

**Audit Office of Guyana**



# **Quality Assurance Manual**

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**October 2008**



**Table of Contents**

<b>1. Introduction.....</b>	<b>1</b>
1.1 Purpose of the Quality Assurance Manual.....	2
1.2 Structure of the Manual .....	2
1.3 Due Professional Care.....	3
1.4 Proficiency .....	4
1.5 Level of Assurance .....	4
<b>2. Quality Assurance Policy and Framework.....</b>	<b>5</b>
2.1 Quality Assurance Framework .....	5
2.2 Quality Assurance Policy.....	7
2.3 Operating Principles.....	8
2.4 Audit Quality Assurance Program .....	8
2.5 References.....	9
2.6 Enquiries .....	9
<b>3. Ongoing Monitoring and Supervision.....</b>	<b>11</b>
3.1 Supervision and Review .....	11
3.2 Satisfaction Surveys.....	12
3.3 Performance Metrics .....	12
<b>4. Quality Reviewer.....</b>	<b>15</b>
4.1 Qualifications of Quality Reviewers.....	15
4.2 Nature of Reviews.....	16
4.3 Timing and Extent of Reviews .....	17
4.4 Documentation and Differences of Opinion .....	18
4.5 Quality Reviewer Checklist .....	18
<b>5. Practice Review .....</b>	<b>19</b>
5.1 Responsibilities and Operating Principles .....	19
5.2 Approach and Guidance.....	22
5.3 Audit Logic Chain.....	31
<b>6. External Review .....</b>	<b>35</b>
6.1 Approach and Guidance.....	35
6.2 Qualifications for External Reviewers.....	37
6.3 Communicating Results .....	37
<b>7. Not Used.....</b>	<b>39</b>
<b>8. Not Used.....</b>	<b>41</b>
<b>9. Quality Improvement Program.....</b>	<b>43</b>
9.1 Quality Improvement Plan.....	43
9.2 Follow up .....	43
<b>10. Appendices.....</b>	<b>45</b>
10.1 Auditing Standards.....	45
10.2 Quality Reviewer Checklist .....	50
10.3 Satisfaction Surveys.....	54
10.4 Reverse Audit Logic Template .....	57



# 1. Introduction

The Audit Office of Guyana (AOG) scrutinizes the expenditure of public funds on behalf of Parliament. The Office conducts financial audits of all publicly funded entities, including donor-funded entities, local government agencies and trade unions, in Guyana.

The office of the Auditor General is established by the Constitution of the Republic of Guyana. The Constitution also secures the independence of the Office, describes its principal functions, and articulates provisions to govern the appointment of the Auditor General. The Audit Act (2004) of the Laws of Guyana, as amended, details specific provisions regarding the duties and powers of the Auditor General in relation to central government agencies and other entities in which the State has a controlling interest.

The Audit Office of Guyana, formerly the Office of the Auditor General, was established by the Audit Act 2004, which came into operation on 27 April 2005 with the enactment of the Audit Act 2004 Commencement Order. Prior to this, regulations for the Audit Act 2004 were also made and passed by the National Assembly 21 July 2005.

In addition, the requirements of the Rules, Policies, and Procedures Manual, which was framed in keeping with the Act and Regulations, governs AOG management and operations, and the conduct of audits.

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

- the execution of high quality audits of the public accounts, entities and projects assigned by the Audit Act;
- timely reporting of the results to the legislature and ultimately the public;
- ensuring that the independence, integrity and objectivity of the Audit Office is recognized;

- the provision of cost effective service by the implementation of the most up-to-date audit practices;
- the recruitment and retention of the best qualified personnel to achieve set targets, on a sustained basis; and
- developing professional relationships with our clients, and producing reports which facilitate improvements in their operations.

## **1.1 Purpose of the Quality Assurance Manual**

The purpose of this Quality Assurance Manual is to provide the Audit Office of Guyana with policies and procedures to ensure that the audit process is properly designed and operating effectively, in conformity with prescribed standards and practices. It will also serve as the basis for training in quality assurance activities.

The quality assurance framework set out in the Manual will facilitate the performance of audit engagements with the rigour and due professional care necessary for providing audit level assurances in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards and Code of Ethics. The INTOSAI Standards are recognized internationally as containing sound guidance for Supreme Audit Institutions.

## **1.2 Structure of the Manual**

The Manual comprises 10 chapters; chapters 7 and 8 are not used, and chapter 10 is reserved for various appendices. The guidance presented in the Manual is based on international best practice for audit quality assurance.

It is intended that the Manual will be updated at least annually to reflect changes in audit standards, policies, and practice. For example, it is anticipated that some material being developed for the AOG's emerging performance audit practice will be added to the Manual.

### 1.3 Due Professional Care

Due professional care calls for the application of the care and skill expected of reasonably prudent and competent auditors in the same or similar circumstances. Professional care should, therefore, be appropriate to the complexities of the audit being performed. In exercising due professional care, auditors should be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest. They should also be alert to those conditions and activities where irregularities are most likely to occur. In addition, they should identify inadequate controls and recommend improvements to promote compliance with acceptable procedures and practices.

Due care implies reasonable care and competence, not infallibility or extraordinary performance. Due care requires the auditor to conduct examinations and verifications to a reasonable extent, but does not require detailed audits of all transactions. Accordingly, the auditor cannot give absolute assurance that noncompliance or irregularities do not exist. Nevertheless, the possibility of material irregularities or noncompliance should be considered whenever the auditor undertakes an auditing assignment.

When an auditor suspects wrongdoing, the appropriate authorities within the organization should be informed. The auditor may recommend whatever investigation is considered necessary in the circumstances. Thereafter, the auditor should follow up to see that the audit office's responsibilities have been met.

Exercising due professional care means using reasonable audit skill and judgement in performing the audit. To this end, the auditor should consider:

1. the extent of audit work needed to achieve audit objectives;
2. the relative materiality or significance of matters audited;
3. the adequacy and effectiveness of internal controls;
4. the cost of auditing in relation to potential benefits; and

5. evaluating established operating standards and determining whether those standards are acceptable and are being met. When such standards are vague, authoritative interpretations should be sought. If auditors are required to interpret or select operating standards, they should seek agreement with auditees as to the standards needed to measure operating performance.

## **1.4 Proficiency**

The Auditor General should obtain competent advice and assistance if the audit staff lacks the knowledge, skills, and other competencies needed to perform its responsibilities.

Auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

## **1.5 Level of Assurance**

It is not possible for an auditor to have absolute confidence in the conclusions reached in an assurance engagement. The auditor's confidence is unavoidably limited by factors such as the awareness that conclusions may ultimately be based on professional judgement, that data collection may rely on sampling that may not be representative, that control testing is limited, that controls relied on may have inherent limitations, and that evidence may be persuasive rather than conclusive.

The level of assurance that an auditor can provide is normally within the auditor's control. A high level of assurance (audit-level assurance) can usually be provided by designing procedures and following standards that reduce the risk of an inappropriate conclusion to a low level. Engagements commonly referred to as "audits" are assurance engagements designed to provide this high level of assurance. The expectation is that the bulk of assurance engagements undertaken by auditors will provide a high level of assurance. Other assurance engagements that provide only review-level assurance should not be referred to as audits.



