Check accruals to supporting documentation and post year end payment (g) Agree balances to the general ledger. <p>(4) Agree figures on the lead schedule to the financial statements ensuring that there is adequate disclosure of accounts payables and accruals balances.</p> <p>(5) Discuss with management the recommendations for improvement and summarise these for inclusion in the Internal Control Report.</p>			

**AUDIT WORK PROGRAM
CREDITORS & ACCRUALS**

CLIENT:
YEAR END:

PROCEDURE	Objective achieved	Schedule reference	Work Done By/Date
(6) Give a Conclusion on accounts payable and accrued charges balances.			

PROGRAM APPROVAL

Approved as to the scope of testing and adequacy of execution.

_____	_____
Senior	Date
_____	_____
Manager	Date
_____	_____
Director	Date

AUDIT WORK PROGRAM PAYROLL

CLIENT:
YEAR-END:

Audit Objectives

- (1) To ensure that payroll is properly prepared and approved by management;
- (2) To ensure that all deductions were properly calculated;
- (3) To ensure that deductions remitted to the relevant third party on a timely basis;
- (4) To ensure that other statutory requirements met;
- (5) To ensure that joiners were processed in accordance with the company policy;
- (6) To ensure that deductions were made for joiners in the month of joining;
- (7) To ensure that leavers were taken off the payroll from the date of resignation/ termination;
- (8) To ensure that appropriate controls exist to limit liability with regard to leavers;
- (9) To ensure that salary increases were properly processed on the first relevant payroll run;
- (10) To ensure that payment of wages was properly controlled and documented;
- (11) To ensure that there are adequate controls over unpaid wages.

Audit Procedures

Procedures	Objective achieved	Schedule reference	Work Done By/Date
<p>(1) Obtain payroll for months/ weeks and check that:</p> <ol style="list-style-type: none"> a) Computation of gross pay calculated correctly based on either time records or salary letters. Confirm the rates of pay for 'time' workers to employment files or published information. b) Supporting documents in (a) above contains evidence of proper authorized; c) Statutory deductions were properly calculated; d) Ensure that there is evidence of preparation and approval e) Employee authorization obtained for non-statutory deductions; f) Ensure that there was evidence of collection of salary where cash paid; Payroll totals have been properly posted to the general ledger g) For one of the payrolls selected test the casting; <p>(2) Select a sample of all joiners in the year and:</p> <ol style="list-style-type: none"> a) Ensure that completed application forms sent to the personnel department; 			

**AUDIT WORK PROGRAM
PAYROLL**

CLIENT:
YEAR-END:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
<p>b) Upon acceptance, ensure that certificates, police clearance and references obtained where necessary.</p> <p>c) Check that employment contract completed and signed by employee as evidence of accepting;</p> <p>d) Ensure that employee included in next payroll;</p> <p>e) Ensure that deductions made in month of joining;</p> <p>(3) Select a sample of all leavers in the year and:</p> <p>a) Check that there is appropriate supporting documentation i.e. a letter of resignation or termination letter;</p> <p>b) Check the remaining payment stated on the official discharge document was correctly calculated and paid over to the employee;</p> <p>c) Ensure that the employees were taken off the payroll from the date of resignation/dismissal.</p> <p>(4) For the sample selected above ensure that:</p> <p>a) NIS deductions were remitted before the 15th of the following month;</p> <p>b) PAYE deductions were remitted before the 14th of the following month.</p> <p>(5) For all non-taxable allowances:</p> <p>a) Document the type of allowances and staff to whom payments are made</p> <p>b) Select a sample of employees and test justification of allowances paid</p> <p>(6) Ensure that a Holiday-with-Pay register was maintained by the client.</p> <p>(7) Ensure that the employees Annual Return for 2005 has been filed with the Guyana Revenue Authority by 28 February 200-</p>			

**AUDIT WORK PROGRAM
PAYROLL**

CLIENT:
YEAR-END:

Procedures	Objective achieved	Schedule reference	Work Done By/Date
(8) Discuss with management the recommendations for improvement expenses and summarise these for inclusion in the Internal Control Report.			
(9) Give a conclusion on employment cost recorded in the financial statements as at 31 December 200-.			

PROGRAM APPROVAL

Approved as to the scope of testing and adequacy of execution.

_____	_____
Senior	Date
_____	_____
Manager	Date
_____	_____
Partner	Date

AUDIT WORK PROGRAM PURCHASES

CLIENT:
YEAR-END:

Audit Objectives:

- (1) To ensure that there are purchases are recorded accurately;
- (2) To ensure that purchases are recorded completely;
- (3) To ensure that purchases are recorded in the correct period;
- (4) To ensure that purchases are appropriately authorized;
- (5) To ensure that purchases are genuine.

AUDIT PROCEDURES

PROCEDURES	Objective achieved	Schedule reference	Work Done By/Date
<p><u>Planning</u></p> <p>(1) Obtain an understanding of the main purchases made by the company and the main suppliers used.</p> <p><u>Analytical Procedures</u></p> <p>Explain movements and investigate any unexpected or unusual relationships between current year, prior year and budgeted amounts of purchases.</p> <p><u>Detailed Testing</u></p> <p><u>FOREIGN PURCHASES</u></p> <p><i>Obtain foreign purchase requisition and order from the period of.....perform the following:-</i></p> <ol style="list-style-type: none"> (1) check that the purchase requisition and purchase order were properly prepared and signed as “prepared by”, (2) ensure that the purchase requisition and order were signed as approved by a director, (3) ensure that the invoice received from the supplier were in the name of the company, (4) check that the purchases were relevant to the company operations, (5) check that the customs entry forms were prepared. (6) ensure that the Goods Received Note (GRN) was prepared and signed as evidence of goods received by the warehouse, (7) agree details on the purchase order to the supplier invoice, customs entry forms and GRN, (8) ensure that the GRN was check and signed by the 			

**AUDIT WORK PROGRAM
PURCHASES**

CLIENT:
YEAR-END:

PROCEDURES	Objective achieved	Schedule reference	Work Done By/Date
<p>store / warehouse manager,</p> <p>(9) check that the GRN were pre-numbered and are used in sequential order,</p> <p>(10) check that the costing sheet was properly prepared and signed as evidence of preparation,</p> <p>(11) trace other charges on the costing sheet to their supporting documents,</p> <p>(12) check the mathematical accuracy of the costing sheet,</p> <p>(13) ensure that the costing sheet was check/reviewed and signed as evidence by the Assistant Accountant, Accountant or Finance Director,</p> <p>(14) trace postings to the general ledger</p> <p><u>LOCAL PURCHASES</u></p> <p><i>Obtain local purchase requisition and order for the period and perform the following:-</i></p> <p>(1) check that the purchase requisition and purchase order were properly prepared and signed as “prepared by”,</p> <p>(2) ensure that the purchase requisition and order were signed as approved by a director,</p> <p>(3) ensure that the invoice received from the supplier were in the name of the company,</p> <p>(4) check that the purchases were relevant to the company operations,</p> <p>(5) ensure that the Goods Received Note (GRN) was prepared and signed as evidence of goods received.</p> <p>(6) agree details on the purchase order to the supplier invoice, customs entry forms and GRN,</p> <p>(7) ensure that the GRN was check and signed by the warehouse manager,</p> <p>(8) check that the GRN were pre-numbered and are used in sequential order,</p> <p>(9) trace postings to the general ledger</p> <p>(10) Discuss with management the recommendations for improvement and summarise these for inclusion in the Internal Control Report.</p>			

**AUDIT WORK PROGRAM
PURCHASES**

CLIENT:
YEAR-END:

PROCEDURES	Objective achieved	Schedule reference	Work Done By/Date
(11) Give a conclusion on the amount recorded as purchases.			

PROGRAM APPROVAL

Approved as to the scope of testing and adequacy of execution.

Senior

Date

Manager

Date

Director

Date

**6. EXECUTION, SUPERVISION AND REVIEW
OF AUDITS**

	Page #
Execution of Audits	
Audit Evidence and Procedures	27
Analytical Procedures	29
Risk and Materiality in Audit Execution	32
Supervision and Review of Audits	36
Review Checklist	

6 EXECUTION, SUPERVISION AND REVIEW OF AUDITS

EXECUTION OF AUDITS

AUDIT EVIDENCE AND PROCEDURES

- 6.1 The theme of auditing as mentioned elsewhere is the process of accumulating and evaluating evidence about an entity's assertions in the financial statements for the purpose of determining and reporting the relationship between such assertions and established criteria. The overall objective of the Audit Team (AOG) is to obtain sufficient relevant and reliable audit evidence to support a reasonable basis for an opinion on the entity's financial statements.
- 6.2 The gathering of audit evidence, and the procedures carried out by the Audit Team in its field work relating to this, is indeed the core of the audit process.
- 6.3 The various types of audit procedures for gathering audit evidence include:
- Scan (scrutinize, peruse, search)
 - Inquire
 - Analyze
 - Examine (inspect, observe, review, vouch, verify)
 - Sample
- 6.4 All of the above tests are in fact substantive tests to provide evidence as to the validity and propriety of financial statement balances and their underlying transactions. The other type of procedure to gather audit evidence is tests of controls to provide evidence that internal controls are functioning as designed and some of these tests of controls have been dealt with in the chapter on Internal Controls.
- 6.5 A short description of substantive tests for the benefit of all members of the Audit Team follows.
- 6.6 **Scan** is a search for significant events or transactions that may require further review, depending of the findings of the Audit Team. Significant items may be items of unusual size, unexpectedly high or low frequency, of a questionable nature, or inconsistent with other known information about the business. Scanning, of course, may be performed Manually, or by the use of appropriate software (like IDEA etc.)
- 6.7 **Inquire** is to question orally or in writing. This procedure is applicable to almost every financial statement assertion. The need to exercise professional skepticism is particularly important in evaluating responses to enquiries from management and employees of the entity. Therefore, these responses should be validated by further other evidence. Inquiry

contributes to all examination, confirmation, tests of controls, and substantive objectives. It is a useful starting point for most other auditing procedures. Generally, it is far more efficient to obtain explanations through inquiry and then seek to validate these explanations, rather than to try and find explanations ourselves by sifting through quantities of detailed evidence.

- 6.8 **Analyze** is to seek evidence as to the completeness, accuracy, and validity of information contained in one or more accounts, groups of transactions, or relationships among accounts or groups of transactions. These are in fact analytical procedures. Sometimes, analysis is a preliminary step preceding other auditing procedures such as a detailed review of larger or unusual components.
- 6.9 **Examine** is to inspect, observe, review, vouch or verify critically supporting documents, operations, procedures, conditions, events or transactions. Examination of documentation provides further evidence of the assertions being audited. For example, the examination of a lawyer's letter would provide some evidence of the existence of a contract. Examination may provide evidence as to an asset or liability balance, such as the observation of physical inventory quantities or the inspection of a Note Receivable, or it may provide some evidence as to the information to be disclosed in the financial statements in conformity with IFRS such as agreements, valuations etc.
- 6.10 **Sampling** is a means by which we identify items for which we undertake examination procedures and subsequently evaluate the results. Audit sampling is the application of audit procedures to less than 100% of the detail making up an account balance or class of transactions to enable us to obtain and evaluate evidence as to the overall correctness of account balances or classes of transactions or, if performed as a test of controls, to assess the control risk at less than maximum.
- In many circumstances, sampling is not the most effective or cost-effective audit approach. The Audit Team should decide whether in the environment being audited, if sampling is appropriate. In deciding on this approach, the Team should consider whether the contemplated audit procedures are effective when applied on a test basis, the cost-benefit relationship, and the potential for material error.

Conditions to be considered in deciding whether to use sampling include:

- whether the contemplated audit procedures are effective when applied on a test basis- some audit procedures (e.g. analytical procedures or scanning for unusual or individually significant items) are not generally applied to a sample. For example, because the power of analytical procedures is derived from analyzing all the data and their relationships, sampling is not generally used.
- The cost benefit relationship- audit procedures that a relatively high degree of evidence at relatively low cost are frequently applied on a more extensive basis than a representative sample. Sampling should generally be avoided whenever more cost effective procedures are available (e.g. by the use of appropriate computer software).
- The potential error for material error- where the risk of potential errors is immaterial for a specific assertion, then sampling is not recommended, especially where these

assertions are not considered critical. Such assertions are audited more effectively by scanning the account detail or utilizing analytical procedures

Additional factors that might indicate that sampling is appropriate are:

- the potential error in a population is not low
- internal control weaknesses exist in the entity
- it is necessary to develop an estimate of an account balance or class of transactions instead of testing an account balance (e.g. determining the value of inventory because the client has lost control and cannot provide the audit team with a reliable value to audit).

