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INTOSAI



Field Standards in Government Auditing

INTOSAI Professional Standards Committee

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0.1 The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. These steps and actions represent the rules of research that the auditor, as a seeker of audit evidence, implements to achieve a specific result.

0.2 The field standards establish the framework for conducting and managing audit work. They are related to the general auditing standards, which set out the basic requirements for undertaking the tasks covered by the field standards. They are also related to the reporting standards, which cover the communication aspect of auditing, as the results from carrying out the field standards constitute the main source for the contents of the opinion or report.

0.3 The field standards applicable to all types of audit are

- (a) The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner (see paragraph 1.1).
- (b) The work of the audit staff at each level and audit phase should be properly supervised during the audit; and documented work should be reviewed by a senior member of the audit staff (see paragraph 2.1).
- (c) The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control (see paragraph 3.1).
- (d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions.

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the SAI is to make sure, by all the means put at its disposal, that the State budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the financial obligations of the State. To achieve this objective the SAI will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge" (see paragraph 4.1).

- (e) Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit (see paragraph 5.1).
- (f) In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements (see paragraph 6.1).

1. Planning

1.1 The field standards include

The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner (see paragraph 0.3a). The following paragraphs explain planning as an auditing standard.

1.2 The SAI should give priority to any audit tasks which must be undertaken by law and assess priorities for discretionary areas within the SAI's mandate.

1.3 In planning an audit, the auditor should:

- (a) identify important aspects of the environment in which the audited entity operates;
- (b) develop an understanding of the accountability relationships;
- (c) consider the form, content and users of audit opinions, conclusions or reports;
- (d) specify the audit objectives and the tests necessary to meet them;
- (e) identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses;
- (f) determine the materiality of matters to be considered;
- (g) review the internal audit of the audited entity and its work program;
- (h) assess the extent of reliance that might be placed on other auditors, for example, internal audit;
- (i) determine the most efficient and effective audit approach;
- (j) provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and
- (k) provide for appropriate documentation of the audit plan and for the proposed fieldwork.

1.4 The following planning steps are normally included in an audit:

- (a) collect information about the audited entity and its organisation in order to assess risk and to determine materiality;
- (b) define the objective and scope of the audit;
- (c) undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
- (d) highlight special problems foreseen when planning the audit;
- (e) prepare a budget and a schedule for the audit;
- (f) identify staff requirements and a team for the audit; and
- (g) familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary. The SAI may revise the plan during the audit when necessary.

2. Supervision and Review

2.1 The field standards include

The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff (see paragraph 0.3b).

The following paragraphs explain supervision and review as an auditing standard.

2.2 Supervision is essential to ensure the fulfilment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of individual auditors.

2.3 Supervision should be directed both to the substance and to the method of auditing. It involves ensuring that:

- (a) the members of the audit team have a clear and consistent understanding of the audit plan;
- (b) the audit is carried out in accordance with the auditing standards and practices of the SAI;
- (c) the audit plan and action steps specified in that plan are followed unless a variation is authorised;
- (d) working papers contain evidence adequately supporting all conclusions, recommendations and opinions;
- (e) the auditor achieves the stated audit objectives; and
- (f) the audit report includes the audit conclusions, recommendations and opinions, as appropriate.

2.4 All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It should be carried out as each part of the audit progresses. Review brings more than one level of experience and judgement to the audit task and should ensure that:

- (a) all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;
- (b) all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and
- (c) changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.

2.5 This standard operates differently in SAIs organised in a collegiate form. In such a structure, decisions, except those of a routine nature, are taken on a collegiate basis at a level appropriate to the importance of the matter. Such an entity, as a whole, decides on the scope of the examination, the tests to be undertaken and the methods to be used.

3. Study and Evaluation of Internal Control

3.1 The field standards include:

The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control (see paragraph 0.3c).

The following paragraphs explain internal control as an auditing standard.

3.2 The study and evaluation of internal control should be carried out according to the type of audit undertaken. In the case of a regularity (financial) audit, study and evaluation are made mainly on controls that assist in safeguarding assets and resources, and assure the accuracy and completeness of accounting records. In the case of regularity (compliance) audit, study and evaluation are made mainly on controls that assist management in complying with laws and regulations. In the case of performance audit, they are made on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner, ensuring adherence to management policies, and producing timely and reliable financial and management information.

3.3 The extent of the study and evaluation of internal control depends on the objectives of the audit and on the degree of reliance intended.