## 2. Quality Assurance Policy and Framework

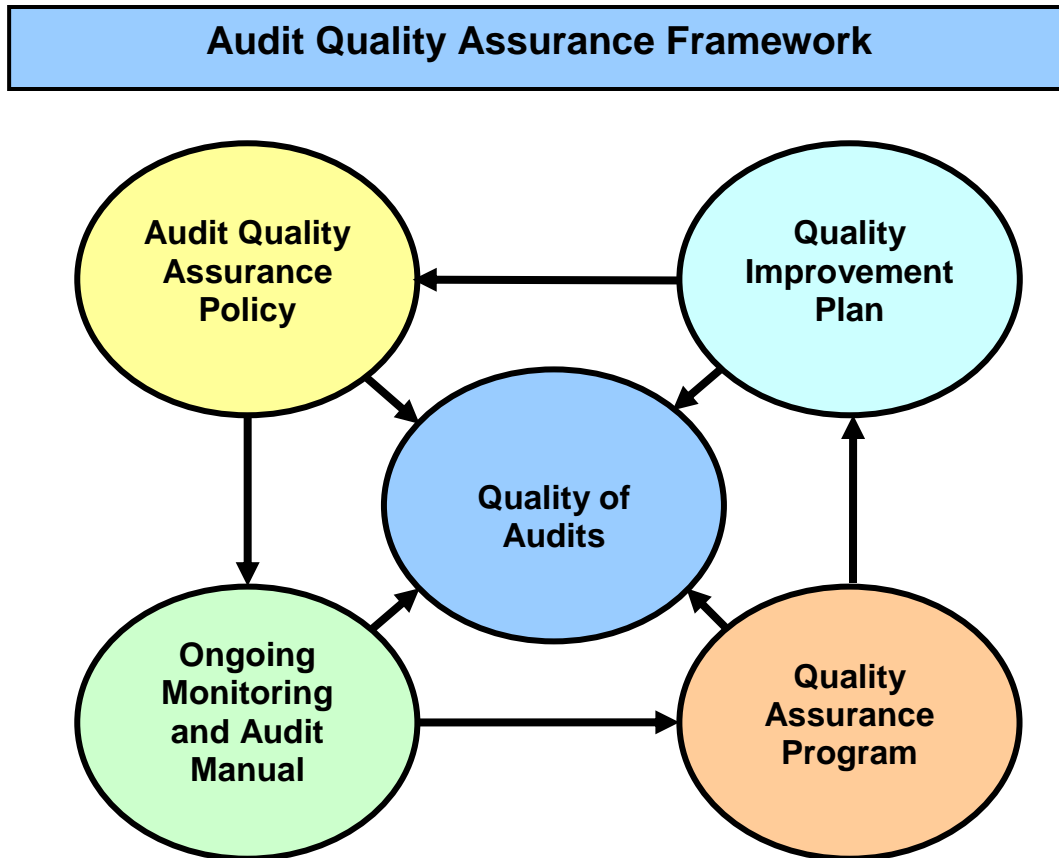
Ensuring quality is an integral part of the AOG's audit process. The purpose of the Audit Quality Assurance Framework and Policy is to ensure that the audit process is properly designed and operating effectively, in conformity with prescribed standards and practices.

### 2.1 Quality Assurance Framework

The AOG's Audit Quality Assurance Framework (Audit QAF) includes standards, policies, procedures, controls, and review and approval processes designed to ensure that completed audits are of consistent high quality and that audit reports serve as the National Assembly's primary source of assurance on the government's financial position and performance. The Audit QAF is designed to ensure compliance with professional audit standards, legislative authorities, AOG audit policies, and the INTOSAI Code of Ethics, as well as satisfactory performance against the following indicators:

- Adequacy of the audit activity's objectives, procedures, and processes;
- Whether the auditing activity meets the expectations of the Auditor General, and members of the National Assembly and Public Accounts Committee;
- Feedback from auditees and other stakeholders;
- Effectiveness of continuous improvement activities and adoption of best practices;
- Whether the auditing activity adds value to the AOG's operations and contributes to its effectiveness.

The AOG's Audit Manual describes the various procedures and controls that are in place at each phase of the audit process to ensure products of consistent high quality. Audit Managers have primary responsibility for the ongoing monitoring of audit quality and for the quality of completed audit products. Quality control is also provided by Quality Reviewers who provide an additional element of objectivity and offer advice on specific risk areas.



The Quality Assurance Program is another component of the Audit QAF and includes periodic internal and external assessments of audit quality. Practice Reviews of completed audits are the primary form of periodic internal assessment. A Practice Review assesses whether an audit was conducted in compliance with the relevant standards, policies, and procedures outlined in the AOG's Audit Manual. Periodic internal assessments may also be conducted on other components of the Audit QAF to determine whether controls and procedures are operating as intended; self-assessment may form part of these assessments.

Periodic external assessments may be conducted by a qualified, independent reviewer or review team from outside the AOG. The purpose of an external assessment is to provide independent assurance to the Auditor General and the National Assembly that the Audit QAF is properly designed and operating effectively to achieve its objectives.

Recommendations are made when Practice Reviews and other assessments conducted under the Quality Assurance Program identify opportunities for improvement in audit practice. Management's planned actions in response to these recommendations are presented in a Quality Improvement Plan that is approved by the Auditor General.

## 2.2 Quality Assurance Policy

The objective of the Quality Assurance Policy is to ensure that audits conducted by the Audit Office of Guyana are of consistent high quality through adherence to prescribed quality standards and practices.

It is the **policy of the Audit Office of Guyana** that:

- An Audit Quality Assurance Framework should be in place to ensure that the AOG conducts audits in accordance with legislative authorities; prescribed standards, policies, and procedures; the INTOSAI Code of Ethics; and the Rules of Professional Conduct and Conflict of Interest Code as outlined in the AOG Rules, Policies, and Procedures Manual (July 2004).
- All audits should be managed as projects and conducted in accordance with the AOG Audit Manual and its quality management system.
- A Quality Assurance Program should be in place and operating effectively to assess compliance with the policies and procedures described in the AOG Audit Manual and to identify opportunities to improve the audit process.
- A Quality Improvement Plan, based on the findings and recommendations of periodic quality assessments, should be prepared and implemented to improve the quality and effectiveness of the audit activity.

## 2.3 Operating Principles

In implementing the audit Quality Assurance Policy, a number of operating principles apply:

- The Auditor General is the client for reports on the implementation and operation of the audit Quality Assurance Policy and Audit Quality Assurance Program.
- The Director, Quality Assurance is responsible for methodology and quality assurance, and capacity building.
- All department, agency, and government-wide audits are subject to the Audit Quality Management Policy and the Quality Assurance Program.
- The Audit Quality Assurance Program includes both internal and external periodic assessments.
- Individuals involved in periodic internal and external assessments, including practice reviews, are sufficiently qualified and independent of the activities under examination.
- Summary results of periodic internal and external assessments of audit quality are presented in the AOG's Annual Report.

## 2.4 Audit Quality Assurance Program

The Audit Quality Assurance Program provides the monitoring elements of a continuous improvement process for audit quality. These elements are:

- Ongoing Monitoring and Supervision
- Quality Reviewers
- Practice Review

- External Review

Each of these elements is described in the following chapters.

## 2.5 References

- *Audit Act, 2004*
- *Fiscal Management and Accountability Act, 2003*
- *Stores Regulations, 1993*
- Professional Auditing Standards
  - INTOSAI Auditing Standards
  - IFAC Auditing Standards
- AOG Audit Policies
- AOG Audit Manual
- INTOSAI Code of Ethics
- Rules of Professional Conduct and Conflict of Interest Code as outlined in the AOG Rules, Policies, and Procedures Manual (July 2004).

## 2.6 Enquiries

Please direct enquiries about the Audit Quality Management Framework and Policy to the Auditor General or to the Director, Quality Assurance.



### 3. Ongoing Monitoring and Supervision

Ongoing internal monitoring of audit quality is usually incorporated into the routine policies and practices used to manage the audit activity and should be conducted by means of such processes and tools as:

- Engagement supervision;
- Ongoing review of audit work papers by audit Supervisors and Managers;
- Checklists and other means to provide assurance that processes adopted by the audit office (e.g. Audit Manual) are being followed;
- Feedback from auditees and other stakeholders;
- Audit project budgets, time reporting, audit plan completion, cost recovery;
- Analyses of other performance metrics such as cycle time and recommendations implemented.

#### 3.1 Supervision and Review

The Audit Office of Guyana should provide assurance that audits are properly supervised.

- The Audit Manager is responsible for providing appropriate audit supervision. Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment.
- Supervision includes:
  - Providing suitable instructions to subordinates at the outset of the audit and approving the audit program.

- Seeing that the approved audit program is carried out unless deviations are both justified and authorized.
  - Determining that audit working papers adequately support the audit findings, conclusions, and reports.
  - Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely.
  - Determining that audit objectives are being met.
- Appropriate evidence of supervision should be documented and retained.
  - The extent of supervision required will depend on the proficiency of the auditors and the difficulty of the audit assignment.
  - All audit assignments, whether performed by or for the AOG, remain the responsibility of the Audit Manager.

