Fundamental Principles of Public Sector Auditing

Exposure draft

Comments due 15 February 2013
# Table of content

## INTRODUCTION

## PURPOSE AND AUTHORITY OF THE ISSAI

**FRAMEWORK FOR PUBLIC SECTOR AUDITING**

- **Mandate**
- **Accountability, transparency, governance and performance**
- **Organisational requirements relating to quality control and ethics**
- **Objective of public sector auditing**
- **Confidence and assurance in public sector auditing**
- **Types of public sector auditing**

## ELEMENTS OF PUBLIC SECTOR AUDITING

- **The practitioner/auditor**
- **Responsible party**
- **Intended users**
- **Underlying subject matter**
- **Suitable criteria**

## PRINCIPLES TO BE APPLIED IN CONDUCTING AN AUDIT

**General principles**

- **Ethics and independence**
- **Quality control**
- **Engagement team management and skills**
- **Audit/engagement risk**
- **Materiality**
- **Professional scepticism and judgement**
- **Documentation**
- **Communication with auditees and other stakeholders**

**Principles related to the audit process**

- **Activities related to planning the audit**
- **Activities related to performing the audit**
- **Activities related to evaluating audit evidence, concluding and reporting**

## MAKING REFERENCE TO THE ISSAI

**Authority of the Fundamental Auditing Principles**
INTRODUCTION

1. Professional standards and guidelines are essential for the credibility, quality and professionalism of public sector auditing. The International Standards of Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) aim to promote independent and effective auditing and support the members of INTOSAI in the development of their own professional approach in accordance with their national laws and regulations and mandate.

2. ISSAI 100 provides the fundamental principles which are applicable to all public sector audit engagements whatever its form or context. In this context ISSAI 100 details information on the following:
   - the purpose and authority of the ISSAIs
   - the framework for public sector auditing, with reference to the Supreme Audit Institution’s (SAI) mandate and accountability
   - the organisational requirements relating to quality control and ethics
   - the objectives of public sector audits, and confidence and assurance in public sector auditing
   - the types of public sector auditing: financial, performance, and compliance auditing
   - the elements of public sector auditing including the roles of the auditor, responsible party and intended users, as well as the underlying subject matter of the audit and suitable criteria
   - the principles to be applied in public sector auditing
   - how to make reference to the ISSAIs.

3. The ISSAI 200, 300 and 400 further elaborate on the principles to be applied in the context of financial auditing, performance auditing and compliance auditing. The principles contained in these documents should be applied in conjunction with the principles presented in ISSAI 100.

PURPOSE AND AUTHORITY OF THE ISSAIs

4. The ISSAI framework has four levels. Level 1 contains the founding principles for a SAI. Level 2 sets out the prerequisites for the proper functioning and professional conduct of a SAI, providing principles and guidance on independence, transparency and accountability, ethics and quality control.

5. Levels 3 and 4 provide principles and guidance relevant to conducting an audit rather than to the SAI at the organisational level. They contain the common pronouncements by INTOSAI’s members of the generally recognised professional principles that underpin effective, independent auditing of public sector entities. The Fundamental Auditing Principles at level 3 draw and elaborate on ISSAI 1 The Lima Declaration and the ISSAIs at level 2 and provide the authoritative international frame of reference that defines public sector auditing in its contemporary forms.
6. Level 4 translates the Fundamental Auditing Principles into more specific, detailed and operational guidelines that can be used on a daily basis in the conduct of auditing tasks and can be used as the auditing standards when national auditing standards have not been developed. The General Auditing Guidelines (ISSAI 1000-4999) contain the recommended requirements for financial, performance and compliance auditing while the Guidelines on specific subjects (ISSAI 5000-5999) provide supplementary guidance on the auditing of specific subject matters or other important issues which may require the special attention of SAIs.