Sampling may be used as a substantive test or for testing key controls, depending on whether the audit team is attempting to evaluate the amount in a balance or class of transactions or the operating effectiveness of identified key controls.

Examples of procedures that lend themselves to sampling are:

- substantive tests of critical assertions
- existence of receivables (e.g. confirmations)
- existence of inventories (observations)
- inventory valuation gross
- valuation gross of capital assets (review of invoices for additions to fixed assets).
- Tests of controls (identified, documented key controls) within the revenue, purchasing or inventory cycle.

If the audit team decides to carry out sampling as a substantive test, there are three major decisions that must be made in this process:

- determine the sample size
- select the items to be audited
- evaluate the sample results

In most substantive sampling applications, the audit team will be most interested in the projected error, that is the difference between the estimated audit value and recorded amounts of the balance or class of transactions tested. For example, in testing the accuracy of the inventory records, assume that the recorded value amount is \$100,000, and based on the sample results, inventory is estimated at \$90,000.

The difference of \$10,000 should be documented in the list of uncorrected misstatements in the work paper files –appropriately indexed– and the audit team can make a judgement as to whether this potential error of \$10,000 requires additional testing to reduce the projected error, or requires an adjustment of the recorded amount of \$100,000.

ANALYTICAL PROCEDURES

- 6.11 Depending on the size and complexity of the entity for audit, analytical procedures may form an important part of the substantive tests carried out during the execution and final review of the audit. Analytical procedures provide evidence about one or more assertions related to

account balances or classes of transactions and directly support the Auditor's opinion on the financial statements.

6.12 Analytical Procedures may be broadly categorized as:

- Trend Analyses – the analysis of changes in a given account balance or financial statement line over the past accounting periods, usually annual periods.
- Ratio Analyses- any method which involves comparing relationships between financial statement accounts (for example, working capital to total assets). Once a ratio is determined it is compared with a ratio for prior periods or other entities in the same industry for the same period.
- Reasonableness Tests- generally a simple computation or series of computations which develops an estimate of an amount based on the Auditor's understanding of plausible relationships through the use of relevant financial and operating data. Reasonableness tests include both proof-in-total and projections using regression techniques.

6.13 Trend analysis is the most commonly used of all analytical procedures, although it is usually less effective than ratio analysis or reasonableness tests in detecting material misstatements because it involves only one amount. Ratio analysis on account balances is useful for those relationships expected to be stable (over time) or comparable (across entities in the same environment). Reasonableness tests provide the opportunity for the Auditor to tailor the test by including all relevant factors that may explain fluctuations. Therefore it is potentially the most powerful and well-focused test.

6.14 Factors in determining whether analytical procedures may be appropriate as substantive tests include:

- many analytical procedures provide assurance relating to several different assertions simultaneously
- analytical procedures may be particularly effective for assertions for which potential misstatements may not be apparent from detailed tests
- analytical procedures are especially useful in audits where because of an assumed lower inherent and control risk, there is a desire to perform less extensive audit procedures for assertions that are not considered as critical.

6.15 Analytical procedures at the final review stage should consider financial liquidity of the entity, and indeed the expectation of remaining a going concern. (Even though the AOG is concerned with the audit of state enterprises and government agencies, some of these organizations operate as commercial/ business units). Typical ratios used for this:

- acid test ratio
- current ratio

- debt to equity (gearing)
- interest cover.

6.16 Various other measures of identifying increasing distress have been developed, based on the measure of a total of various financial statement ratios. These can also be useful as indicators of going concern problems.

Some recommended analytical techniques are:

Scanning

6.17 As discussed elsewhere, scanning is a search for significant events or transactions that may require further review, depending on Audit Team's findings. Scanning may be done Manually or by the use of computer software.

Comparison of account Balances

6.18 This fundamental analytical procedure is the comparison of account balances with those of a comparable period. In some circumstances, comparisons of interim (quarterly, monthly) balances to prior period may be useful. In general, the more detailed the basis of comparison, the more likely that significant fluctuations or unusual items will be identified.

Ratio to Sales

6.19 Because many revenue and expense accounts tend to bear a direct relationship to sales, the comparison of ratios to sales can be useful. For example, variations in the returns and allowances ratio may indicate problems with the existence of recorded sales.

Proof-in-Total

6.20 This particular procedure is extremely efficient since once this is carried out properly, no additional evidence is normally required.

Proof-In-Total is a reasonableness test whereby the total of an account balance or class of transactions can be estimated either by determining in total from independent confirmation or computing from independent information. Examples where proof-in-total may be appropriate include:

- sales commissions
- depreciation
- salaries
- sales and production amounts
- payroll taxes
- interest income and expenses
- rental income and expense

Use of industry Statistics

- 6.21 Whilst this is a useful source of data for comparison, excessive reliance is not recommended, since the entity's circumstances may be unique and may not reflect the industry norm.

Documentation

- 6.22 The performance, results, and subsequent follow-up of analytical procedures should be well documented. The audit working papers should contain:

- a reference to the analytical procedures performed
- a description of the source of data used and any tests of its accuracy
- summaries of the percentages, ratios and other analyses used
- summaries of significant fluctuations or unusual items
- notes on the investigation of significant items and corroboration of client's explanations
- any misstatement estimated which should be included with other audit differences identified
- conclusion reached, and any additional procedures considered necessary.

RISK AND MATERIALITY IN AUDIT EXECUTION

- 6.23 Before carrying out the field work, at the planning stage, the Audit Team would have determined the level of inherent risks and planning materiality. These assessments would largely determine the degree of substantive tests and tests of controls required to evaluate the assertions in the financial statements. Inherent risks have been dealt with in some detail in the section dealing with the planning of the audit. However, it is important that the Audit Team understands fully the principle of materiality.

- 6.24 Materiality" is defined in International Accounting Standards (IAS 1) "Preparation and Presentation of Financial Statements" in the following terms as quoted in International Standards on Auditing (ISA) 320-Auditing and Audit Materiality:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

- 6.25 The objective of an audit of financial statements is to enable the Auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

6.26 The Auditor's assessment of materiality and audit risk may be different at the time of initially planning the audit to the time when the results of procedures are evaluated. This may require a change of the materiality level, and based on this, the Audit Team would adjust the level of substantive tests as well as tests of controls as projected at the planning stage of the audit. The Auditor's assessment of materiality level may change in many circumstances. For example, if audit procedures are performed prior to period end, the Auditor will anticipate the results of operations and the financial position. If actual results of operations are substantially different, the assessment of materiality and audit risk may also change.

6.27 In evaluating whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, the Auditor should assess, whether the aggregate of uncorrected misstatements identified during the audit, is material. If the Auditor concludes that the misstatements may be material, the Auditor needs to consider reducing the audit risk by extending audit procedures or requesting management to adjust the financial statements for the misstatements identified. In any event, management may want to adjust the financial statements for the misstatements identified.

Materiality is applied at all stages of the audit engagement: planning, execution and completion.. Applying the concept of materiality requires extensive professional judgement as both qualitative and quantitative factors play a significant role.

Applying the concept of materiality at the planning and execution stage of the audit recognizes that the audit team cannot verify every balance, transaction or judgement made in the financial reporting process.

At the planning stage, the auditor needs to consider what would make the financials statements materially misstated. The auditor's knowledge of the entity, its environment and "culture," establishes a parameter within which the auditor and his team can use their professional judgement in assessing the risks of material misstatements and responding to these risks during the audit execution and completion.

In the audit plan the auditor would have established an acceptable materiality level so as to detect quantitatively material misstatements. This level can then be compared with the aggregate of uncorrected misstatements discovered during the audit execution process. If this approaches the planned materiality level, then the auditor should consider the impact of undetected misstatements, and if necessary, consider reducing audit risks by carrying out additional audit procedures, or requesting that the misstatements be corrected by the management of the entity.

The auditor also needs to consider the effect of any qualitative misstatements, as for example the improper use or description of an accounting policy which could mislead the user of the financial statements, and not disclosing a breach of regulations that could affect the operations of the entity.

There are a variety of methods used for determining planning materiality and therefore enunciating or mandating the use of a single method for all purposes is not possible.. The following example is for illustrative purposes and shows a representative range of percentages for key factors that can be used to arrive at a monetary amount for planning materiality:

	Factors	%Range
*	Normalized income before taxes	3-6%
*	Revenue	.5-2%
*	Expenses	.5-2%
*	Total Assets	1-2%
*	Equity	3-7%

Please note that because of regulatory and other considerations, materiality judgements for publicly owned entities may be at the lower end of the range quoted.

Fraud Risk

6.28 Another important inherent risk indicator is fraud risk. In evaluating this risk, the Audit Team would take account of the past history of operations of the entity, the effectiveness of its internal audit division, the quality of its management etc.

In respect of fraud, two types of misstatements are relevant: misstatements arising from fraudulent financial reporting and misstatements arising from the misappropriation of assets.

6.29 Fraudulent financial reporting may be accomplished by the following:

- manipulation, falsification, or alteration of records or documents
- misrepresentation in or intentional omission from the financial statements of events, transactions, or other significant information
- intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

6.30 Misappropriation of assets may be accomplished by the following:

- embezzling receipts
- stealing assets
- causing the entity to pay for good or services that have not been received.

6.31 Three conditions are normally present when fraud occurs.

- Management or employees have an incentive or are under pressure, which provides a reason to commit fraud.
- Circumstances exist –for example, the absence of controls, ineffective controls, or the ability of management to override controls—that provide an opportunity for a fraud to be perpetrated.
- Those involved are able to rationalize committing a fraudulent act. Some individuals possess an attitude, character, or set of ethical values that allow them to knowingly and intentionally commit an act of fraud.

- 6.32 These three conditions are known as the fraud triangle and all three elements are present in frauds.
While the Audit Office cannot read minds to evaluate the rationalization or attitude of the individual(s) committing, the incentives, pressures, and opportunities are often red flags that could indicate fraud.
- 6.33 To address the risk of management override of controls, the following procedures should be performed:
- examining journal entries and other adjustments for evidence of possible material misstatement (including obtaining an understanding of the entity's financial reporting process and controls over journal entries and other adjustments, and inquiring of individuals involved in the financial reporting process about inappropriate or unusual activity in the processing of journal entries and other adjustments)
 - reviewing accounting estimates for biases that could result in material misstatement (including performing a retrospective review of significant accounting estimates reflected in prior year's financial statements)
 - evaluating the business rationale of significant transactions not in the ordinary course of business or other unusual transactions.
- 6.34 In the present environment, it is prudent that the AOG and indeed all Auditors be vigilant in their assessment of this risk.
- 6.35 When the Audit Team are about completing their field work, have carried out their tests and walk through procedures as required in their plan, and cleared their list of outstanding matters with the management of the entity, it is essential that the audit working papers comprising the current files as well as the permanent file are all comprehensive and updated, reflect fully the work carried out by the Audit Team during the audit from the planning to execution. As will be emphasized in the section on Audit Documentation, when the review of the audit is conducted by the Manager, Director or the Auditor General, there should be no oral intervention required to explain matters dealt with, or action taken, by the Audit Team during the audit. The working papers by themselves should be comprehensive and clear to explain all matters relating to the audit.

SUPERVISION AND REVIEW OF AUDITS

- 6.36 A key element of a successful audit is the supervision and review that need to be carried out on a continual basis from the planning stage to the completion of the audit.
“Supervision is essential to ensure the fulfillment of audit objectives and the maintenance of the quality of the audit. Proper supervision and control is therefore necessary in all cases regardless of the competence of individual Auditors.” Extract from INSOTAI Code of Ethics and Auditing Standards.
- 6.37 It must be emphasized that those members of the AOG who delegate work are responsible for supervising that work, and are responsible for its quality and cost. They should satisfy themselves, by such means as direction, observation, discussion and review, that:
- Staff working under their direction understand the procedures they are to perform, and the objectives of such procedures;
 - the audit plan and action steps specified in that plan are followed unless a variation is authorized;
 - work carried out under their direction is properly executed;
 - reviews are carried out continually in a critical and constructive manner,
 - the audit is carried out in accordance with the auditing standards and practices of the AOG, and;
 - working papers contain evidence adequately supporting all conclusions, recommendations and opinions.
- 6.38 Reviews are best carried out on a regular basis in a supportive manner taking account of the complexity and materiality of the task and the appropriate skills and experience of the Staff. Review brings more than one level of experience and judgment to the audit task and should ensure:
- all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation of the final audit opinion or report;
 - all errors, deficiencies and unusual matters have been properly identified, documented and are either satisfactorily resolved or brought to the attention of senior personnel;
 - changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in Staff development activities.

