

4. AUDITING STANDARDS

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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.