Figure 1: International Standards of Supreme Audit Institutions

- **Level 1**
  - Founding principles (ISSAI 1 - 9)

- **Level 2**
  - Prerequisites for the functioning of SAIs (ISSAI 10 - 99)

- **Level 3**
  - Fundamental auditing principles (ISSAI 100 - 999)

- **Level 4**
  - General Auditing Guidelines (ISSAI 1000 - 4999)
  - Financial audit
  - Performance audit
  - Compliance audit
  - Guidelines on specific subjects (ISSAI 5000 - 5999)
7. A prerequisite for the proper functioning and professional conduct of SAIs is the public sector auditor’s obligation to apply generally accepted auditing standards. The ISSAIs 100, 200, 300 and 400 contain the fundamental auditing principles for audit work conducted by the SAI. They provide the foundation for the development of national standards or for the application of the guidelines on level 4.

8. Reference to the Fundamental Auditing Principles in audit reports or Auditor’s Reports should only be made if the standards applied fully comply with all relevant principles therein. The principles do not override national laws, regulations or mandates.

9. As public sector business and governance becomes more complex new requirements are being added through a combination of laws, regulations, standards, codes, and other guidance and requirements. The architecture necessary to support these changing information needs is still developing, however the common concepts and fundamental principles of public sector auditing should still be applied.

FRAMEWORK FOR PUBLIC SECTOR AUDITING

Mandate

10. A SAI exercises its public sector audit function within a specific constitutional arrangement and by virtue of its office and mandate which ensures sufficient independence and powers to apply discretion in performing its duties. The mandate of a SAI may define the SAIs general responsibilities for the conduct of public sector auditing and provide further prescriptions concerning the audits and other functions to be performed.

11. SAIs may also be mandated to perform many types of engagements regarding any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public funds and assets. The extent or form of these engagements and reporting thereon varies in line with the legislated mandate of the SAI with some SAIs carrying out work which others do not, or cannot, or may not acknowledge within their own context and mandate as being “auditing”.

12. The SAI may make certain strategic decisions in order to respond to requirements in its mandate and other legislative requirements. Decisions may include which auditing standards will be applied, which audit or other engagements will be carried out and with what priority. These audits may be financial, compliance or performance audits or may be a combination of these or other types of engagements required in terms of the SAI’s mandate. The decision process within the SAI might lead to standing decisions or to decisions that are time limited, for example within a strategic or an annual plan.
13. In certain countries, the SAI is a court, composed of judges, which has authority over State accountants who must render accounts to it. This jurisdictional function requires the SAI to make sure that whoever is charged with dealing with public funds is accountable to it and is in this regard subject to its jurisdiction. There exists an important complementary relationship between this jurisdictional authority and the characteristics of public sector auditing.

**Accountability, transparency, governance and performance**

14. Public sector auditing is essential in providing independent, objective and reliable information to legislatures, oversight bodies, those charged with governance and the public. With this aim SAIs serve as important pillars of their national democratic systems and governance mechanisms and play an important role in enhancing public sector administration by emphasising the principles of transparency, accountability, governance and performance. ISSAI 20 Principles of Transparency and Accountability and ISSAI 21 Principles of Transparency – Good Practices contain guidance in this regard.

15. One important aim of independent audits in the public sector is to make a difference in the lives of citizens by contributing to trust, efficiency and effectiveness and improved public sector administration. Acting in the public interest places a responsibility on SAIs to be exemplary in responding to the challenges of societies; the changing environments in which audits are conducted; and the needs of different stakeholders in the democratic process, all within the parameters of their independence.

16. Public sector auditing contributes to improved public sector administration by:

- Enhancing accountability, transparency and encouraging continuous improvement in the appropriate use of public funds and assets and of public administration performance.

- Facilitating the functions of those bodies within the constitutional arrangement which exercise general oversight and corrective functions over those responsible for the management of publicly funded activities.

- Providing intended users with independent, objective and reliable information, conclusions or opinions based on sufficient appropriate evidence relating to public entities or publicly funded entities.

- Creating incentives for change by providing new knowledge, comprehensive analysis and well founded recommendations for improvement.
Organisational requirements relating to quality control and ethics

17. The ISSAIs at level 3 of the framework establish the Fundamental Auditing Principles that should be applied by the auditor in carrying out individual audit engagements. However, acting in the public interest places a responsibility on SAIs to be exemplary in the conduct of public sector audits. This has implications for the SAI as a whole (entity level) as well as for each auditor (individual level) and the proper establishment and functioning of organisational (SAI) level policies and procedures is a prerequisite for undertaking individual audit engagements. Each SAI should therefore establish a system of quality control to ensure good quality work and that its personnel comply with professional standards and applicable ethical, legal and regulatory requirements.