- 6.39 The weekly meeting on job progress now standard at the AOG is necessary where all authorized jobs in each division and category are identified and their progress established. All serious variations from anticipated completion dates and/ or cost overruns can be addressed and the way forward agreed with the division's Director and the AG. These weekly progress meetings would also facilitate discussion on, for example, significant circumstances that may cause the completion date of the audit to be delayed. If these circumstances are due to the entity or to matters beyond our control, we should document this and inform the client as soon as the facts are known.
- 6.40 The use by the Team of the approved standard forms would facilitate ease of supervision. From the inception of the audit, Staff should be aware of all necessary forms, schedules and reports that need to be fully completed in a timely manner, and organized in the files. This will save time of both the preparer and the reviewer of the work paper files.
- 6.41 Additional information on the review process is contained in the chapter on the Completion of the Audit and Engagement Review.

**THE AUDIT OFFICE OF GUYANA
INTERIM AUDIT REVIEW CHECKLIST**

NAME OF CLIENT:

	YES/NO	COMMENTS	INITIALS	WP#
1 Has an audit planning checklist or memorandum been placed on file ?				
2 Has an understanding of internal control for planning purposes been obtained and documented ?				
3 Have adequate memoranda been prepared to justify nature, extent and timing of substantive tests ?				
4 Has auditee been asked to produce analyses and schedules to assist audit verification?				
5 Have actual hours for the interim audit been compared to budgeted hours and have variances been explained?				
6 Has the year end time budget been established?				
7 Has the previous year's management letter been reviewed with the client and has the disposition of each recommendation been noted for possible mention in the current management letter?				
8 Has a draft management letter been prepared?				
9 Have the comments and recommendations in the management letter been discussed with the client?				
10 Has a list been prepared of major problems and items which may be of interest to the Auditor General?				

	DATE	INITIALS
Prepared by:		
Reviewed by:		

**THE AUDIT OFFICE OF GUYANA
YEAR END AUDIT REVIEW CHECKLIST**

NAME OF AUDITEE:

YEAR ENDED :

	YES/NO	COMMENTS	INITIALS	WP#
1		Have the audit programmes in the interim audit file been completed, reviewed and signed ?		
2		Has the interim audit review checklist been completed, reviewed and signed ?		
3		Have the audit programmes in the year-end audit file been completed, reviewed and signed ?		
4		Was the audit unrestricted and conducted in accordance generally accepted auditing standards ?		
5		Have critical auditing areas been identified and satisfactorily resolved ?		
6		Have all important confirmation letters been received ?		
7		Has the permanent file been updated ?		
8		Has a letter of representation been obtained from the client, where applicable ?		
9		Have actual hours for the year-end audit been compared to budgeted hours, and have variances been explained ?		
10		Has a draft management letter been prepared ?		
11		Have the comments and recommendations in the management letter been discussed with client ?		
12		Have all working papers been reviewed ?		

	DATE	INITIALS
Prepared by:		
Reviewed by:		

7. AUDIT COMPLETION AND REVIEW

	Page #
Audit Completion	38
Specific Completion Procedures	39
Overview of the Financial Statements	40
Window Dressing	40
Going Concern	41
Evaluating Misstatements	42
Review of Audits	
General	43
The Supervisor's Review	43
The Audit Manager's Review	44
The Audit Director's Review	44
Query Sheet	

7 AUDIT COMPLETION AND REVIEW

AUDIT COMPLETION

7.1 During the closing stages of an audit after the field work has been substantially completed, it is necessary that effective completion procedures are in place to ensure that audit completion is adequately scheduled and undertaken in an efficient and cost effective manner.

The overall objectives of completion procedures are to determine whether:

- events or transactions occurring after the balance sheet date need to be presented in the financial statements
- the representations in the financial statements are in agreement with the entity's records and the individual items presented are properly classified and described
- the financial statements contain appropriate disclosures, and
- the report rendered is appropriate.

7.2 Audit completion procedures are generally performed at the entity's Office by, or under the direction of the Audit Manager from AOG. Such completion procedures should cover consideration of:

- updating procedures, such as the review of minutes of shareholders and Directors' meetings
- responses on litigation matters
- events occurring subsequent to the balance sheet date
- obtaining representations from the entity's management
- the significance of audit differences noted
- the fairness of presentation of the financial statements (including disclosures)
- final analytical procedures
- sensitive audit issues, including the possibility of irregularities or illegal acts
- whether any identified misstatement is indicative of a possible fraud and, if it is, the implications for other parts of our work and our reporting responsibilities
- the implications of any identified non-compliance with laws and regulations
- the adequacy of evidence received from an expert
- consistency of all audit evidence obtained.

7.3 Timing of completion procedures is extremely important. Delays or undue gaps in the performance of these procedures almost always cause inefficiencies and duplicated work. The Audit Manager and the Supervisor in charge of the audit should take note and avoid these pitfalls.

SPECIFIC COMPLETION PROCEDURES

- 7.4 Subsequent events review is a key area for attention in the completion procedures. The Audit Team should take reasonable steps to ensure that they are aware of all significant transactions and events from the balance sheet date to the report date, in accordance with professional standards.
- 7.5 The audit Team's work in other audit areas will reveal certain subsequent events that were documented; for example, invoices and statements received after the balance sheet date, subsequent accounts receivable payments, notice of customers going into bankruptcy/receivership, management charges for other related entities, notice of interest accrued on loan accounts, long-term contract work in progress.
- 7.6 The Audit Team's specific procedures with respect to subsequent events will ordinarily include:
- reading the latest interim financial statements and considering whether there is information that bears on the financial statements being audited
 - updating, through the date of the audit report, the Auditor's review of the cash receipts and disbursements records, sales returns and allowances, unprocessed credits for returned goods, voucher register, unmatched receiving reports, unprocessed invoices and adjusting journal entries
 - making inquiries of management concerning the current status of contingencies, amounts included in the financial statements that were accounted for on the basis of tentative, preliminary or inconclusive data and significant entity changes or events occurring subsequent to the balance sheet date
 - reading available minutes of meetings of shareholders, Directors and governance committees
 - updating inquiries from the entity's legal counsel.
- 7.7 The audit Team should ensure that the audit evidence collected in the subsequent events review is compatible with the evidence substantiating items such as accounting estimates, tax provisions, deferred assets and liabilities, the disclosure of contingent liabilities, etc. To keep the period of exposure to a minimum, Staff of the AOG should ensure timely completion of our audit work and issuance of the audit report on the financial statements as soon after the year end as possible.
- 7.8 The workpapers should appropriately document our review of post balance sheet events. The Audit Team should ensure that notes of meetings and discussions are made, recording the date, names and status of those present, the matters discussed, and the basis of their resolution.

OVERVIEW OF THE FINANCIAL STATEMENTS

7.9 In some engagements, the financial statements are prepared by the entity's personnel, and in others, the entity expects the audit Team to draft the financial statements. However, notwithstanding who prepares the financial statements, the Audit Office should "overview" the statements to determine that their format is appropriate, that they appear to be reasonably comprehensive and are in agreement with the final trial balance and supporting workpapers, considering:

- descriptions and amounts in the financial statements;
- non-general ledger amounts included in the financial statements or notes;
- comments, accounting policies and other informative matters in the permanent file or workpapers;
- consistent application of accounting principles;
- clerical and mathematical accuracy;
- adequacy of working paper documentation of items considered for financial statement disclosure.

7.10 The financial statement overview differs from the analyses conducted as part of the audit Team's analytical procedures. The financial statement overview is a procedure directed to the impact of the financial statements on the user. This overview should be performed by the Audit Manager or Director (or other senior members of the AOG) and is intended to ensure that the financial statements make good business sense.

WINDOW DRESSING

7.11 Financial statements should provide sufficient information, properly displayed, to enable a reader to assess the entity's overall financial status and the full extent of its liabilities. Window dressing may result in financial statements failing to present fairly (or failing to give a true and fair view of) the information necessary for such assessment, and our overview of the financial statements should be alert to this. Window dressing may be defined as transactions or classifications, whose purpose is to "improve" the financial statements in a misleading and unrepresentative way. Window dressing cannot be justified as normal commercial transactions.

7.12 Examples of window dressing are:

- circular transactions: two or more companies enter into transactions with each other of equivalent values, the purpose being to inflate amounts stated in the financial statements in one or more of the companies ;

- showing a more favorable bank balance than generally exists by, for example, obtaining funds prior to the year end and making repayment shortly after the year end ;
- reducing amounts payable by writing checks but not releasing them ;
- reducing inventory and discounting accounts receivable before the year end to give a good impression of working capital management.

7.13 Senior members of the AOG should be vigilant in their review of the financial statements to ensure that window dressing is avoided.

GOING CONCERN

7.14 The Audit Office of Guyana (AOG) is concerned with state enterprises and government owned organizations, and some of these entities operate in a commercial/ business environment. In these cases, therefore, the Audit Team should consider whether management's use of the going concern assumption underlying the preparation of the financial statements is appropriate. The Audit Team should follow the guidelines set forth in the International Standards on Auditing (ISA G570) as they relate to going concern, some of the more salient features of which are included in this Manual.

The risk that going concern assumption may no longer be appropriate may arise from the financial statements as, for example, adverse key financial ratios, negative cash flows, inability to pay creditors, loan repayments, PAYE and NIS payments, dividends, etc.

Apart from the financial statements, other sources of data should be obtained and critically reviewed by the Audit Team.

7.15 When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern the Auditor should:

- review management's plans for future actions based on its going concern assessment;
- gather sufficient appropriate audit evidence to confirm or dispel whether or not a material uncertainty exists by carrying out procedures considered necessary, including the effect of any plans of management and other mitigating factors, and
- obtain written representations from management regarding its plans for future actions.

7.16 The procedures that should be carried out by the Audit Team may include:

- analyzing and discussing cash flow, profit and other relevant forecasts with management ;
- analyzing and discussing the latest interim financial statements (if applicable) ;
- reviewing long term loan agreements for any breach ;

- reading minutes of shareholders' meetings, and minutes of meetings of board of Directors and governance committees for information on financing difficulties ;
- reviewing litigation matters and the reasonableness of management's assessment of their likely costs ;
- reviewing and assessing related and third party financial commitments to the entity if applicable ;
- reviewing events after the balance sheet date to those that would be helpful (or harmful) to the entity's ability to continue as a going concern.

7.17 Based on the audit evidence obtained, the Audit Team should determine if, in its judgment, a material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

A material uncertainty exists when the magnitude of its potential impact is such that, in the Audit Team's judgment, clear disclosure of the nature and implications of the uncertainty is necessary for the presentation of the financial statements not to be misleading.

7.18 If, in the Audit Team's judgment, the going concern question is not satisfactorily resolved, the Audit Team should consider our responsibilities under applicable professional standards. These considerations may include:

- adequate disclosure about the entity's inability to continue as a going concern for a reasonable period of time ;
- modification of our report to reflect our conclusion, and of course ;
- any legal requirements and implications.

EVALUATING MISSTATEMENTS

7.19 Achieving quality financial reporting requires good communication among the Audit Team, accounting system personnel, management and those in the entity concerned with governance. As the Audit Team identify potential misstatements these should be discussed with the appropriate level of management. Management would normally correct such misstatements, and those not corrected should be included in the summary of unrecorded misstatements as part of the Audit Team's working papers for further review etc.

Identified misstatements (as distinct from likely or potential) are amounts determined with a high degree of certainty, e.g. mathematical mistakes, the misapplication of accounting principles, and actual differences discovered by the Audit Team as a result of sampling and other tests of details. Here again, management generally corrects these as found.

7.20 In addition to the Audit Team's review of the nature and cause of unrecorded misstatements, they should consider whether the type or the trend of the unrecorded misstatements indicate an attempt to "manage" earnings. Is management attempting to manipulate earnings by not correcting several identified misstatements? Do unrecorded misstatements from prior engagements corroborate or contradict our assessment of management's intentions?

- 7.21 In concluding whether or not the financial statements are fairly presented in all material respects, the audit also considers the possibility that other misstatements exist. In practice, it will be frequently clear that the level of unrecorded misstatements together with the possible existence of further misstatements, are not material to modify the financial statements.
- 7.22 However, at the final review stage of the audit, the Audit Manager or Director should review the Summary of Unrecorded Misstatements to ensure that the judgments exercised were appropriate in the circumstances and the facts, considerations and conclusions are adequately documented. It would also be useful for the Summary of Unrecorded Misstatements be attached to the management representation letter.