### **3.2 Satisfaction Surveys**

Satisfaction surveys are a useful means to obtain feedback from stakeholders about the Activity's effectiveness and potential opportunities for improvement. Typically, the key stakeholders are divided into internal and external stakeholders. The internal stakeholders may include audit committees and boards, and senior and operating government managers. External stakeholders would include members of the National Assembly and the Public Accounts Committee, as well as the public.

At the completion of audits, stakeholders can be asked about the office's professionalism, communication, consideration, and the value provided. Appendix 10.3 contains two examples of audit satisfaction surveys.

### **3.3 Performance Metrics**

Ongoing monitoring of the audit activity also includes ongoing measurements and analyses of performance metrics. When the results of these performance measures



indicate areas for improvement, planned actions would be recorded in the Quality Improvement Plan.

The Auditor General should ensure that the measures used are appropriate to the audit office's size; laws and regulations; and operating environment. The measures should be specific to the AOG and include, in addition to stakeholder satisfaction, audit processes and innovations and capabilities. Some examples of performance metrics that may be appropriate are:

- Compliance with laws, regulations, and professional standards
- Cycle time and audit plan accomplishment
- Cost of audits and timeliness of reporting
- Audit recommendations accepted and implemented
- Effectiveness of continuous improvement activities and adoption of best practices
- Use of technology
- Extent of, value from, and satisfaction with staff training

Conclusions should be developed from these results and follow-up action should be taken to assure appropriate improvements are implemented.



## 4. Quality Reviewer

The quality control review performed by the Quality Reviewer provides an objective evaluation, before the auditor's report is issued, of the significant judgements the audit team made and the conclusions reached in formulating its audit opinion. The Quality Reviewer is an important element of the Quality Assurance Framework. He or she is involved with individual audits from the initial planning decisions to the closing of the audit file.

Quality Reviewers provide an additional element of independence and objectivity in the key risk areas of audit planning and reporting. In order to maintain their independence, Quality Reviewers provide advice but do not make decisions; they are not a member of the audit team.

### 4.1 Qualifications of Quality Reviewers

The key attributes of a Quality Reviewer are:

- **Capability and subject matter knowledge:** the Quality Reviewer should have sufficient technical expertise, subject matter knowledge, and necessary experience to perform the role on a specific engagement.
- **Objectivity:** the Quality Reviewer is not a member of the audit team and should not have been a member of the team within the past two years. Although he or she is an important resource for consultation, such consultation need not compromise the engagement quality control reviewer's objectivity. However, when the nature and extent of the consultations are significant, care should be taken by both the team and the reviewer to maintain the reviewer's objectivity. Accordingly, the Quality Reviewer would not make important decisions specific to the audit.
- **Authority:** a Quality Reviewer will be at the Audit Manager level. There could be exceptions to this rule and an appropriate process for their approval should be developed.

- **Availability:** the Quality Reviewer should have sufficient time to perform the review in accordance with the expected timing of the audit.

There are some additional factors to be considered when assigning a Quality Reviewer to a financial audit:

- highly visible entity or having broad accountability to the public;
- sensitive audit due to recent parliamentary interest in the organization;
- use of specialized accounting principles;
- existence of very complex, specialized transactions;
- size of the entity;
- management judgements and estimates play an important role in valuation of significant financial statement components;
- recent history of difficult and/or contentious audit issues;
- significant turnover in the audit team.

## 4.2 Nature of Reviews

The Quality Reviewer carries out an objective evaluation of the significant judgements made by the team; the conclusions reached in supporting the auditor's report; and other significant matters that have come to the attention of the Quality Reviewer during his or her review.

The quality control review is based on a review of selected working papers and discussions with the audit team, and includes consideration of the following matters:

- **Independence:** conclusions reached regarding the independence of the audit office and team members in relation to the audit engagement.
- **Risk assessment:** the analysis of the key components of audit risk and the adequacy of the planned responses to those risks, including the assessment of, and response to, the risk of fraud, the risk of non-compliance with authorities and the risk of abuses by board members or senior executives.

- **Planning process (performance audits):** the completeness of the planning process including choice of lines of audit enquiry, audit objectives, and criteria particularly in higher risk areas.
- **Key judgements:** the results of the audit work performed and the appropriateness of the key judgements made, particularly in high-risk areas and positions taken by the team on complex, contentious, and sensitive issues.
- **Consultations:** the consultation that took place between the audit team and those having appropriate specialist knowledge or experience during the course of the audit and the proper related documentation.
- **Audit committee:** the appropriateness of the content of planned communications to the audit committee or those charged with governance.
- **Auditor's report:** the appropriateness of the audit report.
- **Audit evidence and documentation:** whether the discussions held and the documentation reviewed from selected key working papers support the conclusions on areas of high risk and the content of the auditor's report.
- **Other sensitive issues raised by the Audit Manager:** Audit Managers are encouraged to consult with the Quality Reviewer on any other sensitive matters.

### 4.3 Timing and Extent of Reviews

The quality control review should be started sufficiently early in the audit process to allow for timely consultation on significant matters identified during the audit. To meet this objective, it is usually beneficial to perform the review as the audit progresses, starting with the planning of the audit.

The Quality Reviewer is involved, at a minimum, at two points during the audit: at the conclusion of the planning stage and at the reporting stage. The overall audit strategy, including the identification of risks and the planned audit responses to them, should be

reviewed and signed off by the Quality Reviewer prior to the execution of further audit procedures. During the execution the Quality Reviewer should be consulted on matters of importance. At the reporting stage, the Quality Reviewer should review the auditor's report early in the process.

The extent of the quality control review depends on the complexity of the audit and the associated risks. A quality control review would not involve a detailed review of all working papers, nor would it diminish the responsibility of the Audit Manager and Audit Director for the audit.

The Quality Reviewer should be part of all significant team meetings where key decisions are discussed. Review of key audit steps and working papers is done using the "review by interview" whenever possible to ensure that questions and concerns are addressed in a timely manner.

#### **4.4 Documentation and Differences of Opinion**

Effective consultation with other professionals requires that those consulted be given all the relevant facts to enable them to provide informed advice on technical, ethical or other matters. The documentation of the consultation should enable an understanding of the issue on which consultation was sought; the results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented. When consultations are undertaken with an external specialist; the same procedures apply.

Disagreements between the audit team and the Quality Reviewer must be resolved. If the team and Quality Reviewer are unable to reach an agreement, the issue should be taken to the Auditor General.

#### **4.5 Quality Reviewer Checklist**

Guidance for the Quality Reviewer along with a suggested QR Checklist is included at Appendix 10.2. This checklist was developed for performance audits but many of the questions apply equally to financial and other audits.

## 5. Practice Review

A Practice Review is an after-the-fact review of a completed audit to ensure that it was conducted in compliance with the relevant standards, policies, and other elements of the Audit Quality Assurance Framework. The purpose of the Practice Review function is to provide information, advice, and assurance to the Auditor General that important AOG management systems for audit practices, administrative services, and management processes are appropriately designed and effectively operated to comply with the AOG's mandate, mission, policies, and procedures.

A Practice Review assesses whether an audit was conducted in compliance with the relevant standards, policies, and procedures outlined in the AOG's Audit Manual. Self-assessment may also form part of these internal assessments. There is an underlying logic for the suggested practice review approach. Please consult the logic model at the end of this chapter. It is critical that the Practice Reviewer understands this model.

### 5.1 Responsibilities and Operating Principles

The qualifications for Practice Reviewers are similar to those for Quality Reviewers. Practice Reviewers must be fully trained in conducting reviews; however, they do not require the same degree of subject matter knowledge as Quality Reviewers.

The Director, Quality Assurance is responsible for:

- developing and maintaining a quality assurance program that covers all aspects of the audit activity;
- developing a practice review plan that is consistent with the AOG's objectives, based on a risk assessment, done at least annually, and that considers the input of the Auditor General and senior office management;
- developing the guidance and tools to be used in carrying out reviews and audits;

- conducting the reviews and audits;
- meeting regularly with the Auditor General;
- reporting the results of practice reviews to the Auditor General.