18. According to ISSAI 40 Quality Control for SAIs the elements of a system of quality control implemented by a SAI should include policies and procedures that address key issues for example leadership responsibilities for quality, ethical requirements, ensuring the adequacy and competency of human resources, engagement performance and monitoring. These policies and procedures should be documented and communicated to all auditors.
Objective of public sector auditing

19. Public sector auditing is conducted in the environment where governments and other public sector entities are the parties responsible for resources raised from taxpayers and other sources for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and performance, and their use of resources to those that provide them with the resources and those that depend on them to use the resources to deliver necessary services, including citizens. Public sector auditing helps to create the conditions and to reinforce the expectation that public sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with laws and regulations.

20. In general auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions correspond with established criteria. However different types of audits have different objectives: some may focus on determining the degree or manner to which the information corresponds with or deviates from criteria, others may focus on the causes of deviation from the criteria. The results of the evaluation of the information against criteria is communicated to users and may be presented in different formats which may include reports/opinions/conclusions/recommendations or a combination of these.

21. All audits begin with objectives, and those objectives determine the type of audit to be performed and the applicable standards to be followed. Some audits have multiple or overlapping objectives and in these cases the auditor should evaluate which standards or combination of standards will be most appropriate, depending on the user's needs and the primary purpose of the audit. For example, an audit of the legality and regularity of financial management and of accounting, sometimes referred to as regularity audit, will embrace elements of both financial and compliance auditing standards and practices. In all cases the SAI considers what is to be audited e.g. financial statements and/or programmes and activities and/or compliance with authorities (the subject matter) which institutions are likely to be audited or concerned in the audit (the audited entities or responsible party), and to whom the ultimate reports/opinions/findings/recommendations is likely to be directed or to be of interest (the intended user(s)).

Confidence and assurance in public sector auditing

22. Public sector auditing provides an objective, independent assessment of stewardship and performance of government policies and operations, and thus in general enhances the confidence of the intended users in the appropriate use of public funds and assets, adherence to applicable laws and regulations and the performance of public administration. The users of the audit reports expect that the conclusions are well founded and reliable.

23. Audit is a process in which the auditor performs procedures to reduce or manage the risk of reaching incorrect conclusions, recognizing that there are inherent limitations in all audits. These limitations mean that an audit can never provide absolute certainty of the condition of the underlying subject matter. This should be communicated in a transparent way.

24. In some types of audits the information is provided by the responsible party, and the purpose is to obtain sufficient and appropriate audit evidence as to whether the information is free from material misstatement. In other types of audits the information is provided by the auditor, sometimes with the same purpose as when information is provided by the responsible party,
but sometimes also to provide new information, analyses or insights, and where appropriate, recommendations.

25. Depending on the purpose of the audit, the level of confidence may be communicated in different ways:
   - By providing an explicit statement on the level of assurance in an opinion in a standardized format or in a conclusion in a non-standardized form.
   - By providing a consistent and persuasive description of the audit objective, the evidence obtained, the findings, the conclusions and recommendations.

26. In both cases the audits are required to be objective and results are based on findings supported by sufficient and appropriate evidence.

Types of public sector auditing

27. Public sector auditing is not uniform, but has many diverse applications. One is in assessing the extent to which laws and regulations (authorities) have been respected. This may be seen as the essence of “Compliance Auditing”. Auditors also have an important role to play in looking at the money spent on public programmes and in providing assurance that the information prepared properly presents the financial situation. This is the essence of “Financial Auditing”. Financial and compliance auditing may be performed together where the auditor also gives assurance that funds have been spent in accordance with the laws and regulations. Properly prepared financial statements and compliance with applicable authorities does not, of itself guarantee that public programmes deliver value for money to the taxpayers, which gives rise to the third key area of activity for SAIs. “Performance Auditing” is focused on improving good performance in public administration by examining whether public programmes and services achieve the principles of economy, efficiency and effectiveness and identifying conditions or practices that hamper performance and enable the auditor to make suitable recommendations.