REVIEW OF AUDITS

GENERAL

- 7.23 Every audit, regardless of its nature or size, is subject to review. Responsibility for an audit extends to every person in the AOG who contributes to the final result. Because of the nature of our service, errors of principle or detail may enter the work at any point. Review procedures, therefore, are an integral part of applying due professional care, and their importance cannot be over-emphasized. The procedures below are suggested minimum review procedures.
- 7.24 Generally, the work performed by each member of the Audit Team should be reviewed by a more senior person.. Where practicable, review should take place at the client's (entity's) Office.
The individuals performing each level of review are expected to have the background and training requisite to accomplish the objectives of each such review. These reviews will usually be performed by personnel from the classification indicated, although Staffing flexibility within the AOG dictates that they may be filled by personnel from other Staff classifications. For example, for some audits, the role of the supervisor may be filled by an Audit Manager.

THE SUPERVISOR'S REVIEW

- 7.25 Responsibilities of the supervisor include ensuring the adequacy of the work of all personnel assisting in the audit. Concurrent review by the supervisor takes place continuously throughout the field work as a part of supervision and training. The supervisor determines that:
- the scope of work defined in the respective sections of the audit program has been carried out and that any significant matters or problems noted have been properly considered, resolved, and documented ;
 - adequate audit evidence has been obtained to provide a reasonable basis for our audit report, in accordance with generally accepted auditing standards ;
 - the working papers appropriately document ;

- major decisions ;
- audit judgments, such as the propriety of the accounting treatment accorded for significant transactions, valuation of assets and liabilities, and the determination whether items are material ;
- how audit differences or unusual matters identified during the audit were resolved ;
- additional procedures that were applied as a result of conclusions that imply unsatisfactory situations, how we were ultimately satisfied, and how the matters were treated in the financial statements ;
- appropriate authoritative professional literature supporting the basis of conclusions ;
- the results of significant consultations ;
- the work has been completed in accordance with the audit plan and the working papers as required ;
- the financial statements and audit report are in conformity with professional standards and the policies and procedures of the AOG.

THE AUDIT MANAGER'S REVIEW

7.26 The Audit Manager determines that:

- the scope of our planned work has been carried out and has provided sufficient audit evidence, and the planned procedures proved appropriate and that the audit programs contain all appropriate sign-offs ;
- significant or unusual matters and important accounting, auditing and reporting issues have been properly considered, resolved, and documented ;
- decisions made regarding the Summary of Unrecorded Misstatements and going concern considerations are appropriate ;
- the working papers include appropriate documentation ;
- the financial statements are appropriate, include all necessary disclosures, and make good business sense ;
- the audit report is appropriate in the circumstances.

THE AUDIT DIRECTOR'S REVIEW

7.27 The Audit Director has the final responsibility for the performance of the audit. This includes the overall responsibility for the Audit Team's review of the work performed on each engagement. The Audit Director's knowledge of the entity's affairs provides an informed basis for appraising the adequacy of audit procedures and the adherence to proper accounting principles and governmental and regulatory requirements. His or her review also provides

insights into changing circumstances and other matters that are important in providing advice to the client.

When feasible, the Director's review should take place in the field during the final stages of the audit. It is also desirable that the Director periodically visits the entity's Offices during the course of the audit to review progress and to determine that questions raised have been satisfactorily resolved.

7.28 The Audit Director should:

- review major decisions and the treatment of exceptions or unusual matters, if any, and professional disagreements and concerns by members of the Audit Team ;
- review decisions made regarding the Summary of Unrecorded Misstatements and going concern considerations are appropriate ;
- determine that any factors noted during the engagement that affect the desirability of continuing the client relationship have been considered ;
- review significant working papers prepared by the Audit Manager ;
- review other significant working papers supporting the major accounting, auditing and reporting decisions for critical assertions, to the extent considered necessary ;
- determine that the financial statements and our audit report make sense from a business standpoint and confirm with professional standards and the policies and procedures of the AOG ;

7.29 The Audit Director is also responsible for discussing the financial statements and audit with the client.

**8. PREPARATION OF MANAGEMENT LETTER
AND AUDIT REPORTS**

	Page #
The Auditor's Report	47
Subsequent Events	50
Other Information	51
Management Letter	52
Follow Up	53

8 PREPARATION OF MANAGEMENT LETTER AND AUDIT REPORTS

8.1 The reputation and credibility of the Auditor General and his Audit Office as a whole, greatly depends on the quality of reports issued.

8.2 According to the **INTOSAI - Auditing Standards** (Chapter 4, Paragraph 4.0.7 (a)) :

“at the end of each audit, the Auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.”

8.3 In other words an audit report should generally be convincing and only deal with matters of significance and highlights important areas for the reader.

8.4 The audit report should generally include :-

- the objectives, nature, scope and time period covered by the audit and any limitations
- standards adhered to (INTOSAI and International)
- conclusion arrived at
- recommendations made for corrective action taken in cases where it was necessary
- comments made by the audited entity to recommendations made.

Other international standards contain the following definitions relating to audit reporting

8.5 **Opinion** - A clear written expression of the conclusion on the presentation of the financial statements taken as a whole. An unqualified opinion is expressed when the Audit Office concludes that the financial statements give a true and fair view (or are presented fairly, in all material aspects) in accordance with the identified reporting framework.

8.6 *Modified Auditor's report* - An Auditor's report is considered to be modified if either an emphasis-of-matter paragraph is added to the report or if the opinion is other than unqualified.

8.7 *Qualified opinion* - A qualified opinion is expressed when an unqualified opinion cannot be expressed but that the effect of any disagreement with management (on the acceptability of accounting policies selected, their method of application, or adequacy of disclosure) or limitation on audit scope is not so material and pervasive as to require an adverse opinion or disclaimer of opinion.

- 8.8 *Adverse opinion* – An adverse opinion is expressed when the effect of a disagreement (on selection or consistent application of accounting policies or adequacy of disclosure) is so material and pervasive to the financial statements that we conclude that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.
- 8.9 *Scope* – The ability of the Audit Office to perform audit procedures deemed necessary in the circumstances.

THE AUDITOR’S REPORT

- 8.10 The report of the Auditor General should include the following basic elements, ordinarily in the following layout:

- I title
- ii addressee
- iii opening or introductory paragraph
 - identification of the financial statements audited
 - a statement of the responsibility of the entity’s management and the responsibility of the Auditor
 - scope paragraph (describing the nature of an audit)
 - a reference to International Standards on Auditing or to the relevant national standards or practices
 - a description of the work the Auditor has performed
- iv opinion paragraph containing an expression of opinion on the financial statements
- v date of the report
- vi Auditor general’s signature

- 8.11 To promote the reader’s understanding of the report and to identify unusual circumstances when they occur a measure of uniformity in the form and content of the Auditor’s report is desirable.

Elements of the Auditor’s Report

a. Title

- 8.12 The Auditor’s report should have an appropriate title. It may be appropriate to use the term “Independent Auditor” in the title to distinguish the Auditor’s report from reports that might be issued by others, such as by Officers of the client, the board of Directors, or from the reports of other Auditors who may not have to abide by the same ethical requirements as the independent Auditor.

b. Addressee

- 8.13 The Auditor's report should be appropriately addressed as required by the circumstances of the engagement and local regulations. The report is usually addressed to the Speaker of the National Assembly.

c. Opening or Introductory Paragraph

- 8.14 The report should identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.

- 8.15 Financial statements are the representations of the management of the particular state entity. The preparation of such statements requires management to make significant accounting estimates and judgments, as well as to determine the appropriate accounting principles and methods used in the financial statements. In contrast, the Auditor's responsibility is to audit these financial statements in order to express an opinion thereon. Accordingly, the report should also include a statement that the financial statements are the responsibility of the entity's management and a statement that the responsibility of the Audit Office is to express an opinion on the financial statements based on the audit.

d. Scope Paragraph

- 8.16 The Auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with International Standards on Auditing or in accordance with relevant national standards or practices as appropriate. "Scope" refers to the Auditor's ability to perform audit procedures deemed necessary in the circumstances. The reader needs this as an assurance that the audit has been carried out in accordance with established standards or practices.

- 8.17 The report should include a statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

- 8.18 The Auditor's report should describe the audit as including:

- examining, on a test basis, evidence to support the financial statement amounts and disclosures
- assessing the accounting principles used in the preparation of the financial statements
- assessing the significant estimates made by management in the preparation of the financial statements; and
- evaluating the overall financial statement presentation.

- 8.19 The report of the Auditor General should include a statement that the audit provides a reasonable basis for the opinion.

An illustration of these matters in a scope paragraph is:

I conducted my audit in accordance with International Standards on Auditing (INTOSAI and Funding agencies etc). Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

e. Opinion Paragraph

- 8.20 The report should clearly state our opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with the financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements.
- 8.21 The terms used to express the Auditor General's opinion are "give a true and fair view" or "present fairly, in all material respects," and are equivalent. Both terms indicate, amongst other things, that we consider only those matters that are material to the financial statements.
- 8.22 The opinion paragraph of the Auditor's report should clearly indicate the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards) and state the Auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with that financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements

f. Date of Report

- 8.23 The report should be dated as of the completion date of the audit. This informs the readers that the audit Office has considered the effect on the financial statements and on the report of events and transactions of which the Auditors became aware of and that occurred up to that date.
- 8.24 Since the Audit Office's responsibility is to report on the financial statements as prepared and presented by the state entity's management, International Standards on Auditing provide that the report should not be dated earlier than the date on which the financial statements were finalized or declared to the Audit Office.

g. Auditor General's signature

- 8.25 The report should be signed by the Auditor General or in the current situation of the Audit Office, by the acting Auditor General. By doing this, he assumes full responsibility for the audit.

STANDARD REPORT

- 8.26 An *unqualified opinion* is usually issued when the Auditor is satisfied that:
1. the financial statements are free from material misstatements and all relevant matters have been adequately disclosed
 2. the financial statements give a true and fair view and were prepared in accordance with auditing standards and statutory regulations
 3. accounting policies and bases have been applied consistently in the preparation of the financial statements
 4. the view presented by the financial statements are consistent with the Audit Office's knowledge of the audited entity
- 8.27 An illustration of the Auditor's report incorporating the basic elements can be seen in the yearly report of the Auditor General.

SUBSEQUENT EVENTS

Facts Discovered After the Date of the Auditor's Report but Before the Financial Statements are Issued

- 8.28 The Audit Office does not have any responsibility to perform procedures or make any inquiry regarding the financial statements after the date of the Auditor General's report. During the period from the date of the report to the date the financial statements are issued, the responsibility to inform the Audit Office of facts, which may affect the financial statements, rests with management of the entity.
- 8.29 When, after the date of the Auditor's report but before the financial statements are issued, the Audit Office becomes aware of a fact which may materially affect the financial statements, the Audit Office should consider whether the financial statements need amendment, should discuss the matter with management, and should take the action appropriate in the circumstances.
- 8.30 When management does not amend the financial statements in circumstances where the Audit Office believes they need to be amended and the Auditor General report has not been released to the client, he should express a qualified opinion or an adverse opinion.

Facts Discovered After the Financial Statements Have Been Issued

- 8.31 After the financial statements have been issued, the Audit Office has no obligation to make any inquiry regarding such financial statements.
- 8.32 When, after the financial statements have been issued, the Audit Office becomes aware of a fact which existed at the date of the Auditor General's report and which, if known at that date, may have caused the Audit Office to modify the report, the Auditor General should consider whether the financial statements need revision, should discuss the matter with management of the entity, and should take the action appropriate in the circumstances.

- 8.33 The new Auditor General's report should include an emphasis of a matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the Auditor General.

OTHER INFORMATION

- 8.34 International Standards on Auditing provide guidance on an Audit Office's responsibility for consideration of other information, on which the Audit Office has no obligation to report, in documents containing auditing financial statements.

Material Inconsistencies

- 8.35 The Audit Office should read the other information to identify material inconsistencies with the audited financial statements.
- 8.36 If, on reading the other information, the Audit Office identifies a material inconsistency, they should determine whether the audited financial statements or the other information needs to be amended. If an amendment is necessary in the audited financial statements and the client refuses to make the amendment, the Auditor General should express a qualified or adverse opinion and should consider including in the report an emphasis of matter paragraph describing the material inconsistency or taking other actions.
- 8.37 The actions taken, such as not issuing the report will depend upon the particular circumstances and the nature and significance of the inconsistency. The Auditor General should also consider obtaining legal advice as to further action.