In conducting Practice Reviews, the following principles apply:

- Practice Reviews are conducted annually and over a three-year period the work of all managers is covered. The universe of potential work to be selected for a Practice Review includes all audits completed by the AOG.
- The objective of Practice Reviews is to promote continuous improvement in practice, based on an objective review of the extent to which the audit was conducted in compliance with professional auditing standards, AOG audit policies, and the INTOSAI Code of Ethics that were in force at the time of the audit.
- Openness and communication with management and the audit team characterize all practice reviews. The views of key players are sought before a report is finalized. Practice Reviewers have access to all AOG information needed to carry out their work. All AOG employees are expected to cooperate fully with staff assigned to conduct practice reviews.
- A major focus of the Practice Review is on areas where the auditor exercised professional judgement, including as a minimum:
  - Setting the scope and objectives of the audit
  - Selecting suitable audit criteria
  - Selecting appropriate methodology and samples
  - Evaluating the evidence collected and determining the cause and effect of audit findings when criteria are not met



- Concluding against audit objectives
- A report is completed for each Practice Review, noting areas of compliance and non-compliance with the relevant standards, policies, and procedures. The results of every Practice Review are discussed with the Audit Manager and Audit Director prior to finalizing the Practice Review report. Where there are unresolved differences in the interpretation of standards and policies, or the extent to which they were followed by a team, these differences are noted in order to highlight the potential need for clarification.
- Practice Review results and reports do not identify individuals who conducted the audit. The objective is to identify practice-wide trends and areas where corrective action may be required. Corrective action would normally take the form of additional professional guidance and training with respect to professional auditing standards, AOG audit policies, and the INTOSAI Code of Ethics.

Results of the practice reviews should be communicated at least annually to the Auditor General. The reports should include:

- a description of the review procedures performed;
- the conclusions drawn from the review procedures;
- where relevant, a description of systemic, repetitive or other significant deficiencies and of actions taken to resolve or amend those deficiencies; and
- recommendations for appropriate remedial action.

The practice review function is periodically subject to external review by an independent organization (Chapter 6). External review reports are subject to review and approval by the Auditor General.

Practice review is an element of continuous improvement and identifies areas where improvements in systems, practices, or professional development can be made. Openness and communication with management and staff characterize all practice reviews.

## 5.2 Approach and Guidance

A key issue for a Practice Reviewer is the objectivity of the audit team. Is there any indication that the team started an audit with their minds made up instead of letting the evidence lead them to a conclusion? Telling signs of a lack of objectivity are the wording of audit objectives and, most importantly, audit criteria. The Practice Reviewer is looking for any evidence of bias.

### General

General Issues	Questions for Practice Reviewer
1. Independence, objectivity, and INTOSAI Code of Ethics	<ul style="list-style-type: none"> <li>• <i>Audit Objectivity: Are you satisfied that the auditors had not made up their minds in advance?</i></li> <li>• <i>Conflict of Interest: Did the Audit Manager consider the independence of this team.</i></li> <li>• <i>Confidentiality: Are you satisfied there was no evidence of a breach of confidentiality?</i></li> </ul>
2. Audit and project management	<ul style="list-style-type: none"> <li>• <i>Are you satisfied that the audit had milestones, a budget, and variance reporting? Consider:</i> <ul style="list-style-type: none"> <li>• <i>The starting and end date of audit</i></li> <li>• <i>Budget variances and approvals of variances</i></li> <li>• <i>The reasonableness of the time taken, relative to the scope</i></li> </ul> </li> </ul>
3. Ongoing monitoring and supervision	<ul style="list-style-type: none"> <li>• <i>Are you satisfied that the Audit Manager and the Quality Reviewer monitored quality?</i></li> </ul>
4. Department heads and their senior	<ul style="list-style-type: none"> <li>• <i>Was the department informed of the audit</i></li> </ul>

managers should be informed of their responsibilities with respect to audits performed by the AOG.	<i>on a timely basis? Was this properly documented?</i>
5. The long-range and annual audit plans for the AOG should ensure that matters of significant risk relevant to the AOG's mandate and priorities are audited or studied in a timely fashion, and that the requirements of the AOG's mandate are met.	<ul style="list-style-type: none"> <li>• <i>Was this audit part of the audit plan? If not, was the rationale documented in the audit files?</i></li> </ul>
6. Due care and professional judgement	<ul style="list-style-type: none"> <li>• <i>Are the audit files complete, readily assessable and well organized?</i></li> <li>• <i>Are you satisfied that the team consulted and documented key judgements made throughout the audit, including as a minimum:</i> <ul style="list-style-type: none"> <li>• <i>Setting the scope and objectives of the audit</i></li> <li>• <i>Selecting suitable audit criteria</i></li> <li>• <i>Selecting appropriate methodology and samples</i></li> <li>• <i>Evaluating the evidence collected and determining the cause and effect of audit findings when criteria are not met</i></li> <li>• <i>Concluding against audit objectives.</i></li> </ul> </li> </ul>
7. Auditors have an objective state of mind and are independent	<ul style="list-style-type: none"> <li>• <i>Did the Audit Manager prepare a formal assessment of the teams' independence and objectivity?</i></li> </ul>
8. Collective knowledge of the subject matter and the auditing proficiency necessary to fulfill the requirements of the audit	<ul style="list-style-type: none"> <li>• <i>Are you satisfied that the audit team was competent in the subject matter and in required audit and technical areas?</i></li> </ul>
9. Proper supervision of all of its members	<ul style="list-style-type: none"> <li>• <i>Are you satisfied that the Audit Manager was involved in all key decisions and judgements, monitored progress and provided necessary direction to staff? Consider the following factors:</i> <ul style="list-style-type: none"> <li>• <i>Are you satisfied with the</i></li> </ul> </li> </ul>

	<p><i>documentation of supervision, e.g. evidence of direction and supervision in emails?</i></p> <ul style="list-style-type: none"> <li>• <i>Proper sign-offs obtained</i></li> <li>• <i>Evidence of Audit Manager's review of completed files and draft reports</i></li> </ul>
10. Appropriate consultation and advice throughout the audit.	<ul style="list-style-type: none"> <li>• <i>Did the audit team use advisors or other experts to get advice on the audit plan, audit findings, and draft report?</i></li> </ul>

## Audit Planning

The Practice Reviewer is trying to understand the chain of logic that holds the audit together in a coherent, credible and defensible whole.

The starting point is knowledge of business. At the outset of the practice review, the Practice Reviewer will interview the team to understand how the team understood the subject of the audit. This will enable the Practice Reviewer to follow the chain of logic from the nature of the entity being audited though to key scoping and extent of work decisions.

Also, at this point, an alert Practice Reviewer is looking for evidence of some of the following conditions:

- **Over or under auditing:** Perhaps the Reviewer has found a thoroughly documented audit, but no rationale for the scope decisions. The Practice Reviewer is uncertain whether the team has over or under audited. If all or most of the transactions of an audited organization are examined and there is no documented rationale for this decision, then “partial compliance” would likely be warranted.

- Imprecise audit objectives: A vigilant Practice Reviewer is always looking for vaguely worded audit objectives that will be difficult to conclude against. Words like adequate or reasonable are a clue to imprecise audit objectives.
- Unsuitable audit criteria: Here the Practice Reviewer is looking for two kinds of errors, each of which can constitute a potentially serious audit error. The first is the use of criteria that lack legitimacy. If challenged by an outsider, the AOG would be unable to say where they got the criteria because they were essentially created by the team. Such criteria often fail the test of neutrality because they “lead the witness” and are biased against the entity. The second error is incomplete criteria. If a team is to conclude on a complex function with many attributes, it must deal with most of the key attributers of the function in the audit criteria and related sub-criteria. If a team defines only a few of the attributes, this will not be good enough to support a conclusion against an audit objective. Incomplete audit criteria can occur with imprecise audit objectives. The occurrence of both errors constitutes a serious enough condition to warrant a conclusion of “does not conform.”
- Audit efficiency: Assessing the efficiency of an audit is difficult. Who knows how long an audit should have taken, both in elapsed time and total hours. The Practice Reviewer has to apply some common sense, identifying glaring cases of audits that took too long, too many hours, relative to the scope of the work performed. This is an area that the Practice Reviewer will have to pursue through interviews with the audit team.
- Lack of demonstrated understanding of the subject of audit. The team needs a sound knowledge and understanding of the audit subject. Good practice requires summary documentation of the key elements of the audit entity, and the auditor’s evaluation of the audit implications of the risks implicit in the subject of the audit.