28. The ISSAI provides standards and guidance for the following fields of public sector auditing:
   - Financial audit; focusing on determining whether an entity’s financial information is presented in accordance with an applicable financial reporting framework. This is accomplished by obtaining sufficient appropriate audit evidence to enable the auditor to express an opinion on whether the financial information is free from material misstatement whether due to fraud or error. ISSAI 200 elaborates on this further.
   - Performance audit; focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements. This is accomplished by examining performance against suitable criteria and by analysing causes of deviations from criteria or problems. The aim is to answer key audit questions and to provide recommendations for improvements. The result of the audit is generally a report that contains scope, findings, conclusions and recommendations. ISSAI 300 elaborates on this further.
   - Compliance audit; focusing on whether the activities of the entity have been conducted in accordance with the applicable authorities. The result of the audit may be a conclusion or if it is related to an audit of financial statements a limited or reasonable assurance opinion. ISSAI 400 elaborates on this further.

29. Other engagements conducted by the SAI are not currently covered by the existing ISSAI.
ELEMENTS OF PUBLIC SECTOR AUDITING

30. Public sector audits involve at least three separate parties: the practitioner/auditor, a responsible party and intended users. The relationship between the responsible party and the intended users must be viewed within the context of the public sector overall and the type of audit.

The practitioner/auditor

31. The practitioner in public sector auditing is the public sector auditor of the SAI, being a part of a constitutional system. The role is fulfilled by the Head of SAI (for example an Auditor General or President) who has overall responsibility for public sector audits within the SAI's mandate, and by persons delegated to carry out audits on behalf of the Head of SAI. The public sector auditor is hereinafter referred to as “the auditor”.

Responsible party

32. The responsible party in the public sector is the institution responsible for the management of public funds and the exercise of authority in accordance with the stated premises and decisions of the parliament. The responsible party will differ depending on the organizational structure of the public sector and may, in certain circumstances, be the legislature or the judiciary rather than the executive. Depending on the framework of delegations in place the responsible party may, in certain circumstances, be an individual or official.

Intended users

33. The intended users are the individuals, organisations or classes thereof for whom the auditor prepares the audit report. In the public sector the users usually include the parliament as the representative of the public as a whole. Sometimes the report may be addressed to other users.

Underlying subject matter

34. The underlying subject matter of a public sector audit is the information, condition or activity that is defined in the scope of the audit. It is important to distinguish between the underlying subject matter and the subject matter information. The term ‘subject matter information’ means the outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the auditor gathers sufficient appropriate audit evidence to provide a reasonable basis for expressing a conclusion in an auditor’s report.

35. The following constitute the subject matter in the three fields of auditing covered by the ISSAIs:

- **Financial auditing**: The subject matter information on financial position, performance and cash flow, should be identifiable and capable of consistent evaluation or measurement.
against the identified criteria such that it can be subjected to procedures for gathering audit evidence to support the audit opinion.

- **Performance auditing:** The subject matter is typically expressed in the form of an audit question. The underlying subject matter is the non-financial or financial information or the actual conditions or its causes and consequences which the auditor refers to in determining the extent to which established criteria have been met or why this is not the case.

- **Compliance auditing:** The subject matter, qualitative or quantitative information, should be identifiable and capable of consistent evaluation or measurement against the identified criteria (authorities) such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion, conclusion or audit report.

**Suitable criteria**

36. Each audit should have suitable criteria. Criteria are the benchmarks used to evaluate the subject matter of an audit. Key characteristics of suitable criteria include relevance, completeness, reliability, neutrality, understandability and objectivity. The precise significance and mix of criteria will depend on the objectives of the audit. The relevance and characteristics of the audit criteria used may depend on a range of factors including the objective, the reporting requirements of the audit assignment, and the nature of the audit. Criteria can be specific or more general, and may be formulated in various ways such as; what should be according to laws, regulations or standards; and what is expected, according to sound principles and best practice; to what could be (given better conditions). The criteria should be available to the intended users to enable them to understand the how the subject matter has been evaluated or measured.