Material Misstatements of Fact

- 8.38 If the Audit Office becomes aware that the other information appears to include a material misstatement of fact, the Auditor General should discuss the matter with the state entity's management.
- 8.39 When the Audit Office still considers that there is an apparent misstatement of fact, the Auditor General should request management to consult with a qualified third party, such as the client's legal counsel and should consider the advice received.
- 8.40 If the Auditor General concludes that there is a material misstatement of fact in the other information which management refuses to correct, the AG should consider taking further appropriate action.
- 8.41 When revision of the other information is necessary but management refuses to make the revision, the AG should consider taking further appropriate action.

MANAGEMENT LETTER

- 8.42 Upon completion of audit work by the Audit Team including reviews of internal controls and policies, there are certain findings that would have been noticed and which should be brought to the attention of management of the entity in the form of a letter called the 'Management letter' or 'Letter of Weaknesses'.
- 8.43 The management letter should not only state the weaknesses observed but also recommendations on possible ways in which the accounting system might be improved to overcome the weaknesses which were observed during the examination. Recommendations may address a single deficiency or a or a number of related deficiencies.
- 8.44 Recommendations should be :
- in relation to and flow from observations / weaknesses identified
 - related to the cause of the weakness
 - clear, straightforward and detailed
 - action oriented i.e presented in the active voice and addressed to the client personnel who have to act on the recommendations
 - practical i.e the recommendations can be put in place
 - cost effective i.e the cost of implementing changes would not be greater than the benefits
 - able to be followed up
- 8.45 In his report, the Auditor General should state clearly that comments made should not be expected to include all possible improvements in internal controls and systems since all transactions would not have been verified.
- 8.46 The report will also contain management's response to the recommendations stating whether they are :-
- in agreement with recommendations and have made a commitment to changes
 - in agreement with recommendations and have given reasons why action cannot be taken
 - in full disagreement with recommendations with reason/s why.

FOLLOW UP

- 8.47 An important aspect of 'Management letters' in the follow up process by reporting on action taken by the state entity in response to findings / weaknesses identified and recommendations and on the progress made towards the implementation of actions.
- 8.48 It is not worthwhile to just issue a management letter and see the same points identified repeating itself from one audit to another. To avoid this, there should be a stipulated time in which Audit Staff will revisit the state entity in question to see whether weaknesses identified have been addressed and if so, have the problems been eliminated or reduced to an acceptable level.
The period for review should be incorporated in the Management letter so that the management of the state entity will know how to program their work.
- 8.49 In doing a follow up, the Audit Office should consider :-
- is the time appropriate for the follow up i.e has the entity been given enough time to address the issues and make the necessary corrective actions ?
 - what is the extent of the risk identified by the problem
- 8.50 The follow up process should begin with the Audit Office requesting the state entity to give an update on the status of action taken to implement the recommendations. The Audit Office should, by way of a letter ask what steps have been taken to achieve the needed improvements and if steps are not currently in place, how well is the entity progressing with its efforts.
- 8.51 The Audit Office should ensure that the follow up is done by an original member of the Audit Team who has knowledge of the situation at hand.
- 8.52 Sometimes, due to conflicting schedules, a member of the original Audit Team may not be available. In this case, someone with the appropriate competence and experience can be briefed and oriented on what has to be done.

**9. INTERNAL CONTROL REVIEW AND ASSESSMENT
USING ICQ'S**

	Page #
Internal Control Objectives and Components	55
Information and Communication	56
Assistance of Computer Audit Specialist	57
Performing Walkthrough Tests	57
Testing the Operating Effectiveness of Key Controls	58
Internal Control Questionnaire	

9. INTERNAL CONTROL REVIEW AND ASSESSMENT USING ICQ AND OTHER APPROPRIATE CHECKLIST

- 9.1 “Internal control is the process designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. It follows that internal control is designed and implemented to address identified business risks that threaten the achievement of any of these objectives.” (Handbook of International Auditing, Assurance, and Ethics Pronouncements of the International Federation of Accountants-IFAC)
- 9.2 Establishing and maintaining effective internal control is an important collective responsibility of management and employees, and requires continuing management supervision to determine that controls are operating as intended and appropriately modified as needed.
- 9.3 Those charged with governance of the entity should strive to document the entire system of internal control embracing directives, administrative policies, procedures Manual, accounting Manual etc .Employees should be fully conversant with these controls in the working environment.
- 9.4 The Audit Team should fully understand the entity’s internal control. Such understanding is ordinarily gained through:
- previous experience with the entity (in continuing client relationships)
 - enquiries/ discussions with appropriate management, supervisory, and other personnel
 - tracing transactions through the process (i.e. a walk-through)
 - inspecting documents and records
 - observing activities and operations.
- 9.5 Generally accepted auditing standards require the Audit Team to obtain and document an understanding of the entity’s internal control (including its accounting system) sufficient to plan and perform the audit. This understanding includes an evaluation of relevant internal control policies and procedures, and whether such controls are effectively in operation. Based on this, the Audit Team can make a control risk assessment, which in conjunction with the inherent risk assessment determines the nature, timing, and extent of substantive procedures.
- 9.6 A control risk is the risk that a material misstatement in an assertion will not be prevented or detected on a timely basis by internal control procedures or other procedures. Assessing control risk is the process of evaluating the effectiveness of internal control in preventing or detecting material misstatements. The lower the assessed level of control risk, the greater the assurance needed from tests of controls, and the greater the potential reduction in our substantive audit procedures.

9.7 Risks can arise or change due to changing circumstances as follows:

- changes in regulatory or operating environment
- new people with different focus or understanding
- new or revamped information systems
- rapid expansion of operations
- incorporating new technologies into production process/ information systems
- corporate restructuring
- new accounting pronouncements

INTERNAL CONTROL OBJECTIVES AND COMPONENTS

9.8 The Committee of Sponsoring Organizations (COSO) of the United States introduced the most widely accepted framework for evaluating controls over financial reporting. COSO defines internal control as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a) reliability of financial reporting,
- b) effectiveness and efficiency of operations, and
- c) compliance with applicable laws and regulations

Note the similarity of definition as contained in the IFAC Handbook as quoted previously.

9.9 There is a direct relationship between the objectives, which are what an entity strives to achieve, and internal control components, which represent what is needed to achieve the objectives. COSO identified the following five (5) interrelated internal control components:

- 1.) control environment- sets the tone of an entity, influencing the control consciousness of its people; the foundation for all other components of internal control, provide discipline and structure
- 2.) risk assessment- the entity's identification and analysis of relevant risks for achievement of its objectives, forming a basis of how the risks should be managed
- 3.) control activities- the policies and procedures that help ensure that management directives are carried out
- 4.) information and communication system- support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities
- 5.) monitoring- a process that assesses the quality of internal control performance over time.

- 9.10 “The division of internal control into five (5) components provides a useful framework for Auditors to consider how different aspects of an entity’s internal control may affect the audit. The division does not necessarily reflect how an entity considers and implements internal control. The Auditor’s primary consideration is whether, and how, a specific control prevents, or detects and corrects, material misstatements in classes of transactions, account balances, or disclosures, and their related assertions, rather than its classification into any particular component. Accordingly, Auditors may use different terminology or frameworks to describe the various aspects of internal control, and their effect on the audit”- IFAC Auditing Standards
- 9.11 In respect to the above, the Auditor must be aware of the control environment which sets the tone of the organization- integrity and ethical values of the persons who are tasked with the governance of the entity. This includes a commitment to competence and how management translates this into requisite skills and knowledge for particular jobs. The Auditor should have some appreciation of management’s philosophy and the operating style pervading the organization.
- 9.12 Our Audit Team must also be aware of the entity’s risk assessment process for identifying and responding to business risks. This process includes how management identifies risks relevant to the preparation of financial statements in accordance with the entity’s applicable financial reporting framework. For example, the entity’s risk assessment process may address how the entity considers the possibility of unrecorded transactions or identifies or analyses significant estimates recorded in the financial statements.

INFORMATION AND COMMUNICATION

- 9.13 Auditors must pay due attention to the information system that prevails in the organization. This information system consists of infrastructure (physical and hardware components), software, people, procedures, and data. Infrastructure and software will be absent, or have less significance, in a system environment that is primarily Manual.
- 9.14 Most entities make use of IT systems for financial reporting and operational purposes. However, even when IT is extensively used, there will be Manual elements to the systems. The balance between automated and Manual elements varies. In certain cases, particularly smaller, less complex entities, the systems may be primarily Manual. In other cases, the extent of automation may be substantial with few related Manual elements. As a result, an entity’s system of internal control is likely to contain Manual and automated elements, the characteristics of which are relevant to the Auditor’s risk assessment and further audit procedures based thereon.
- 9.15 The information system relevant to financial reporting objectives consists of the procedures and records established to initiate, record, process and report transactions and to maintain accountability for the related assets, liabilities, and equity. Transactions may be initiated Manually or automatically by programmed procedures. Recording includes identifying and capturing the relevant information for transactions or events. Processing includes functions such as edit and validation, calculation, measurement, valuation, summarization, and reconciliation, whether performed by automated or Manual procedures. Reporting relates to

the preparation of financial reports as well as other information, in electronic or printed format, that the entity uses in measuring and reviewing its financial performance and in other functions. The quality of system-generated information affects management's ability to make appropriate decisions in managing and controlling the entity's activities and to prepare reliable financial reports.

- 9.16 Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting. It includes how people understand how their activities in the financial information reporting system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity. Open communications channels help ensure that exceptions are reported and acted upon.

ASSISTANCE OF COMPUTER AUDIT SPECIALIST

- 9.17 Members of the Audit Team should have sufficient background and experience to review most electronic systems. However, more complex systems may require the assistance of a computer Audit Specialist. The extent of the Specialist's involvement depends on the complexity of information technology skills available within the Audit Team.
- 9.18 The Audit Team should consider using a computer Audit Specialist to assist in documenting IT controls and evaluating their design effectiveness in financial reporting environments, examples of which are:
- multiple operating systems or databases used
 - inability to track transactions
 - significant processes outsourced
 - complex system conversion
 - application developed or maintained internally
- 9.19 An Audit Team cannot ignore the computer, delegate responsibility for technology risk assessments to others, or delegate responsibility to a computer Audit Specialist to determine the correct audit judgments. The Audit Team should have the requisite skills to carry out this part of the audit competently and effectively.

PERFORMING WALKTHROUGH TESTS

- 9.20 A very important method of testing and evaluating the effectiveness of the internal control system in an entity is performing walkthrough tests. The objectives of a walkthrough are to verify and update the Audit Team's understanding of procedures, systems and processes currently operating within the entity, and also to verify that controls are implemented and the effectiveness of such controls. The extent to which walkthroughs are performed is the judgment of the Audit Team.

- 9.21 When performing a walkthrough, the Audit Team ordinarily traces transactions through the transaction cycle beginning with the documentation resulting from a boundary event, such as the issuance of a receiving report, and, while observing the operation of identified controls, they follow the transaction through the system until it is ultimately summarized and recorded in the entity's ledger.
- 9.22 When there is a change to the system, for example, a software upgrade, the Audit Team may consider selecting transactions occurring before and after the change to walk through the system particularly if, in the software upgrade example, the entity does not have specific system controls for testing new versions of software before they are implemented.
- 9.23 The Audit Team should document the transaction selected for walkthrough, the pertinent accounting system attributes, the controls that were observed and, where appropriate, describe the enquiries made of the entity's personnel. Significant or unusual matters coming to our attention during the walkthrough exercise should be recorded in the notes/ working papers for reference and further review as necessary.

TESTING THE OPERATING EFFECTIVENESS OF KEY CONTROLS

- 9.24 In determining operating effectiveness, the Audit Team is concerned with many factors (e.g., how the control was applied, whether the control was performed throughout the period, did the right person perform the control, etc.), the Audit Team should use their professional judgment to evaluate and perform tests of key controls to determine their operating effectiveness.
- 9.25 The type of test will vary based on the nature of the control, whether the control is documented or undocumented, and the judgment of the Audit Team. The following types of tests are used to evaluate operating effectiveness:
- inquiry and observation
 - sampling
 - re-performance
 - computer-assisted auditing techniques (CAAT)
- 9.26 Some of these tests have been dealt with previously. Inquiry and observation is an important test which is carried out through inquiry and observation of the application of the control. However, the Audit Team must assess the correctness of the information relevant to the control by inspecting the pertinent data, documents, reports, or electronic files. Sampling is another key test. A test of controls sample is a form of attribute testing. The Audit Team tests the specific attribute of whether the control was properly applied. The Team should carefully define an "error" or "deviation" for such testing purposes before performing the test. To be acceptable, the sample should be designed to be representative of the population being chosen bias-free.