3.4 Where accounting or other information systems are computerized, the auditor should determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data.

4. Compliance With Applicable Laws and Regulations

4.1 The field standards include:

In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

The regularity audit is an essential aspect of government auditing. One important objective which this type of audit assigns to the SAI is to make sure, by all the means put at its disposal, that the State budget and accounts are complete and valid. This will provide Parliament and other users of the audit report with assurance about the size and development of the financial obligations of the State. To achieve this objective the SAI will examine the accounts and financial statements of the administration with a view to assuring that all operations have been correctly undertaken, completed, passed, paid and registered. The audit procedure normally results, in the absence of irregularity, in the granting of a "discharge" (see paragraph 0.3d).

The following paragraphs explain compliance as an auditing standard.

4.2 Reviewing compliance with laws and regulations is especially important when auditing government programs because decision makers need to know if the laws and regulations are being followed, whether they are having the desired results, and, if not, what revisions are necessary. Additionally government organisations, programs, services, activities, and functions are created by laws and are subject to more specific rules and regulations.

4.3 Those planning the audit need to be knowledgeable of the compliance requirements that apply to the entity being audited. Because the laws and regulations that may apply to a specific audit are often numerous, the auditors need to exercise professional judgement in determining those laws and regulations that might have a significant impact on the audit objectives.

4.4 The auditor also should be alert to situations or transactions that could be indicative of illegal acts that may indirectly impact the results of the audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor needs to determine the extent to which these acts affect the audit results.

4.5 In conducting audits in accordance with this standard, the auditors should choose and perform audit steps and procedures that, in their professional judgement, are appropriate in the circumstances. These audit steps and procedures should be designed to obtain sufficient, competent, and relevant evidence that will provide a reasonable basis for their judgements and conclusions.

4.6 Generally, management is responsible for establishing an effective system of internal controls to ensure

compliance with laws and regulations. In designing steps and procedures to test or assess compliance, auditors should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance.

4.7 Without affecting the SAI's independence, the auditors should exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include consulting appropriate legal counsel and the applicable law enforcement organisations to determine the audit steps and procedures to be followed.

5. Audit Evidence

5.1 The field standards include

Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit (see paragraph 0.3e).

The following paragraphs explain audit evidence as an auditing standard.

5.2 The audit findings, conclusions and recommendations must be based on evidence. Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. When computer-based system data are an important part of the audit and the data reliability is crucial to accomplishing the audit objective, auditors need to satisfy themselves that the data are reliable and relevant.

5.3 Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence. The SAI should ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities.

5.4 In choosing approaches and procedures, consideration should be given to the quality of evidence, i.e., the evidence should be competent, relevant and reasonable.

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

5.6 Adequate documentation is important for several reasons. It will:

- (a) confirm and support the auditor's opinions and reports;
- (b) increase the efficiency and effectiveness of the audit;
- (c) serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- (d) serve as evidence of the auditor's compliance with Auditing Standards;
- (e) facilitate planning and supervision;
- (f) help the auditor's professional development;
- (g) help to ensure that delegated work has been satisfactorily performed; and
- (h) provide evidence of work done for future reference.

5.7 The auditor should bear in mind that the content and arrangement of the working papers reflect the degree of the auditor's proficiency, experience and knowledge. Working papers should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit subsequently to ascertain from them what work was performed to support the conclusions.

6. Analysis of Financial Statements

6.1 The field standards include

In regularity (financial) audit, and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements (see paragraph 0.3f).

The following paragraphs explain analysis of financial statements as an auditing standard.

6.2 Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual trends. The auditor should therefore thoroughly analyse the financial statements and ascertain whether:

- (a) financial statements are prepared in accordance with acceptable accounting standards;
- (b) financial statements are presented with due consideration to the circumstances of the audited entity;
- (c) sufficient disclosures are presented about various elements of financial statements; and
- (d) the various elements of financial statements are properly evaluated, measured and presented.

6.3 The methods and techniques of financial analysis depend to a large degree on the nature, scope and objective of the audit, and on the knowledge and judgement of the auditor.

6.4 Where the SAI is required to report on the execution of budgetary laws, the audit should include:

- (a) for revenue accounts, ascertaining whether forecasts are those of the initial budget, and whether the audits of taxes and duties recorded, and imputed receipts, can be carried out by comparison with the annual financial statements of the audited activity;
- (b) for expenditure accounts, verifying credits to assist budgets, adjustment laws and, for carryovers, the previous year's financial statements.