**PRINCIPLES TO BE APPLIED IN CONDUCTING AN AUDIT**

37. The principles detailed below are fundamental to the conduct of an audit. An audit is a cumulative and iterative process but, for the purposes of presentation in this ISSAI the fundamental principles have been grouped into principles that the auditor should consider prior to commencement and at more than one point throughout the audit process (General principles) and those principles related to identified steps in the audit process itself.
Figure 3: Principles to be applied in conducting an audit

General principles

Ethics and independence

38. **Auditors should comply with relevant ethical requirements and be independent.**
Ethic principles should be embodied in an auditor’s behaviour. The SAIs ethical policies should address ethical requirements and emphasise the need for compliance by each individual auditor. Ethics ensure that the audit is conducted with a professional attitude. The key principles of ethics are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Auditors should be honest, reliable and truthful when conducting an audit. Auditors should remain independent so that their opinions/conclusions/findings will be impartial and be seen as such by third parties. Independence is freedom from situations and relationships which could impair the auditor’s objectivity. Independence is an attitude of mind and appearance. It safeguards the ability to perform an audit without being affected by influences that might compromise professional judgement. Auditors can find additional guidance in ISSAI 10 Mexico Declaration on SAI Independence as well as ISSAI 11 INTOSAI Guidelines and Good Practices related to SAI Independence and ISSAI 30 Code of Ethics.
Quality control

39. Auditors should perform the audit in accordance with professional standards on quality control.
   The SAI’s quality control policies and procedures should comply with professional standards. The aim is to ensure that audits are performed to a consistently good quality. Quality control procedures should include matters such as the direction, review, supervision, of the audit process and consulting and reaching decisions on difficult or contentious matters. Auditors can find additional guidance in ISSAI 40, Quality Control for SAIs.

Engagement team management and skills

40. Auditors should have or have access to the necessary skills.
   The individuals in the engagement team should collectively possess the knowledge, skills and expertise necessary to successfully complete the audit. This includes an understanding of and practical experience of the type of audit being undertaken; an understanding of the applicable standards and legislation; an understanding of the entity’s operations; and the ability and experience to exercise professional judgement. Consistent for all audits are the needs for recruiting personnel with suitable qualifications, developing and training employees, the preparation of manuals and other written guidance and instructions concerning the conduct of audits, and the assignment of sufficient resources for the audit. Auditors should maintain professional competence through continuing professional development.

   In circumstances where it is relevant or necessary and in line with its mandate, and applicable legislation the auditor may use the work of internal auditors, other auditors or experts. The auditor should perform procedures that provide a sufficient basis for using the work of others and in all cases the auditor should obtain evidence concerning the other auditor or expert’s competence and independence. However the SAI has sole responsibility for any audit opinion or report it might make on the subject matter and that responsibility is not reduced by its use of the work of others.

   The objectives of internal audit are different from those of the external audit, however both internal and external audit promote good governance through contributions to transparency and accountability for the use of public resources, as well as to promote efficient, effective, and economic public administration. This offers opportunities for coordination and cooperation and the possibility of eliminating duplication of effort.

   Some SAIs use the work of other auditors working at state, province, region, district or parish level within the country, or in public accounting firms where they have completed audit work related to the audit objective. These arrangements should be conducted under agreements or contracts which include conditions to ensure work is done in accordance with public sector auditing standards.

   Audits may require specialised techniques, methods or skills from disciplines not available within the SAI. Experts may be used in different ways e.g. to provide knowledge or conduct specific work.
41. **Auditors should exercise due professional care in all audits.**  
The auditor should plan and conduct the audit in an alert and diligent manner. Auditors should avoid any conduct that might discredit the auditor’s work. Auditors should perform their duties in accordance with technical and professional standards. Supervision, coaching and review should be conducted throughout the audit process. This includes; ensuring that the audit team understand the assignment; ensuring that the work is carried out in accordance with the audit plan; addressing issues that arise during the audit; and monitoring the progress of the audit team members.

**Audit/engagement risk**

42. **Auditors should manage the risk of providing an incorrect opinion/conclusion/recommendations**  
The audit should be performed to reduce or manage the risk that the auditor’s opinion/conclusion/findings/recommendations may be inappropriate or that the audit may fail to add value, to an acceptable level. Audit risk may arise due to fraud or error or due to the context, complexity and political sensitivity of the underlying subject matter or the risk that audit objectives are not sufficiently focused or penetrating.