- 9.27 When re-performance is used as a testing method, the Audit Team executes (or re-performs) the control to test control performance. In other words, the Audit Team selects items that the control was applied to, and re-performs the control to determine whether it was operating effectively. For example, re-performance may be used to test the operating effectiveness of monthly bank reconciliations. Such tests may have the following aspects:
- ascertaining whether twelve timely reconciliations were performed
 - testing or reviewing certain of the reconciling items
 - testing at least one reconciliation to determine how the control was performed and the correctness of the information subject to the control, including follow-up of items entering into the reconciliations
- 9.28 In an automated environment, computer assisted auditing techniques (CAAT) can be used to test controls. CAAT procedures vary, but almost invariably involve interrogating electronic data using a reliable software application.
A greater discourse on this subject is provided in the section relating to Auditing in a Computerized Environment.
- 9.29 After performing test of controls, the Audit Team should conclude whether or not the controls tested are operating effectively to support the preliminary control risk assessment put forward in the audit plan. Based on this evaluation, the Audit Team makes a final control risk assessment and develop a tailored substantive audit program to suit.
- 9.30 Some important ICQ pro forma schedules are attached for information and guidance.
- 9.31 **INTOSAI's - Accounting Standards** (Chapter 3, Paragraph 3.3.2) commentary on the study and evaluation of internal control is relevant at this point.
- 9.32 "The study and evaluation of internal control should be carried according to the type of audit undertaken. In the case of a regularity (financial) audit, study and evaluation are made mainly on controls that assist in safeguarding assets and resources, and assure the accuracy and completeness of accounting records. In the case of regularity (compliance) audit, study and evaluation are made mainly on controls that assist management in complying with laws and regulations. In the case of performance audit, they are made on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner, and reliable financial and management information."

**THE AUDIT OFFICE OF GUYANA
CONTROL ENVIRONMENT QUESTIONNAIRE**

NAME OF AUDITEE:

YEAR:

NATURE OF JOB:

The control environment reflects the overall attitude, awareness and actions of the auditee financial management personnel concerning the importance of controlling the entity.

A strong control environment is evidenced by: good information systems; strong supervisory procedures; sound fiscal strategies, objectives, and organization; and effective personnel policies that may reduce the risk of a material misstatement and thus mitigate to some extent, the inherent risk.

This questionnaire has been developed to assist in identifying control environment strengths.

Overall Strategy

1. Does management have well defined policies and objectives ?
2. Does management encourage a strong control environment ?
3. Does management ensure exposure risk in minimised ?

YES/NO	COMMENTS

Information Systems

1. Has management implemented appropriate systems to provide accurate and timely information ?
2. Is information relevant and does it enable good monitoring of transactions?
3. Are there policies and procedures in place to control and maintain the systems ?

YES/NO	COMMENTS

Supervising procedures

1. Does management implement controls over systems ?
2. Does management monitor compliance with internal control policies and procedures ?

YES/NO	COMMENTS

Personnel

1. Does management have sufficient experience to oversee the activities ?
2. Are lines of authority clearly established ?

YES/NO	COMMENTS

Prepared By:
Reviewed By:

DATE	INITIALS

**THE AUDIT OFFICE OF GUYANA
INHERENT RISK QUESTIONNAIRE**

NAME OF AUDITEE:

YEAR:

NATURE OF JOB:

Inherent risk is that the financial statements may contain material misstatements, regardless of the control environment and any related control procedures in place.

This questionnaire is designed to assist in identifying inherent risks. Since any such listing may not include all risks associated with a particular engagement, the senior auditor should be alert for and give consideration to any other conditions that may be indicative of audit risks. The questions are designed so that "Yes" answers highlight conditions that may indicate inherent risks.

Initial answers to the questions should be reconsidered in light of information obtained throughout the examination.

1. Have the auditee's operations deteriorated recently ?
Consider:
Budgeted/previous years revenue, economy, Economic recovery program, general performance.
2. Do present business conditions indicate potential future difficulties for the auditee ?
Consider:
Economic predictions, tax burden, foreign exchange.
3. Is more than usual significance likely to be given to financial statements ?
Consider:
External creditors, election year, divestment of corporations
4. Are there matters in relation to public debt that should be considered ?
Consider:
IMF and World Bank requirements, interest rates, lender confidence, financial condition of the country.
5. Are there indications that financial conditions may decline in the future ?
Consider:
Foreign exchange market, loan agreement covenants, contingent liabilities, capital budget, economic recovery program.

YES/NO	COMMENTS

Audit environment (cont'd)

14. Are there problems relating to particular transactions, balances or accounting entries ?

Consider:

unusual transactions at or near to year-end, significant cash transactions, debt restructuring.

15. Have previous audits resulted in significant audit adjustments ?

YES/NO	COMMENTS

Prepared by:

Reviewed by:

DATE	INITIALS

- (i) verification of the validity and accuracy of bank charges and interest ?
- 3 Are cheques outstanding for a considerable time periodically:
 - (a) investigated ?
 - (b) cancelled by stop payments ?
- 4 Are bank debit memos and unsigned cheques returned from the bank, reviewed and approved by signing authorities ?
- 5 Are dishonoured cheques debited to customer accounts concerned ?
- 6 Is a record kept of all dishonoured cheques showing the customers' names, reason for dishonour and the date, when the amounts are made good etc. ?
- 7 Are the signatures of the persons preparing and checking the reconciliation statement and the dates inserted ?
- 8 Are copies of the reconciliation promptly transmitted to the Auditor General and other interested parties ?
- 10 Can accounts be opened or closed only by resolution of the persons in control of the entity ?
- 11 Are cash in hand and blank cheques stored in locked cabinets ?

YES/NO	INITIALS	REMARKS

- 6 Are cheques prepared on the basis of evidence that the transactions are valid and are totals on supporting documents agreed with the amount drawn on cheque ?
- 7 Are supporting documents stamped "paid" to prevent their use to support further payments ?
- 8 Are all cheques sent to the payments section for dispatch after signature ?
- 9 Is the cash book written up by persons not involved in issuing cheques ?

YES/NO	INITIALS	REMARKS

**THE AUDIT OFFICE OF GUYANA
INTERNAL CONTROL QUESTIONNAIRE
PURCHASES**

C Does the system of internal control ensure all recorded purchase transactions represent charges for goods received by or services provided to the entity ?

Consider

- 1 Purchase requisition and purchase order approval.
- 2 Segregation of purchases, receivables, accounts payable,
- 3 Receiving slip or other written record made and matched to invoice and purchase order.
- 4 Adequate inspection, claim for short shipments.
- 5 Cancellation of documents to prevent reuse
- 6 Unmatched documents followed up regularly
- 7 Control over returned goods

YES/NO	AUDIT PLANNING

D Does the system of internal control ensure all recorded purchases occurred during the financial period ?

Consider

- 1 Adequate cut-off procedures
- Clearly communicated policy of recording purchases only when ownership has passed to the entity.
- Review of period end major transactions by management

YES/NO	AUDIT PLANNING

E Does the system of internal control ensure purchase invoices are calculated correctly ?

Consider

- 1 Unit prices checked to price lists or quotes.
- 2 Checks made of extensions, discounts, taxes, freight etc.

YES/NO	AUDIT PLANNING

**THE AUDIT OFFICE OF GUYANA
INTERNAL CONTROL QUESTIONNAIRE
PURCHASES**

F Does the system of internal control ensure purchase invoices are recorded correctly ?

Consider

- 1 Account distribution reviewed for reasonability.
- 2 Vates ledger (purchase journal) balanced regularly and agreed to control accounts.
- 3 Input verified to output for computerised system.

YES/NO	AUDIT PLANNING

**THE AUDIT OFFICE OF GUYANA
INTERNAL CONTROL QUESTIONNAIRE
CASH AND BANK**

G Does the system of internal control ensure that all disbursements by cheque are recorded ?

Consider

- 1 Pre-numbered cheques with independent follow-up of serial continuity after processing.
- 2 Adequate cut-off procedures.
- 3 Access to blank cheques restricted to authorised personnel
- 4 All bank accounts and signatories authorised
- 5 Controls when invoices are paid before processing is complete
- 6 Independent bank reconciliation with cheques direct from bank
- 7 Bank reconciliation approved by management

YES/NO	AUDIT PLANNING

H Does the system of internal control ensure that all imprest cash disbursements are recorded ?

Consider

- 1 Periodic independent counts
- 2 Vesting responsibility for each fund in one employee
- 3 Approval for fund reimbursement.

YES/NO	AUDIT PLANNING

**THE AUDIT OFFICE OF GUYANA
INTERNAL CONTROL QUESTIONNAIRE
CASH AND BANK**

I Does the system of internal control ensure that all recorded disbursements represent the receipt of goods and services by the entity ?

Consider

- 1 **Two (2) signing officers independent of purchasing, receiving accounts payable and cheque preparation**
- 2 First signing officer examines support for payment and approves completeness
- 3 Second signing officer scrutinizes support
- 4 Cheques are mailed out directly
- 5 Prenumbered cheques continuity accounted for and control over unused
- 6 control over bank transfers
- 7 no bearer or cash cheque
- 8 spoiled cheques cancelled

YES/NO	AUDIT PLANNING

J Does the system of internal control ensure that all recorded disbursements occurred in the financial period ?

Consider

- 1 Cheques mailed out directly
- 2 Bank transfers properly authorised
- 3 Review by management of outstanding cheques on period end bank reconciliation
- 4 Adequate cut-off procedures

YES/NO	AUDIT PLANNING

**THE AUDIT OFFICE OF GUYANA
INTERNAL CONTROL QUESTIONNAIRE
GENERAL FINANCIAL MANAGEMENT**

CLIENT :

YEAR ENDED :

YES	NO

1 Are administrative controls over accounting records adequate ?

Consider

- 1 Is there an accounting manual:
 - a in use ?
 - b up to date ?
- 2 Do senior accounting personnel perform a regular review of accounting records ?
- 3 Is client document retention, storage and destruction policy appropriate ?
- 4 Are fire alarm or burglar alarm systems provided to protect accounting records ? (e.g. public works)

YES/NO	AUDIT PLANNING

YES	NO

2 Are changes in the client's accounting practices permitted only with management approval ?

Consider

- 1 Does management ensure that current accounting practices are appropriate ?
- 2 Is written approval required to change standard procedures ?

YES/NO	AUDIT PLANNING

YES	NO

3 Are sub-accounting units' routines adequate ?

Consider

Does accountant General have internal control procedures over sub accounting units ?

YES	NO

if yes, list procedures

**THE AUDIT OFFICE OF GUYANA
INTERNAL CONTROL QUESTIONNAIRE
FIXED ASSETS**

NAME OF ORGANISATION: **LOCATION:**

YEAR: **PREPARED BY:** **DATE:**

W/P REF: **REVIEWED BY:** **DATE:**

NO	PARTICULARS	YES/NO	REMARKS
A ACQUISITIONS			
1	Are all purchase orders for capital goods required in writing in a specified manner stating cost, authority and any items to be replaced ?		
2	Is a comparison made by a senior officer to ensure that actual expenditure does not exceed budgeted allocations for each capital purchases ?		
3	Are controls in existence to prevent or detect fixed assets being acquired without being recorded ?		
4	Are there fixed assets registers to record acquisitions and disposals ?		
5	Are fixed assets suitably marked so identify them as the property of the organisation ?		
6	Is the asset register maintained by someone other than the person who prepared the payment documents ?		
B DEPRECIATION AND APPRECIATION			
1	Are rates for depreciable assets fixed by the appropriation authority and recorded in the assets register ?		
2	Where assets have been revalued, have these been done by the appropriation authority and recorded in the assets register ?		

NO	PARTICULARS	YES/NO	REMARKS
C	VERIFICATION		
1	Are documents of title or ownership kept by a senior officer and adequately safeguarded ?		
2	Are periodic checks of the actual items of fixed assets carried out with these documents ?		
3	Are fixed assets verified with the entries in the assets register and the general ledger ?		
D	DISPOSALS		
1	Are disposals done in accordance with the stores regulations ?		
2	Are items of assets boarded before disposal ?		
3	Are proceeds from sale credited to capital revenue and paid into the consolidated fund ?		
4	Where disposals are done by destruction, are they done in the presence of more than one senior officials ?		
5	Are approval for disposals recorded in the inventory records and items recorded accordingly ?		

