

# AUDITING & AUDITING STANDARDS



# Accountability

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- Separation of ownership and management
- Fiduciary relationship

# What is Audit?

## □ **Typical/Classical view**

Auditing refers to a *systematic* and *independent* examination of books, accounts, documents and vouchers of an organization *to ascertain* how far the financial statements *present a true and fair view* of the concern.

It also attempts to ensure that the books of accounts are properly maintained by the concern *as required by law*.

# What is Audit?

## □ **General/Contemporary view**

The auditor *perceives and recognizes the propositions* before him/her for examination, *obtains evidence*, *evaluates* the same and *formulates an opinion* on the basis of his judgement which is *communicated* through his audit report.

# Categorisation of Audit

- Pre-Audit and Post-Audit
- Internal Audit and External Audit
- Financial Audit, Compliance Audit and Performance Audits
- Integrated audit
- Energy Audits, cost audits, Quality audits etc.
- Forensic Auditing
- Social Audits

*Evolving*

# Why Audit?

- Independent **assurance**
- **Evaluate** and **improve** the effectiveness of risk management, control and governance process

# Is Audit different from Assessment ?

- Assessment gives a *value or measures*
- Audit gives an *opinion*
- Assessment may be based on Audit processes

# Auditing profession



- Knowledge and Skill
- Independence and Ethics

# Why Auditing Standards?

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- Increased and uniform quality of audit
- Enhanced credibility and professionalism

# Hierarchy

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- International Standards
  - Benchmarks (Global)
  - Recommendatory
- National Standards
  - Benchmarks (National)
  - Mandatory

# Auditing Standards

- International Standards
  - ▣ International Federation of Accountants (IFAC) (International Standards of Auditing- ISA) and
  - ▣ INTOSAI (International Standards of Supreme Audit Institutions -ISSAI)
- National Standards (Indian context)
  - ▣ Institute of Chartered Accountants of India (Auditing and Assurance Standards - AAS)
  - ▣ Comptroller and Auditor General of India's Auditing Standards

# ISSAI Framework

- Pronouncements issues by INTOSAI
- Two types of pronouncements
  - ▣ ISSAIs (International Standards of Supreme Audit Institutions) or
  - ▣ INTOSAI GOVs (INTOSAI Guidance for Good Governance).

# ISSAIs

- International Standards of Supreme Audit Institution
  - These state the basic prerequisites for
  - proper functioning and professional of conduct SAIs and
  - the fundamental principles in auditing of public entities.

# INTOSAI GOV

- The INTOSAI Guidance for Good Governance
  - Are ***aimed at governments and others with responsibility for the management of public funds/resources*** or publicly funded activities.
  - They provide guidance on good governance, including the ***establishment of effective systems of internal control, reliable internal auditing and adequate standards of accounting and reporting*** in the public sector

# ISSAI Hierarchy

- Four levels
  - Level 1 - Founding Principles (*Lima Declaration*)
  - Level 2 - Prerequisites for the functioning of Supreme Audit Institutions
  - Level 3 – Fundamental Auditing Principles
  - Level 4 – General Auditing Guidelines

# CAG of India

## Level 1 - Founding Principles

- Constitution of India
- CAG's (Conditions of Service, Duties & Powers) Act 1971
- Regulation on Audit and Accounts, 2007

# CAG of India

## Level 2- Prerequisites for the functioning of SAI

- Constitution of India
- CAG's (Conditions of Service, Duties & Powers) Act 1971
- Code of Ethics
- Audit Quality Management Framework
- CAG's Auditing Standards

# CAG of India

Level 3-  
Fundamental  
Auditing  
Principles

- CAG's Auditing Standards
- Adaptation of ISSAI (level 3) is in progress

# CAG of India

## Level 4- General Auditing Guidelines

- **Manuals**
- **Guidelines**
- **Instructions**

# CAG's Auditing Standards

- First issued in 1994
- Revised in 2002 (based on suitably adopting restructured Auditing standards issued by INTOSAI in 2001)
- Currently under review (for suitable adaptation of ISSAI 2013 version)