**Materiality**

43. **Auditors should consider materiality or significance throughout the audit process.**  
In performance audit, the term "significant" is comparable to the term "material" as used in the context of financial and compliance audit. Determining materiality or significance is a matter of professional judgement and is based on the auditor’s interpretation of mandate and perception of the information needs of the users. Materiality or significance considerations are relevant to all audit engagements and affect the determination of the nature, timing and extent of audit procedures as well as evaluating the results of the audit. In general terms, a matter may be judged material if knowledge of it would be likely to influence the decisions of intended users. The concept of materiality recognises that some matters are important, either individually or in aggregate, and others are not. Materiality is often considered in terms of value but the inherent nature of characteristics of an item or a group of items may also render a matter material, this includes regulatory requirements. In addition to materiality by value and by nature a matter may be material because of the context in which it occurs. Significance can be seen as the relative importance of subject matter in relation to policies, strategic plans, number of citizens, or stakeholders concerned, economic magnitude, consequences for the society etc.

**Professional scepticism and judgement**

44. **Auditors should maintain objectivity and appropriate professional behaviour.**  
Professional scepticism and professional judgement are important throughout the audit engagement. These principles are based on the interaction of professional and behavioural characteristics that recognise the auditor’s responsibility to carry out analyses and reach conclusions based on evidence collected whilst maintaining professional distance, open-mindedness, receptiveness to views and arguments, and an alert and questioning attitude. Professional judgement represents the application of collective knowledge, skills and experience to the audit process.
45. **Auditors should prepare audit documentation in sufficient detail to provide a clear understanding of work performed, evidence obtained and conclusions reached.**

   Audit documentation should include the audit strategy and plan and record of procedures performed, and evidence obtained and should support the communicated results. Documentation should be in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation; the nature, timing and extent and the results of procedures performed; the audit evidence obtained to support the auditor’s conclusions and recommendations; and to record reasoning on all significant matters that required the exercise of professional judgement and related conclusions.

46. **Auditors should ensure good communication with the auditee**

   It is essential that the auditee is well informed of the matters related to the audit. This is important in developing a constructive working relationship. This communication includes the responsibilities of the auditor for obtaining information relevant to the audit, the responsibilities of the different parties for the audit, an overview of the scope and timing of the audit, and providing management and those charged with governance with timely observations and findings throughout the audit. Determining the form, content and frequency of communication is a matter of professional judgement.

47. **Auditors should establish effective lines of communication with all relevant stakeholders.**

   The auditor should also establish effective communication with all relevant stakeholders including management, those charged with governance, experts in the field and other parties concerned as they may have information relevant to the audit. Lines of communication should be maintained throughout the audit.

48. **Auditors should ensure that the terms of the audit have been clearly established**

   Audits may be statutory, requested by legislatures or other oversight bodies, initiated at the SAI’s own initiative or carried out on the basis of an agreement with the audited entity. In all cases the terms of the audit engagement should be set in writing, communicated and understood by the auditor, the auditee’s management, those charged with governance or the body or persons who will receive the report. Important information may include the subject, scope and objectives of the audit to be performed, access to information, the report that will result from the audit, the audit process, contact persons, and roles and responsibilities of the different parties to the engagement.

49. **Auditors should obtain an understanding of the nature of the entity/programme to be audited.**

   This includes understanding the objectives, operations, regulatory environment, internal controls, systems, and business processes involved as well as the potential sources of audit evidence. Knowledge is obtained from regular interaction with management and those charged with governance and other relevant stakeholders. This may also include consulting experts,
studies of documents including earlier studies and other sources, in order to gain a broad understanding of the subject matter to be audited and its context.

50. **Auditors should conduct risk assessment procedures or problem analysis and revise this in response to audit findings as necessary.**

The nature of risks identified will differ depending on the objective of the audit. The auditor considers and assesses the risk of different types of potential misstatements (what can go wrong) that may occur in the subject matter. Risks are considered at an overall and at a more detailed level depending on the audit. This is achieved through understanding the entity and its environment including internal control. The auditor should assess management’s response to identified risks including implementation and design of internal controls to address the risks. In a problem analysis the auditor should consider actual problem indications or deviations from what should be or is expected. This process involves examining various problem indicators in order to define the audit objectives. The identification of risks and their impact on the audit should be considered throughout the audit process.