The audit plan should contain:

- The audit scope, major considerations and rationale for the scoping decisions, reasons for any limitations on the scope, and how the audit addresses any risks identified as part of the audit selection phase;
- A description of the audit approach and methodology (that is, the nature, extent and timing of evidence to be collected and analyzed, taking into account the identified risks and tests for reliance on controls), including opportunities to quantify results:
- Audit objectives that clearly set out the questions that the auditor is trying to answer.

Before starting field work, the audit team should prepare audit programs that set out the detailed audit procedures for carrying out the examination.

Auditors need a means of measuring or judging the performance of the matters subject to audit. The standards used for this purpose are referred to as audit criteria. Audit criteria are reasonable and attainable standards of performance and control against which compliance, the adequacy of systems and practices, and the efficiency and cost effectiveness of activities can be evaluated and assessed. They are to be relevant, reliable, neutral, understandable and complete. The aggregate of the findings against criteria, along with professional judgement, allows the audit team to form a conclusion against each audit objective.

Planning Issues	Questions for Practice Reviewer
11. Adequately planned to meet the audit's objectives in an effective and efficient manner	<ul style="list-style-type: none"> <li>• <i>Are you satisfied that the audit team drew up a budget? Did they meet it, explain variances?</i></li> </ul>
12. Clear audit objectives that can be concluded against	<ul style="list-style-type: none"> <li>• <i>Are the objectives clear, measurable and precise?</i></li> <li>• <i>Ensure the objectives do not use words such as adequate, well</i></li> </ul>

	<p><i>managed, appropriate, sufficient or reasonable.</i></p> <ul style="list-style-type: none"> <li>• <i>Are the objectives linked to a complete set of audit criteria, sufficient to allow a defensible conclusion?</i></li> <li>• <i>Did they provide a basis to reach a conclusion?</i></li> </ul>
13. Clear scope that focuses the extent, timing and nature of the audit	<ul style="list-style-type: none"> <li>• <i>Is there a well documented rationale for the extent of testing?</i></li> <li>• <i>Please document details on the size of the audit universe, the size of sample audited.</i></li> <li>• <i>Is there documentation of the key judgements made on risk and the related sample?</i></li> <li>• <i>Is the period audited clearly stated in the scope statement?</i></li> </ul>
14. Issues (lines of audit enquiry) selected on the basis of their relevance to the AOG's mandate, significance and auditability	<ul style="list-style-type: none"> <li>• <i>If the issues upon which the team focused are not self evident, is the rationale for the selection and prioritization of some issues over others well documented?</i></li> </ul>
15. Suitable criteria that focus the audit and provide a basis for developing observations and conclusions	<ul style="list-style-type: none"> <li>• <i>Are you satisfied that the criteria used by the team are suitable? Consider if they are:</i> <ul style="list-style-type: none"> <li>• <i>Relevant</i></li> <li>• <i>Reliable</i></li> <li>• <i>Neutral</i></li> <li>• <i>Understandable</i></li> <li>• <i>Complete</i></li> </ul> </li> <li>• <i>Was positive assurance of suitability obtained from auditee management?</i></li> </ul>

## Audit Examination

Due care is a state of mind, an attention to detail. A very basic test of due care is in the arrangement of the files. Have the procedural requirements for file assembly been met? But more important than the housekeeping side of an audit is the documentation of key decisions and exercise of professional judgement. The existence of both a compelling chain of logic and judgements congruent with the facts will generally lead a Reviewer who examines a completed audit file to come to the same conclusions as the auditors. A key question for the Practice Reviewer is *“after reviewing the auditors documented chain of logic and audit judgements, am I led to the same conclusions (and recommendations) as the audit team?”*

Auditors need to exercise professional judgement in documenting evidence. A guiding principle is that the audit files and working papers must include either the evidence or the description of the evidence examined, sufficient to allow audit managers and others who examine all of the evidence to come to the same conclusions as the auditors. A major focus of the practice review is on areas where the auditor exercised professional judgement.

The concepts of sufficient (quantity) appropriate (quality) evidence are interrelated. The quantity of evidence is sufficient if, when taken as a whole, its weight is adequate to provide persuasive support for the contents of the audit report. In exercising professional judgement, auditors should ask themselves whether the collective weight of the evidence that exists would be enough to persuade a reasonable person that the observations and conclusions are valid and that the recommendations are appropriate. Important factors to consider in making judgements include the:

- quality of the evidence—its relevance, reliability, and validity;
- level of significance of the observation or conclusion—in general, the higher the level of significance, the higher the standard that evidence will have to meet;



- risk involved in making an incorrect observation or reaching an invalid conclusion; and cost of obtaining additional evidence relative to likely benefits in terms of supporting observations and conclusions.

The Practice Reviewer will verify the overall logic of the audit, and most importantly, the alignment between objectives, criteria, conclusions, sufficiency and evaluation of evidence, and recommendations. The Practice Reviewer will select the most prominent example of non-compliance noted in the final report and work from the recommendation back to the conclusion, the evaluation and persuasiveness of the evidence relative to each criterion, looking at the alignment between the conclusion reached on individual criteria and the original objectives. A template is provided to document the result of this work.

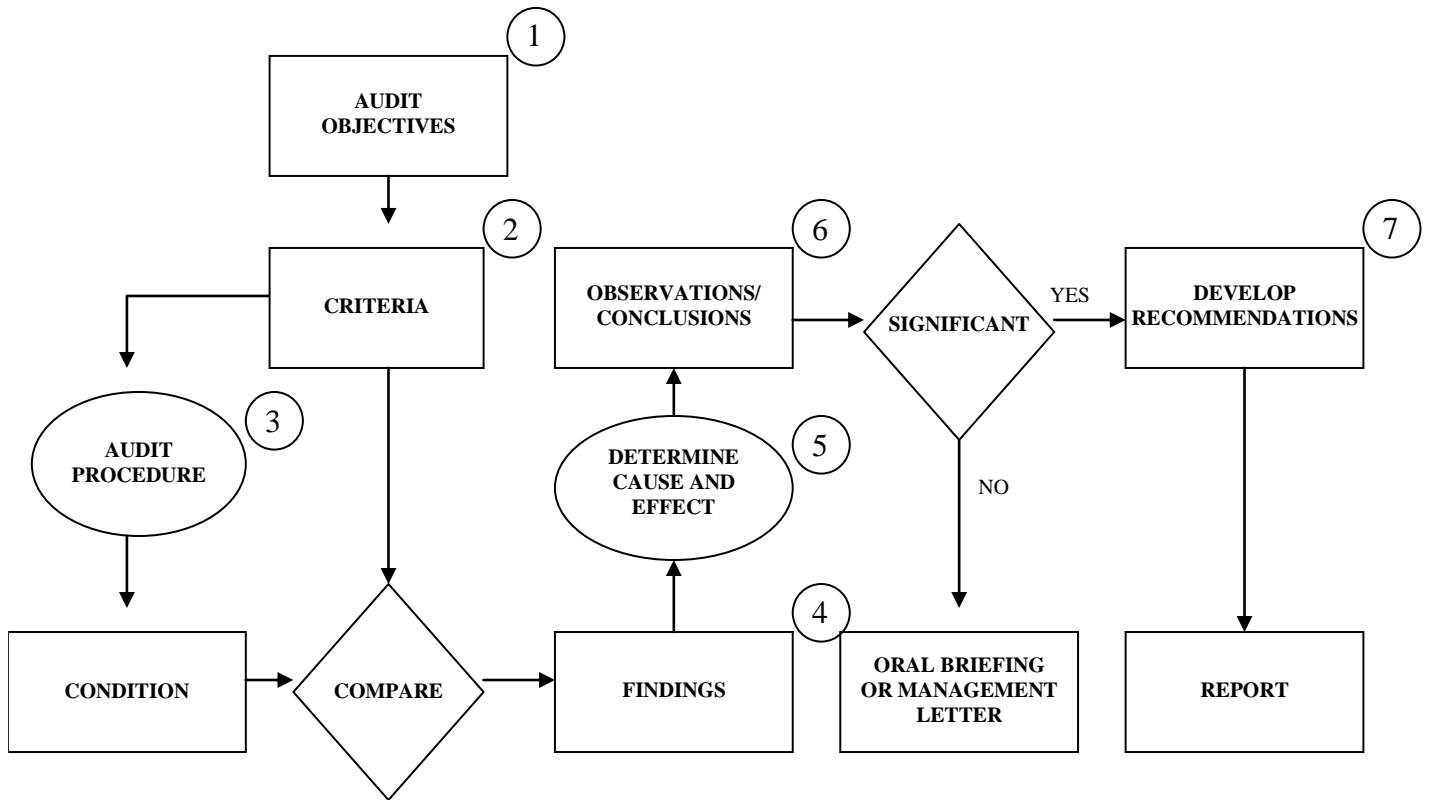
The Practice Reviewer is looking for any indication of the following:

- Imprecise objectives/incomplete criteria: Because the original objectives were imprecise, and the associated criteria were not complete enough to support a defensible conclusion, the overall conclusions may be open to challenge.
- Unsupported judgements made in evaluating cases of non-compliance. Any auditor will have to make a difficult call in placing noted cases of non-compliance in the proper context. Are these one-offs or recurring errors? Are individual cases of non-compliance sufficiently pervasive to warrant a wider non-compliance opinion? These critical judgements should be documented
- Lack of sufficient appropriate evidence: The evidence has to be relevant and there has to be enough of it. The Practice Reviewer is looking for cases where evidence from one source has not been corroborated with evidence from another source.
- Unsupported recommendations: The audit team has to demonstrate to the Practice Reviewer that they probed to the root causes of observed cases of non-compliance. The auditors need to demonstrate in their working papers that they

identified a significant systematic problem that warranted a recommendation. The Practice Reviewer will be looking for the audit team's cause and effect analysis.

Audit Examination Issues	Questions for the Quality Reviewer
16. Sufficient appropriate evidence to support the contents of the audit report	<ul style="list-style-type: none"> <li>• <i>Are there enough source documents from the entity and corroborating evidence to lead you to the same conclusion that the team reached?</i></li> </ul>
17. Objectively evaluate the evidence against the criteria to develop observations and conclusions	<ul style="list-style-type: none"> <li>• <i>Did the team document their analysis of the key evidence supporting conclusions of compliance and non compliance, creating a compelling chain of logic between raw findings, the wider population of relevant transactions and the conclusions reached by the team?</i></li> </ul>
18. Recommendations to guide necessary corrective actions	<ul style="list-style-type: none"> <li>• <i>Did the team create a chain of logic between observed cases of non-compliance, the total populations of such transactions, the systems, practices and controls in place in the audited entity and the conclusions (including cause and effect analysis) and the recommendations made?</i></li> <li>• <i>Do the recommendations address the root causes of deficiencies?</i></li> </ul>
19. Necessary and sufficient observations to support the conclusions reached against each audit objective.	<ul style="list-style-type: none"> <li>• <i>Did the audit team create a credible and reasonably visible chain of logic between objectives, criteria, findings, conclusions and recommendations?</i></li> </ul>

### 5.3 Audit Logic Chain



○ - REPRESENTS KEY DECISION POINT IN THE AUDIT PROCESS WHICH DRIVES EVIDENCE REQUIREMENTS



## **Key decisions / professional judgements during the audit process**

### **Decision Point 1**

The audit objectives and scope are determined during the planning phase of the audit to assess lines of audit enquiry. Audit objectives are based on factors such as the audit mandate, knowledge of the entity, and an analysis of audit risk and significance. Audit objectives should also be consistent with the audit office's vision, strategic plan, and priorities.

Audit objectives should be clear and specific, objective, and measurable. The basis for decisions made on the audit objectives and scope should be documented in the working papers.

### **Decision Point 2**

Audit criteria are developed consistent with the audit objectives and scope. Criteria may be developed from such sources as: legislation and policy statements; standards of good practice and performance measures developed by professions and associations; performance measures developed by the entity or among similar entities; criteria identified in similar audits; and criteria developed for the specific audit.

Audit criteria should meet all of the suitability characteristics: relevance, reliability, neutrality, understandability, and completeness. The practitioner should obtain and document management's agreement to the audit criteria.

The authoritative sources supporting the audit criteria should also be clearly identified in the working papers.

### **Decision Point 3**

Following the development of the audit objectives, scope, and criteria, audit programs are prepared detailing the audit procedures / test steps to be performed. Facts about the condition are gathered through the performance of these procedures. Facts should be supported by proof; that is, sufficient appropriate evidence must be obtained and should be well documented and organized to allow for subsequent evaluation and review.

### **Decision Point 4**

The condition is assessed in relation to the criteria. During this assessment, consistency with the audit objectives, scope, and criteria must be maintained – findings that are not relevant to these must be re-evaluated.

In stating the audit findings, the auditor must assess the degree of confidence in the audit finding based on the strength of the evidence. If deficiencies have been found, are they isolated instances or are they pervasive?

The findings should be supported by persuasive evidence. Adequate documentation of the evidence supporting the finding and the degree of support that has been established should be recorded in the working papers.

**Decision Point 5**

Where the finding is negative, an assessment of the cause and effect normally forms part of the assessment process. Why did the deficiency occur? Identification of the root cause of a deficiency is necessary to make meaningful recommendations for corrective action.

What effect did or might the deficiency have? The significance of an audit finding is usually judged by its real or potential consequence or impact. Consequences should be quantified whenever it is practicable to do so.

**Decision Point 6**

The audit findings provide the basis for the observations and conclusions. Audit observations describe the deficiency, explain the cause, and present the consequence. Based on the nature and extent of audit observations, conclusions are drawn against the audit objectives. An adverse conclusion is reached when the extent and significance of the audit observations are compelling.

**Decision Point 7**

In many cases, internal audit reports include recommendations, although these are not mandatory. The recommendations are designed to address the causes that have been identified in order to correct specific problems identified in the audit findings and conclusions.

Documentation should include evidence that a recommendation will have the desired remedial effect on the problem it is intended to address, and that it is justified in relation to the cost of its implementation.

## 6. External Review

The Audit Office of Guyana will periodically appoint an external organization to carry out an independent review of its audit practice. The purpose of such a review is to assess the extent to which the AOG's audit practice conforms to recognized professional standards and is operating effectively to produce independent, objective, and supportable information that the Guyana National Assembly can rely on to hold the government to account.

### 6.1 Approach and Guidance

An external review should be carried out within five years of the adoption of the audit Quality Assurance Policy. External reviews should:

- Examine both the design and operation of the SAI's audit practice;
- Focus on key controls related to independence, objectivity, and reliability;
- Use the standards of professional practice applicable to the SAI's own country;
- Be carried out in a collegial manner so as to maximize learning for all concerned.

The external review should use a principles-based approach focussing on independence, objectivity, and reliability. SAIs should be assessed against the standards of professional practice applicable in their home country and the review should be carried out in accordance with commonly accepted auditing principles consistent with INTOSAI's Code of Ethics and Auditing Standards. SAIs should be free to specify supplementary criteria for their review if they wish to do so.

The external review should be tightly focussed and professionally executed so that the level of effort and the financial resource requirements are not unnecessarily burdensome to either the reviewers or the reviewed SAI. A SAI should request an external review only after a thorough self-assessment has demonstrated the audit practice and the organization to be review-ready.

The SAI's internal practice review function should be assessed to determine whether it can be relied on to provide assurance that the SAI complies with applicable professional standards.