**THE AUDIT OFFICE OF GUYANA
INTERNAL CONTROL QUESTIONNAIRE
STORES**

NAME OF ORGANISATION: **LOCATION:**

YEAR: **PREPARED BY:** **DATE:**

W/P REF: **REVIEWED BY:** **DATE:**

NO	PARTICULARS	YES/NO	REMARKS
A	GENERAL		
1	Is a certified list of all stores locations received ?		
2	Are stocks efficiently handled with regard to storage and packing and properly safeguarded to minimise loss due to spillage or theft ?		
3	Is a perpetual or annual stock count maintained ?		
4	Do all goods pass through stores or are sent directly to customers or site ?		
B	DOCUMENTATION		
1	Are goods only issued on authorised requisitions ?		
2	Who has the authority to approve requisitions ?		
3	Are bin cards properly kept for all store items ?		
4	Are appropriate records kept when goods are returned ?		
5	Are stock ledgers maintained to show quantity and value of each item of store ?		
6	Are stores records maintained by:		
	(i) storekeepers and		
	(ii) persons independent of handling stores		
7	From what source are entries made for ?		
	(i) receipts and		
	(ii) issues		

NO	PARTICULARS	YES/NO	REMARKS
8	Is there a system of internal check operated to ensure only authorised transactions and documents are used to make entries in stock records ?		
9	Are stock ledgers compared and reconciled with the store-keeper's records periodically ?		
10	Is there adequate control over the disposal of obsolete, damaged and slow moving stock ?		
11	Are there adequate controls over stocks held by third parties ?		
12	Are there proper arrangements in place to ensure that there is no over - stocking ?		

**THE AUDIT OFFICE OF GUYANA
INTERNAL CONTROL QUESTIONNAIRE
CONTRACTS (CAPITAL WORKS/ SERVICES)**

NAME OF ORGANISATION: **LOCATION:**

YEAR: **PREPARED BY:** **DATE:**

W/P REF: **REVIEWED BY:** **DATE:**

NO	PARTICULARS	YES/NO	REMARKS
A BUDGETARY APPROVAL			
1	Was provision made for the works/services in the annual budget ?		
2	Was the works/services consistent with the project documents ?		
	Was waiver of tender procedures obtained ?		
B PRESOLICITATION			
1	Were bills of quantities prepared by competent personnel ?		
2	Were invitation for tenders published in the daily newspapers ?		
3	Were tender documents sold to interested parties and the proceeds paid into revenue ?		
4	Was a locked box identified for the submission of sealed tenders ?		
5	Was the box opened on the arranged date in the presence of at least two (2) of the members of the tender board ?		
6	Were the envelopes initialed by the members present as evidence of check and numbered sequentially ?		
7	Was a record of all tender for each job made ?		

NO	PARTICULARS	YES/NO	REMARKS
C	ADJUDICATION AND AWARD		
1	Were all contracts adjudicated by the appropriate tender board ?		
2	Was the basis of award stated for each award ?		
3	Were contractors informed of the decision of the tender board and contracts drawn up and executed accordingly ?		
D	EXECUTION		
1	Were works/services executed according to the agreement ?		
	Were:		
	(i) works/services commenced/provided on time ?		
	(ii) works/services completed within the specified time.		
	(iii) payments made according to the contract		
	(iv) partial completion of works inspected by the works committee and reports issued on inspection to enable payments ?		
E	PAYMENTS		
1	Were progress payments made in accordance with inspection reports ?		
2	Were such payments recorded in the votes ledger and contract register ?		
F	VARIATION		
1	Where variations were done, were reasons given for such variations ?		
2	Where variations were necessary, were these approved by the relevant authority ?		

10. AUDITING IN A COMPUTERISED ENVIRONMENT

	Page #
Auditing in a Computerised Environment	60
Application and System Controls within a Computerised Environment	63
Computer Security	64
Information Technology Questionnaire	

10. AUDITING IN A COMPUTERIZED ENVIRONMENT

10.1 In the present age, computers and computer based systems are dominating the business world and governmental agencies and entities.

Most entities make use of IT systems for financial reporting and operational purposes. Generally, IT provides potential benefits of effectiveness and efficiency for an entity's internal control because it enables an entity to:

- Consistently apply predefined business rules and perform complex calculations in processing large volumes of transactions or data;
- Enhance the timeliness, availability, and accuracy of information;
- Facilitate the additional analysis of information;
- Enhance the ability to monitor the performance of the entity's activities and its policies and procedures;
- Reduce the risks that controls will be circumvented; and
- Enhance the ability to achieve effective segregation of duties by implementing security controls in application, databases, and operating systems.

10.2 However, it is useful to note that even when IT is extensively used by an entity, there will be Manual elements to the systems. Manual aspects of systems may be more suitable where judgment and discretion are required as in the following circumstances:

- Large, unusual or non-recurring transactions
- Circumstances where errors are difficult to define, anticipate or predict
- In monitoring the effectiveness of automated controls.

10.3 It should be borne in mind that IT also poses specific risks to an entity's internal control, including the following:

- Reliance on systems or programs that are inaccurately processing data, or processing inaccurate data, or both.
- Unauthorized access to data that may result in destruction or alteration to data. Particular risks may arise where multiple users access a common database.
- IT personnel may gain access privileges beyond their assigned duties thereby breaking down the proper segregation of duties within the organization.
- Unauthorized changes to master files, systems or programs.
- Inappropriate Manual intervention.

10.4 In the planning stage, the Audit Team would have prepared and obtained documentation on the IT environment with special reference to:

- assessing the audit risk and developing an audit strategy
- developing an understanding of the IT function
- determining the effect of computer processing in the audit trail
- assessing whether the IT governance controls are designed effectively
- determining whether the use of computer-assisted audit techniques may enhance the efficiency of the audit.

10.5 Understanding the IT environment is essential to enable the Audit Team to assess risks properly and to design a focused audit strategy. Generally, it is the Audit Manager or someone with equivalent skills and experience that should make the appropriate inquiries of management and IT personnel of the entity. The Audit Manager (or appropriate senior Staffer) should consider accompanying the computer Audit Specialist as he or she makes inquiries and observations to understand the IT environment, making final decisions regarding risk and properly tailoring the engagement program. .

10.6 The extent of involvement of a professional with specialized computer audit knowledge will depend on the complexity of IT used in significant transaction cycles, control risk assessments and the IT skills available in the Audit Team. The Audit Team should consider using a Specialist to assist in documenting IT controls and evaluating design effectiveness in the following financial reporting environments:

- multiple operating systems or databases used by the entity
- integrated manufacturing, human resources and customer relationship management components
- inability to track transactions
- significant processes outsourced to third parties e.g. service organizations
- complex system conversion
- applications developed or maintained internally. .

10.7 It should be noted that when a computer Audit Specialist is used, the Audit Team's responsibility for the IT aspects of the audit cannot be transferred to that Specialist. As mentioned before, the Audit Team bears full responsibility for the work of this Specialist.

10.8 The entity's use of computerized financial applications creates an opportunity to use computer-assisted audit techniques (CAATs) in the carrying out of an effective audit. For Auditors, many different automated trial balance and work paper preparation software packages exist today. These programs are designed to automate many functions enabling audit engagement Teams to be more cost effective and efficient. The creation of trial balances, lead sheets, ratio analysis, financial statements, links to spreadsheets and word processing software

are just some of the available features in such programs. The use of this type of software package is encouraged to perform such functions as:

- import a client's data automatically
- assign accounts to sub lead and lead schedules
- assist in performing analytical procedures at the planning, execution and completion stages of the engagement (e.g. ratio analysis, year to year comparisons, vertical and horizontal fluctuation analysis)
- produce trial balance and lead schedule
- Link to other applications for the production of financial statements and analytical analysis
- post adjusting, reclassification and eliminating journal entries
- produce consolidated work papers.

10.9 When developing computer-assisted audit techniques, it is important that we define the objective of the procedure prior to initiating a computer audit application to assure its relevance to the audit. An application of a computer-assisted audit technique should be under the direction and supervision of the Audit Team that is knowledgeable in this area.

10.10 There are many excellent software packages that assist the Auditor to complete an audit in a computerized environment. One such software package is IDEA (Interactive Data Extraction and Analysis) that can carry out a multitude of functions, for example record scanning of data files for:

- accounts receivable balances for amounts over the credit limit
- inventory items with negative quantities and/or unreasonably large balances
- unpriced inventory items (items with quantities on hand but no unit price)
- transactions with related parties (this is becoming increasingly important under IFRS)

10.11 The many functions that software packages (like IDEA) perform are in the following areas:

- record extraction
- file indexing, sorting and summarization
- field statistics
- file comparison
- sampling
- calculation
- exportation

- 10.12 One of the significant advantages of using this type of software is that it gives the Audit Team some measure of independence. It reduces reliance on the information / data submitted by the entity's IT personnel.

APPLICATION AND SYSTEM CONTROLS WITHIN A COMPUTERIZED ENVIRONMENT

- 10.13 Application controls are automated controls built into application software (e.g. payroll, accounts receivable, general ledger software), Application software are designed to ensure that all transactions recorded are authorized, complete, and accurate. For example, a sales order would not be processed unless the customer's receivable balance is below a certain limit.
- 10.14 Systems controls (also referred to as general controls) are automated controls that help ensure the continued, proper operation of information systems. Such controls apply to systems as a whole and are substantially the same regardless of the application. For example, passwords restricting access to a computer network are systems controls.
- 10.15 Effective systems controls over computer processing should achieve these objectives:
- reliability of processing controls- provide evidence that the computer applications are properly running
 - integrity of software program controls- provide evidence that processes and controls implemented within computer programs are not accidentally modified or deliberately circumvented
 - integrity of electronic data controls- provide evidence that data is correctly processed and that data maintained by the accounting system is not accidentally or deliberately modified or corrupted by other means.
 - continuity of processing controls- provide evidence that computer hardware and application systems continue to be available for processing accounting data on a timely basis, and
 - system and application development and installation controls- provide evidence that applications are properly designed and developed to incorporate appropriate controls by the user, and that controls are properly implemented.
- 10.16 Although the above five (5) basic control objectives have been defined for system controls over computer processing, there is considerable inter-dependence between them. For example, controls to restrict the use of utility programs, such as file editing tools, are not only relevant to the reliability of the processing, but also to the integrity of data and the integrity of the programs. In fact, since such a utility could be used to falsify a log file, it could be employed to circumvent controls over system amendments. System controls over computer processing should not therefore, be considered in isolation of each other, or from the applications.

COMPUTER SECURITY

10.17 Computer security is a broad topic. Everyone is responsible for protecting the entity's information from security threats. Personal computer security threats include:

- unauthorized access to data
- data loss
- computer viruses
- internet hacking

Unauthorized access to data-

10.18 The threat of unauthorized access to data can occur at three (3) levels: via the Internet (discussed further), access to information on the computer in general, and access to the specific computer data files.

Power-on passwords and using the security features of Windows, XP or NT are two ways to control access to the information on the computer in general. Password protecting files provides additional control for sensitive files.

Data Loss-

10.19 Anyone that has use a computer know that loss of data is a significant and a constant threat. There are several techniques available to mitigate this risk, and one of the most cost effective is to periodically create a copy of files on media external to the computer system. In large cycle of transactions in entities, of necessity this is done on a daily basis.

Computer Virus-

10.20 Computer viruses are commonplace today. Their threat ranges from inappropriate screen messages through to a complete and irretrievable loss of data and software. Use of antivirus software is the principal means of controlling this threat.

Internet Hacking-

10.21 The threat of internet hacking includes destruction of the computer content, use of the computer for inappropriate purpose or gaining access to the information contained in the computer. The threat occurs whenever the computer is connected to the internet either directly or through a network. Protection at the network level is usually achieved through the use of network firewalls. However, computer users should be aware that the threat also exists when they connect the computer directly to the Internet (e.g. using a home internet service provider) or through an unprotected network (perhaps a poorly controlled client network). An effective way to control this threat is by using personal firewall software programs.

5 Are there adequate precautions and standby arrangements ?

Consider

- (a) are there adequate fire precautions?
- (b) are there adequate standby arrangements for processing in case of equipment failure ?
- (c) if so, are these arrangements regularly tested ?