51. **Auditors should be alert to the risks of fraud**

Auditors should make enquiries concerning the process for identifying and responding to the risks of fraud when relevant to the audit objectives.

52. **Auditors should develop an audit plan to ensure that the audit is conducted in an effective and efficient manner.**

Audit planning should define the scope, objectives and the methodology to be applied in the audit. The objectives are what the audit is intended to accomplish. The scope defines the subject matter that the auditors will assess and report on and is directly related to the objectives. The methodology describes the nature and extent of the audit procedures for gathering the audit evidence.

Planning the audit includes setting the scope, approach, timing and direction of the audit and defines the nature, timing and extent of the audit procedures to be performed. During planning auditors should assign the appropriate staff to perform the audit and identify other resources such as subject experts that may be required. Audit planning must be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the audit. The audit should be planned to reduce audit risk to an acceptably low level for the auditors to obtain sufficient appropriate audit evidence to support the findings/conclusion/opinion/recommendations.

**Activities related to performing the audit**

53. **Auditors should ensure that audit procedures provide sufficient appropriate audit evidence to support the audit objectives.**

The auditor’s decisions on the nature, timing and extent of audit procedures will impact on the evidence obtained. The types of procedures to be performed are in response to the assessed risks or problem analysis.

Audit evidence is any information used by the auditor to determine whether the information being audited is in accordance with the established criteria. Evidence may take many forms such as electronic and documentary data about transactions, written and electronic communication with outsiders, observations by the auditor, oral or written testimony of the auditee. Methods to obtain audit evidence can include inspection, observation, inquiry, confirmation, recalculation, re-performance, analytical procedures or other research techniques.
Evidence should be sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) i.e. it is relevant, valid and reliable. The auditor’s assessment of the evidence should be objective, fair and balanced. Communication of preliminary findings should be communicated and discussed with the auditee to confirm the validity of the evidence.

Activities related to evaluating audit evidence, concluding and reporting

54. Auditors should evaluate the audit evidence and draw conclusions
   After completing the audit procedures the auditor reviews the audit evidence in order to draw a conclusion, issue an opinion or describe the findings. When evaluating audit evidence both quantitative and qualitative factors are important in judging materiality or significance of the findings to reach a reliable audit conclusion on the underlying information.

   After completing the audit procedures the auditor reviews the audit documentation to determine whether the underlying subject matter has been sufficiently and appropriately audited. The auditor should also determine whether the assessment of risks and determination of initial materiality were appropriate in light of the evidence collected and whether they need to be revisited.

55. Auditors should prepare a written report based on the conclusions drawn
   The audit process involves preparing a report to communicate the results of the audit (findings/conclusion/opinion/recommendations) to stakeholders, others responsible for governance and the public. The purpose is also to facilitate follow-up and corrective action. In some SAIs including courts of audit this may include issuing legally binding reports or judicial decisions.

   The report should be; easy to understand and free from vagueness or ambiguity; be complete and include only information which is supported by sufficient and appropriate audit evidence; ensure that findings are put into perspective and context; and be objective and fair.

   The form and content of the report will depend on the nature of the audit, the intended users, the applicable standards and legal requirements. The mandate, laws or regulations of the relevant jurisdiction may prescribe the layout or wording of the report. The audit report may take the form of a short form report or a long form report. Long form reports generally describe in detail the audit scope, audit findings and conclusions, including potential consequences and constructive recommendations which enable future remedial actions. Short form reports are more condensed and generally in a more standardised format.

   Where an opinion is provided this will need to state whether it is unmodified or modified. In addition, a detailed report amplifying the opinion may be provided regardless of the nature of the opinion.

   Some SAIs have a role in monitoring follow-up and corrective actions taken on the matters raised in the SAI’s reports. Insufficient or unsatisfactory action by the auditee may lead to a further report by the SAI.
MAKING REFERENCE TO THE ISSAIs

Authority of the Fundamental Auditing Principles

56. The Fundamental Auditing Principles represent the core of the detailed auditing standards contained on level 4 of the ISSAI framework. The principles can be used in two ways:

- To form the basis on which standards are developed, or on which consistent national standards are adopted.
- To form the basis for adoption of the General Auditing Guidelines (ISSAIs 1000-4999) as authoritative standards.