An important aspect of the external review is the learning experience they afford for all concerned. External reviews should be carried out in a collegial manner, with open and transparent communication between the review leader and the reviewed SAI throughout the process. There should be no surprises.

The external review process should comprise three elements:

1. Design assessment – to determine whether the framework underpinning the SAI's audit practice reflects applicable professional standards and appropriate measures to ensure that the products of the practice are independent, objective, and reliable;
2. Reliance assessment – to determine whether the SAI's own practice review function provides assurance that the practice is operating in compliance with the SAI's policy expectations and applicable professional standards;
3. Implementation assessment – to determine whether the performance audit practice is operating effectively to provide users with independent, objective, and reliable information.



## 6.2 Qualifications for External Reviewers

External reviewers, including those who validate self-assessments, should be independent of the organization and of the audit activity. The review team should consist of individuals who are competent in the professional practice of auditing and the external assessment process.

The individual or organization that undertakes to perform the external review, the members of the review team, and any other individuals who participate in the review should be free from any obligation to, or interest in, the organization whose audit activity is the subject of the external review or the personnel of such organization. In the selection of an external reviewer, consideration should be given to a possible real or apparent conflict of interest that the reviewer may have due to present or past relationships with the organization or its audit activity.

Integrity requires the review team to be honest and candid within the constraints of confidentiality. Objectivity is a state of mind and a quality that lends value to a review team's services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free from conflicts of interest.

Performing and communicating the results of an external review require the exercise of professional judgement. Accordingly, an individual serving as an external reviewer should be a competent, certified audit professional who possesses current, in-depth knowledge of the audit practice. The reviewer should be well versed in the best practices of the profession and have at least three years of recent experience in the audit practice at a management level.

## 6.3 Communicating Results

The preliminary results should be discussed with the Auditor General during and at the conclusion of the review process. Final results should be communicated to the Auditor

General who would make the report available to elected officials through the appropriate channels. Best practice would see the external review report be a public document.

The external review report should include the following:

- An opinion against each of the three elements described above in Section 6.1:
  - Design,
  - Reliance,
  - Implementation;
- A clear opinion on compliance with applicable professional standards;
- An assessment and evaluation of the use of best practices, both those observed during the review and others potentially applicable to the organization;
- Recommendations for improvement, where applicable;
- Responses from the audit office that include an action plan and implementation dates.

The expression of an opinion on the results of the external review requires the application of sound professional judgement, integrity, and due professional care. This highlights the importance and care that must be given to the selection of the external review team.

## 7. Not Used



## 8. Not Used



## 9. Quality Improvement Program

Recommendations are made when Practice Reviews and other assessments conducted under the Quality Assurance Program identify opportunities for improvement in audit practice. Management's planned actions in response to these recommendations are presented in a Quality Improvement Plan that is approved by the Auditor General.

### 9.1 Quality Improvement Plan

A Quality Improvement Plan, based on the findings and recommendations of periodic quality assessments, should be prepared and implemented to improve the quality and effectiveness of the audit activity.

Continuous improvement is a basic premise of the Quality Assurance Framework. Practice reviews and other periodic assessments identify areas where improvements in systems, practices, and professional development can be made. Corrective action would normally take the form of additional professional guidance and training with respect to professional auditing standards, AOG audit policies, and the INTOSAI Code of Ethics. The timely and appropriate modification of resources, technology, and administration may also occur.

The Quality Improvement Plan should include the recommendation or issue to be addressed; the action to be taken; the person responsible for its implementation; and the date by which the action will be completed. The Auditor General approves the Quality Improvement Plan.

### 9.2 Follow up

There should be regular follow up to ensure that corrective action is implemented as planned and that identified deficiencies are corrected. The Director, Quality Assurance should be responsible for undertaking this follow up. The Auditor General should receive a brief written report every six months summarizing the progress that has been made and highlighting any delays or concerns.





## 10. Appendices

### 10.1 Auditing Standards

In every organization or institution, standards that were developed by regulatory bodies have to be adhered to. Standards result 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. Since audit procedures are consistent with auditing standards and provide 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) state 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 audit results is evaluated.”

#### **BASIC PRINCIPLES IN AUDITING**

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 judgement in deciding which action to take.

In the case of Supreme Audit Institutions and especially the AOG, the need for proper standards is 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

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

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.

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.

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.

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-depth knowledge of the legal environment in which they are working in as it relates to state entities etc.

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.

When Auditors are on the job, they must do so in objective manner and not allow bias to cloud their judgement 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.

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**

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.

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.

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**

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**

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**

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.

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.

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.

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.

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 to see if there were any deviations from the work planned and if the deviation was not authorized, why so.

#### **REPORTING STANDARD IN AUDITING**

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 tests and other work on.

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** – 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.

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.

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.

## 10.2 Quality Reviewer Checklist

**The Role of the Quality Reviewer.** Right attitude, diligence, some degree of imagination and creativity, and most importantly, critical thinking are key attributes of an effective Quality Reviewer. Of these attributes, right attitude is often the most challenging. The Audit Manager is accountable for the quality of the audit. She or he is in charge of the audit, and all key audit decisions and judgements. The role of an effective Quality Reviewer is not to make audit decisions. The role of an effective Quality Reviewer is to pose timely questions that may lead the Audit Manager to consider relevant points that might have escaped her or his full attention in the heat of completing an audit. The right attitude for a Quality Reviewer is “hands off, eyes wide open.”

**The Objective of the Quality Review Function:** A Quality Reviewer is assigned to any given audit assignment to ensure that all potential risks to the credibility of the AOG are considered and adequately managed/mitigated.

**Establishing a Relationship of Trust and Respect:** To be effective, a Quality Reviewer must establish and maintain a good relationship with the Audit Manager and the audit team. This relationship must be based on mutual trust and respect. An effective Quality Reviewer should be seen by the team as a valued advisor whose role is to support the team in striving for audit excellence.

**Handling Differences in Perspective:** From time to time, the Quality Reviewer and an Audit Manager may reach different conclusions, judgements, or interpretations, when viewing the same situation or set of data. It is normal and expected for professionals to see things differently. The role of the Quality Reviewer is to articulate her or his view, providing the Audit Manager with all the relevant information to make the final judgement.

In most cases an effective and astute Quality Reviewer will distinguish between normal healthy differences in perspective and those differences that may put the credibility of the AOG at risk. In some rare cases where the Quality Reviewer feels that a risk to the AOG’s credibility has not been sufficiently mitigated or managed, the Quality Reviewer and the Audit Manager may agree to disagree. In this rare situation, the Quality Reviewer has an obligation to move the issue up the chain of authority in a respectful manner. In all meetings with the Audit Manager’s immediate superior, the Manager should be present to present her or his view.

**Quality Reviewer Checklist**

**Audit Engagement:** \_\_\_\_\_

**Audit Manager:** \_\_\_\_\_

**Quality Reviewer:** \_\_\_\_\_

<b>1.</b>	<p><b>I have conducted a sufficient review to understand the context of the audit and the independence and competency of the audit team. I am satisfied that:</b></p> <ul style="list-style-type: none"> <li>• Each auditor’s individual independence and objectivity been declared and documented.</li> <li>• The auditor’s individual audit proficiency and the audit team’s collective audit proficiency have been assessed and the results of this assessment have been adequately documented.</li> <li>• The audit team’s collective knowledge of the subject matter has been adequately documented.</li> <li>• The team considered and documented its decisions to engage specialists.</li> </ul>	
<b>2.</b>	<p><b>I have reviewed the Audit Plan and I am satisfied as to the <u>quality of audit design</u>:</b></p> <ul style="list-style-type: none"> <li>• <b>Links to AOG mandate</b> <ul style="list-style-type: none"> <li>○ It is clear how the audit links to the AOG mandate and advances AOG audit priorities.</li> </ul> </li> <li>• <b>Lines of audit enquiry</b> <ul style="list-style-type: none"> <li>○ There is documentation supporting the choice of lines of audit enquiry.</li> <li>○ It is clear how Knowledge of Business (KOB) was acquired and KOB is adequately documented.</li> </ul> </li> </ul>	