6 Is there adequate control over system and control ammendments ?

Consider

- (a) do all changes to the operational system and programs require to be authorised ?
- (b) are all changes ?
 - i) documented
 - ii) tested

7 Is there proper authorisation over input of data ?

- (a) is the input of data adequately authorised ?
- (b) If the documents are authorised before control is established, is the authorisation checked after control is established ?

YES/NO	INIT'	REMARKS

**11. AUDIT DOCUMENTATION AND WORKPAPERS
(CURRENT AND PERMANENT)**

	Page #
Current Files	66
Permanent Files	66
Correspondence Files	67
Practical Guidance	67
Things to do	68
Things not to do	69
Standard Audit Documentation	69
Custody of Working Papers	69
Retention of Working Papers	69

11. AUDIT DOCUMENTATION AND WORKPAPERS (CURRENT AND PERMANENT)

- 11.1 The Auditor should document matters which are important in providing audit evidence to support the Auditor's opinion and evidence that the audit was carried out in accordance with international standards on auditing and other legislative instruments as apply.
- 11.2 Documentation means the working papers prepared by, or on behalf of, the Auditor and retained by him in the performance of the audit. Working papers may take the form of paper, electronic media, film or other form.
- 11.3 As set out by INTOSAI – **Auditing Standards** (Chapter 3, Paragraph 3.5.5)

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

The quantity, type and content of working papers vary with the circumstances, but they should be sufficient to:

- cover all the relevant audit work
- support the audit report
- leave no significant points unresolved.

- 11.4 Working papers should be sufficiently complete to enable a knowledgeable Auditor to ascertain the work performed to support the conclusions reached. Ideally, working papers should “stand alone” and not require supplementary oral explanations.
- 11.5 As enunciated by IFAC:

“Working papers include the Auditor's reasoning on all significant matters that require the exercise of judgment, together with the Auditor's conclusion thereon. In areas involving difficult questions of principle or judgment, working papers record the relevant facts that were known to the Auditor at the time the conclusions were reached.”

- 11.6 Although the quantity, type and content of working papers vary with circumstances, working papers should show:
- that the audit work has been properly planned and supervised
 - that the accounting records agree or reconcile to the financial statements being audited
 - that applicable professional standards and procedures have been followed

- that an understanding of the client's accounting system and internal controls has been obtained and documented
- that the appropriate tests of controls have been performed to support of assessments of control risk
- that the evidence obtained and procedures applied have provided sufficient evidence to support a reasonable basis for our opinion
- how any exceptions and unusual matters, disclosed by the procedures used were resolved and treated.

CURRENT FILES

11.7 The work paper file for each engagement, should at a minimum, contain the following:

- an engagement letter
- evidence to support the planning process including audit programs and any changes thereto
- knowledge of the business and environment
- the client's accounting system
- documentation of preliminary estimate of materiality
- summary of audit differences, and an evaluation of the materiality of these amounts, individually and in total, in relation to the financial statements
- memoranda (documentation) concerning significant aspects of the audit and consultation with others
- documentation to support that the AOG's audit completion and review procedures have been met
- the client's representation letter, where required by professional standards or policy
- analyses of significant ratios and trends
- a copy of the financial statements and the audit report

11.8 The current working paper file would normally contain information (as listed above) primarily relating to the audit of the entity for the current year, or a single period, and matters relating thereto.

The permanent working paper file, on the other hand, as the name implies, consist of information that is of continuing use and not subject to frequent change.

PERMANENT FILE

11.9 This information is carried forward from year to year in a permanent file that is established for each client at the time of the first engagement. All papers and information of a continuing nature that will benefit future engagements are included in this file.

The permanent file should be reviewed each year to ensure that it contains all necessary documents and that the papers contained in it are up-to-date and continue to be relevant.

- 11.10 When a permanent schedule ceases to have relevance for future audits it should be removed and filed in a permanent file marked "superseded". The superseded file should be periodically reviewed to discard information that predates any current working papers that are not being retained in accordance with the AOG's working paper retention policy or regulatory requirement.

No set of rules can be given as to exactly what information should be included in the permanent file, but the following list is typical:

- copies of significant documents, such as articles of incorporation, by-laws, loan agreements, union agreements, stock option plan and other benefit plans , details of senior Officers and governance committees
- information to document our knowledge of the business, and the design of the internal control structure
- important publications, periodicals regarding the client's industry
- excerpts of documents, such as leases, royalty agreements, and insurance agreements
- lists of accounting records, key people, and authorized signatures
- significant computations, such as loan agreement restrictions
- analyses of continuing application
- Location of operations.

CORRESPONDENCE FILES

- 11.11 Although not considered part of the working papers, a correspondence file is usually maintained for each client. Copies of letters and other information sent to and received from the client are included in the correspondence file. This file is reviewed during the planning stage to determine if any matters of audit significance are included therein.

PRACTICAL GUIDANCE

- 11.12 Every working paper should have a clear objective and should show clearly:

- the name of the client
- the name of the audit area or audit area involved
- brief description of the content (analysis of _____, summary of _____, reconciliation of _____, etc.
- the balance sheet date or period covered by the audit

- the date the working paper was prepared or updated and the name or initials of the person responsible
- cross references to schedules that support , or are supported by, the working paper, where appropriate
- the source from which the information or explanation was obtained together with, as appropriate, together with a brief description of any underlying files or other records examined
- an explanation of any “tick marks” that appear on the working paper or a reference to where an explanation can be found
- the date and initials of any member of the audit Team who reviewed the working paper

THINGS TO DO

11.13 This “to do” list is not exhaustive but provides some guidance to Audit Staff:

- obtain from the entity key schedules and statements e.g. trial balances, lead schedules, consolidating data, financial statements, etc.
- spell the names of individuals and entities correctly, and identify the titles of persons referred to
- see to it that the working papers clearly indicate the extent of the audit tests used, the basis on which items were selected for audit, and the sources of data used (e.g. designated ledger account, voucher number etc.)
- if the working paper was prepared by the entity’s personnel, put “PBC” (“Prepared by Client”) and the name of the personnel who prepared it
- see to it that working papers are appropriately “tied in” and cross-referenced
 - designate cross-references to other related working papers
 - agree the final amounts to the applicable lead schedule or trial balance
 - make certain that the final lead schedule amounts agree with the trial balance and financial statements
 - ensure that all trial balance amounts are readily traceable to the financial statements. All combinations should be clearly indicated
 - ensure that adjusting journal entries and reclassification entries are cross-referenced to supporting working paper
- when preparing working paper conclusions, be careful to differentiate between facts, opinions and explanations received from the entity’s personnel. Do not use pejorative or derogatory terms to characterize the entity’s personnel or procedures commentaries of continuing importance and working papers for account balances which do not vary (e.g. capital, goodwill etc.) should be placed in the permanent file see to it that the working paper files (both current as well as permanent) are

returned to the proper storage area until they are needed to plan the next year's engagement.

11.14 THINGS NOT TO DO

- Follow previous audit working papers blindly
- leave superseded schedules or items of no further value in the working paper file
- make the working papers available to anyone outside the AOG unless the prescribed authorization procedures have been followed
- Maintain "private files". At the conclusion of the audit, material should either be included in the working paper file, or if non-evidentiary, erased or discarded

STANDARD AUDIT DOCUMENTATION

11.15 In many organizations and especially in the case of the AOG, standard audit working papers assist in the orderly extraction and recording of essential data, and indeed in the organization and ease of review of the working paper file. The use of standard working paper form is essential for some if not most aspects of audit work e.g. planning, query sheets, internal control questionnaires etc. It is an effective tool in giving juniors on the job training. However, the standard working paper forms by themselves will not improve the quality of the working papers, which still remains dependent on the quality of the inputs from the Auditor and the supervision exercised on the audit.

CUSTODY OF WORKING PAPERS

11.16 Working papers are the property of the Auditor. Although portions of, or extracts from, the working papers may be made available to an entity upon proper authorization from the AOG, they are not a substitute for the entity's accounting records. Since working papers provide the primary support for the Auditor's report, their security and safe keeping is important. When not actively used, working papers-in paper form- should be returned to the central location. Working papers should not be left unattended at the entity's Office.

RETENTION OF WORKING PAPERS

11.17 Whilst permanent files by their very nature must be kept "permanently", the same does not apply for the current working files whether interim or year-end. Taking account of prevailing standards and legislative requirements, current working paper files should not be retained beyond seven (7) years after the accounts of the entity have been certified and laid before the National Assembly. However, no documents should be destroyed without the permission of the AOG.

12. INTERNAL AUDITING AND IMPACT

	Page #
Internal Audit Functions	70
Evaluating the Work of Internal Audit	70

12. INTERNAL AUDITING AND IMPACT

INTERNAL AUDIT FUNCTIONS

- 12.1 An effective internal audit function may provide the Audit Team with evidence to help in their understanding and evaluation of the design and operating effectiveness of internal control.
- 12.2 The presence of internal Auditors should usually detect any weaknesses in the accounting systems and make recommendations which will reduce the risk of error and fraud.
- 12.3 Other functions of internal Auditors are :-
- review of the effectiveness and efficiency of operations including compliance with the relevant laws and regulations and other international regulations
 - special investigations as requested

EVALUATING THE WORK OF INTERNAL AUDIT

- 12.4 When using the work of internal audit, the Audit Team evaluates whether:
- internal audit's independence from those whose work is being reviewed
 - the numbers, qualifications, training and supervision of Staff employed in the internal audit function. The resources of internal audit: are there sufficient Staff of suitable caliber to manage and carry out the function?
 - the nature, extent and timing of internal audit's tests.
 - the quality of internal audit: is their work properly planned, supervised, reviewed and documented?
 - the evidence available as to the internal audit's work and the review of that work (the extent to which such procedures are documented)
 - the results of internal audit's work pertaining to the particular control objectives, including the correction of any errors found.
 - reports by the internal Auditor are consistent with the results of work performed.
 - any unusual matters reported by the internal Auditor are resolved and policies are in place to avoid its repetition.
 - recommendations made by the internal Auditor and if so, are they usually adhered to / implemented or are they ignored.
 - the reputation of the internal Auditor which could be a person, group of persons or a firm.
 - the status of internal audit: (does it report directly to senior management? Is management required to respond to or act on its recommendations? Is it empowered to carry out a full range of assignments, or is the scope of its work restricted?)

- 12.5 Staff of the Audit Office should be aware that the internal Auditor or the internal Audit Department would be doing work throughout the entire year and it will be more and comprehensive than the work carried out by the Audit Staff who are only present at the entity for a short period i.e usually during the interim audit when test of controls are carried out and final audit when substantive procedures are carried out to verify the annual financial statements.
- 12.6 However there will still be a level of evaluation by the Audit Staff. The nature of evaluations which should ideally be done at the planning stage and the extent to which information will be gathered on the internal Auditor, will depend on the extent of the reliance to be placed on the work and the significance of the work in question.
- 12.7 If the foregoing evaluation indicates that internal audit is objective and competent and their work is relevant to the audit, the Audit Team can use internal audit's work to modify or reduce, but not eliminate tests of controls performed directly by the Audit Team. However, the Audit Team should evaluate the quality and effectiveness of the work of internal Auditors.
- 12.8 To evaluate the quality and effectiveness of internal audit work, the Audit Team should consider:
- appropriateness of the scope of work performed to meet the audit objectives
 - adequacy of the audit programs and documentation of work performed, including evidence of supervision and review
 - appropriateness of the conclusions reached and resolution of exceptions or unusual matters
 - consistency of the results in comparison to the work performed.
 - In some cases, the Audit Office should review the hiring and training of Audit Staff. Unqualified Staff should be encouraged to qualify themselves by taking professional examinations.
- 12.9 The Audit Team should also independently test internal audit's work, compare the results of such tests with internal audit's results, and conclude as to whether the Audit Team's modified or reduced testing approach is justified. Tests of internal audit work may be accomplished by either (a) examining controls that internal audit examined, or (b) examining similar controls not actually examined by internal audit. As a general guideline, the greater the modifications and reductions in testing approach, the more extensive should be the tests of internal audit's work. Based on the results of tests performed, the Audit Team should determine the need to further modify their testing approach, tests of controls and substantive audit procedures.
- 12.10 The Audit Team is solely responsible for the audit opinion. Accordingly, all professional judgments and conclusions concerning the adequacy of the evidence obtained, the reliability of the tests and the appropriateness of the tests for purposes of the audit should be made by the Audit Team. Therefore, the Audit Team should perform all the work they consider necessary in obtaining an appropriate basis to support their audit judgments.