57. A SAI may declare that the standards it has developed or adopted are based on or consistent with the Fundamental Auditing Principles only if the standards fully comply with all relevant principles. In order to properly adopt or develop auditing standards based on the Fundamental Auditing Principles, an understanding of the entire text related to the principles included in the Fundamental Auditing Principles is necessary. In achieving this understanding it may be helpful to consult the guidance related to the relevant audit task as addressed in the General Auditing Guidelines (ISSAIs 1000-4999).

58. When a SAI implements the ISSAIs in its own environment the SAI complies with the relevant prerequisites of independence, transparency and accountability, ethics and quality control. Applying ethical and quality control procedures are prerequisites for the proper functioning and professional conduct of SAIs. In order to develop standards based on the Fundamental Auditing Principles or adopt standards consistent with these, such standards should include relevant ethical requirements, as well as procedures for being subject to a system for quality control including policies and procedures designed to provide reasonable assurance that the SAI and its personnel comply with relevant ethical requirements, including those pertaining to independence.

59. SAIs that are applying the Fundamental Auditing Principles as the basis for their authoritative standards, therefore also need to comply with the requirements as formulated inter alia by ISSAI 30 Code of Ethics and ISSAI 40 Quality Control for SAIs.

60. Where the Fundamental Auditing Principles are the basis for the authoritative standards used by the SAI the appropriate format of representing compliance with the Fundamental Principles in the audit report or Auditor’s Report should be to reference the fact that the standards used are based on or consistent with the appropriate ISSAI or ISSAIs relevant to the audit work carried out.

61. An audit engagement conducted in accordance with standards based on the Fundamental Audit Principles may be made by stating:

   We conducted our audit in accordance with [national standards] based on (or consistent with) the Fundamental Auditing Principles (ISSAIs 100-999) of the International Standards of Supreme Audit Institutions.

62. SAIs may, depending on their mandate, conduct audits related to financial, compliance and/or performance auditing as combined engagements. In such cases the authority attached to standards developed or adopted for those types of audit that are combined should be complied
with. The reference in the Auditor’s Report or audit report may be further specified to enhance clarity on the standards used.

63. In some jurisdictions SAIs may choose to adopt the General Auditing Guidelines (ISSAIs 1000-4999) as their authoritative standards. In such cases the auditor shall comply with all ISSAIs relevant to the engagement. The International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC) are incorporated in the financial auditing guidelines (ISSAIs 1000-1999). In case of financial audits reference may be made to either the ISSAIs or the ISAs. The ISSAIs provide public sector guidance beyond what is provided by the ISAs but the standards for financial audit are the same. The auditor should determine the financial, performance or compliance auditing guidelines that apply to the audit and comply with all relevant requirements. In such cases reference to the ISSAIs may be made by stating:

*We conducted our (financial, performance and/or compliance) audit (or audits) in accordance with the International Standards on Supreme Audit Institutions (on financial, performance and/or compliance auditing).*

64. The reference may be included in the Auditor’s Report or audit report or it may be communicated by the SAI in a more general form covering a defined range of engagements. When making such references the auditor complies with the authority of the applicable principles as further defined by ISSAIs 200, 300 and 400. The reference may specify, in the manners indicated above whether the engagement or range of engagements concerned involves financial, performance or compliance auditing or combinations thereof. If relevant in order to provide for enhanced transparency the statement may further specify the relevant auditing guidelines which have been applied for the different types of opinions or conclusions by adding the following to the above:

*The audit/audits was based on ISSAIs xxx [name of the ISSAI or range of ISSAIs]*

The financial audit guidelines (ISSAIs 1000-1999) are based on the ISAs and can therefore not be referred to individually.

65. The audits may be conducted in accordance with both auditing standards of a specific jurisdiction or country and the General Auditing Guidelines. In such cases, in addition to complying with each of the ISSAIs or ISAs relevant to the audit, it may be necessary for the auditor to perform additional audit procedures in order to comply with the relevant standards of that jurisdiction. Reference should be made to both national standards and the ISSAIs or ISAs.