	<ul style="list-style-type: none"> <li>○ It is evident how significant areas were identified and risks assessed.</li> <li>● <b>Audit objectives</b> <ul style="list-style-type: none"> <li>○ The audit objectives are clear and specific, objective, and measurable.</li> <li>○ The objectives do not contain vague words such as adequate, appropriate, sufficient, reasonable, well managed, timely, economic and efficient. (If so, these words are defined in the audit criteria).</li> </ul> </li> <li>● <b>Audit criteria</b> <ul style="list-style-type: none"> <li>○ The sources of criteria are specified.</li> <li>○ The criteria meet suitability characteristics; in particular, they are relevant (to the audit objective) and complete.</li> <li>○ There is adequate evidence of management's agreement with the criteria.</li> </ul> </li> </ul>	
3.	<p><b>I am satisfied that the audit team has prepared appropriate audit programs to guide the audit work:</b></p> <ul style="list-style-type: none"> <li>● The audit programs explain the approach and methodology that will be used.</li> <li>● The sampling strategy and the underlying rationale is adequately described (e.g. population, sampling frame and unit, type of sample, sample size).</li> <li>● Opportunities for quantification have been identified and the cost-benefit of the proposed quantification approach is clear.</li> <li>● The audit programs describe how the validity and reliability of secondary-source data will be verified.</li> <li>● The test steps in the audit programs are relevant to the audit criteria and are complete.</li> <li>● The audit programs were approved before the work was started.</li> </ul>	
4.	<p><b>I have reviewed the audit files and am satisfied as to the <u>strength of the audit evidence</u>:</b></p> <ul style="list-style-type: none"> <li>● There is persuasive evidence for deficiencies.</li> <li>● The root cause of deficiencies has been determined. Sufficient analysis has been documented to establish whether the noted deficiencies are isolated or systemic and pervasive.</li> <li>● The consequence (real or potential) of deficiencies has been specified.</li> <li>● The auditors concluded against each criterion. If not, the conclusion is self-evident from the findings.</li> <li>● The audit findings are quantified where reasonable to do so.</li> <li>● The consequences of deficiencies are quantified.</li> </ul>	



5.	<p><b>I have reviewed the draft audit report and am satisfied that:</b></p> <ul style="list-style-type: none"> <li>• The period covered by the audit is disclosed in the scope statement.</li> <li>• The audit criteria are explicitly stated and consistent with the criteria deemed suitable by entity management.</li> <li>• There is a clear conclusion(s) against the audit objective(s).</li> <li>• There is persuasive evidence supporting the conclusion(s).</li> <li>• The significance of the audit findings is clear and the significance is quantified.</li> <li>• The recommendations are directed to the observed and documented root causes of significant deficiencies.</li> <li>• There are management comments in response to the recommendations. It is clear that management agrees with the recommendations, what will be done, and by when.</li> </ul>	
6.	<p><b>I am satisfied that there is documented evidence of supervision/review at each phase of the audit and that it is commensurate with the audit proficiency of the team.</b></p>	
7.	<p><b>I am satisfied that there is adequate documentation of the consultation that occurred during the audit:</b></p> <ul style="list-style-type: none"> <li>• For any contentious issues that arose during the audit, there is adequate documentation of the consultation that took place.</li> <li>• The conclusions resulting from consultation are documented as well as the extent to which advice received was implemented.</li> </ul>	
8.	<p><b>I am satisfied that continuous learning occurred during the audit and lessons learned were communicated to senior audit management:</b></p> <ul style="list-style-type: none"> <li>• Innovative audit practices were used and shared with others.</li> <li>• Any areas for improvement in audit practice were identified.</li> <li>• Any requirements for better audit guidance and training were identified and communicated.</li> </ul>	
9.	<p><b>All disagreements between the team leader and Quality Reviewer have been satisfactorily resolved.</b></p>	

Quality Reviewer Sign-off: \_\_\_\_\_

Date: \_\_\_\_\_

### 10.3 Satisfaction Surveys

#### Office of the Auditor General, British Columbia, Canada

For each question please select the attribute that best describes the performance of our Office.

Item	Characteristic of Audit	OAG Performance					
			1	2	3	4	5
		N/A	Very Poor	Poor	Adequate	Good	Very Good
1.1	Over the course of the audit, the auditors became sufficiently knowledgeable of the organization and the environment it operates within.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.2	The auditors maintained professional relations with the staff of your organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3	The auditors showed a genuine interest in learning about your organization and the challenges it faces.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.4	The auditors exhibited an objective attitude while conducting the audit.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Item	Characteristic of Audit	OAG Performance					
			1	2	3	4	5
		N/A	Very Poor	Poor	Adequate	Good	Very Good
2.1	The auditors focused their attention on the most important issues within the scope of the audit.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2	The audit identified good opportunities for improvement.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3	The audit acted as a catalyst for making improvements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Item	Characteristic of Audit	OAG Performance					
		N/A	1 Very Poor	2 Poor	3 Adequate	4 Good	5 Very Good
3.1	The auditors made reasonable efforts to minimize the demands placed on the staff while performing this audit.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.2	The auditors worked efficiently with the staff of your organization (e.g., being well prepared for meetings, and avoiding duplication of requests).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3	The auditors provided a reasonable amount of time to comply with requests for documentation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.4	The auditors provided a reasonable amount of time to respond to draft reports.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Item	Characteristic of Audit	OAG Performance					
		N/A	1 Very Poor	2 Poor	3 Adequate	4 Good	5 Very Good
4.1	The objectives and criteria of the audit were clearly communicated.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.2	The auditors maintained open communications during the course of the audit.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.3	The auditors exhibited a willingness to discuss your concerns regarding the findings of the draft report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.4	The auditors provided timely feedback or responses to questions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.5	When asked, the auditors were able to show that they had sufficient evidence to support the findings in the report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.6	The report was clear and concise.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.7	The findings of the audit were reported in an objective and fair manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### 5. Further Comments

5.1	Thank you for participating in this survey. Please take this opportunity to add further comments.
-----	--



Please enter the Project ID exactly as it appeared in your invitation to participate in this survey:

\_\_\_\_\_

Please rate the Internal Audit Activity in the following areas. (A response is required in Sections 1-6)

### EVALUATION CRITERIA

Section 1: Relationships with Management	-----Select ONE-----				
	Excellent	Good	Fair	Poor	N/A
1. Internal audit as a valued member of the management team.					
2. Organizational placement of the internal audit activity to ensure its independence and ability to fulfill its responsibilities.					
3. Auditors have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.					
4. The internal audit activity promotes a customer orientation by providing quality work.					

Section 2: Audit Staff	-----Select ONE-----				
	Excellent	Good	Fair	Poor	N/A
5. Objectivity of the internal auditors.					
6. Professionalism of auditors.					
7. Knowledge of your industry/organization/processes/success factors.					
8. Quality of relationship and rapport between auditors and your department.					

Section 3: Scope of Audit Work	-----Select ONE-----				
	Excellent	Good	Fair	Poor	N/A
9. Selection of important areas or topics for audit.					
10. Pre-audit notification to you of audit purpose and scope.					
11. Inclusion of your suggestions for areas or topics to audit.					

Section 4: Audit Process and Report	-----Select ONE-----				
	Excellent	Good	Fair	Poor	N/A
12. Feedback to you on emerging issues during audits.					
13. Duration of the audit.					
14. Timeliness of the audit report.					
15. Accuracy of the audit findings.					
16. Clarity of the audit report.					
17. Usefulness of the audit in improving business process and controls.					
18. Internal audit follow-up on corrective action.					

## 10.4 Reverse Audit Logic Template

#	Reverse Audit Logic	Consider
1.	Conclusion against audit objective	Clear?
2.	Recommendation ( <u>select one</u> )	Action oriented? What to do, not how to do it?
3.	Related cause	Root cause? Evidence?
4.	Consequence	Evidence? Quantified?
5.	Audit finding	
6.	Evidence related to audit finding	Persuasive? Corroborated? Quantified?
7.	Related criterion	Explicit? Conclusion against criterion?
8.	Audit objective	Clear, specific, measurable?
9.	Line of audit enquiry	Significance explained, clear?
10	Purpose of the audit	Related to an explicit risk?