# CAG's Auditing Standards-Sections

- Divided into four sections
  - Basic postulates
  - General Standards
  - Field Standards
  - Reporting Standards

# Basic postulates (General)

- The SAI should ***comply with the INTOSAI Auditing Standards in all matters that are deemed material.***
- The SAI should apply its own ***judgment to the diverse situations*** that arise in the course of Government auditing.
- With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a ***need for the accountability process to be in place and operating effectively.***

# Basic postulates (Management)

- Development of *adequate information, control, evaluation and reporting systems within the Government* will facilitate the accountability process; *Management is responsible* for correctness and sufficiency of the form and content of the financial reports and other information.
- The existence of an *adequate system of internal control* minimizes the risk of errors and irregularities.

# Basic postulates (Management)

- Appropriate authorities should ensure the ***promulgation of acceptable accounting standards for financial reporting*** and disclosure relevant to the needs of the Government, and audited entities should ***develop specific and measurable objectives and performance targets***.
- Consistent application of ***acceptable accounting standards should result in the fair presentation*** of the financial position and the results of operations.

# Basic postulates (Audit)

- ***Legislative enactment's would facilitate the co-operation of audited entities*** in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- All ***audit activities should be within the SAI's audit mandate.***

# Basic postulates (Audit)

- SAs should work towards *improving techniques for auditing* the validity of performance measures.
- SAs should *avoid conflict of interest between the auditor and the entity* under audit



# General Standards



- Standards common to auditors and audit institutions
- Standards for the audit institutions

# General Standards - common to auditors and audit institutions

- The auditor and the audit institutions must be ***independent***.
  - From legislature, executive and audited entity
- The auditor and the audit institutions must possess the required ***competence***.
- The auditor and the audit institutions must ***exercise due care and concern*** in complying with these auditing standards.
  - Quality assurance framework

# General Standards – for audit institutions

- ***Recruit personnel with suitable qualifications.***
- ***Develop and train employees*** to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff.
- ***Prepare manuals and other written guidance*** notes and instructions concerning the conduct of audits.

# General Standards – for audit institutions

- Support the *skills and experience available* within the audit institutions, and *identify the skills which are absent*; provide a *good distribution of skills to auditing tasks* and assign a *sufficient number of persons* for the audit; and have *proper planning and supervision* to achieve its goals at the required level of due care and concern.
- *Review the efficiency and effectiveness of internal standards* and procedures.



# Field auditing standards

- 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.***
- The work of the audit staff at each level and audit phase should be ***properly supervised*** during the audit; and a senior member of the audit staff should ***review documented work.***

# Field auditing standards

- The auditor, in determining the extent and scope of the audit, should ***study and evaluate the reliability of internal control.***

# Field auditing standards – Financial Audit

- 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.

# Field auditing standards – Regularity audit

- The *regularity audit*
- 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."

# Field auditing standards—Performance Audit

- 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.

# Planning

## □ General

- ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.
- priority to any audit tasks, which must be undertaken by law and assess priorities for discretionary areas within the SAI's mandate.
- Revise the audit plan, if required.

# Planning

- Specific audits
  - Identify important aspects of the *environment in which the audited entity operates*;
  - Develop an *understanding of the accountability relationships*;
  - *Consider the form, content and users of audit opinions, conclusions or reports*;
  - *Specify the audit objectives and the tests necessary* to meet them;
  - *Identify key management systems and controls* and carry out a *preliminary assessment* to identify both their strengths and weaknesses

# Planning

- ▣ Determine the *materiality* of matters to be considered;
- ▣ *Review the internal audit* of the audited entity and its work program;
- ▣ *Assess the extent of reliance that might be placed on other auditors*, for example, internal audit;
- ▣ Determine *the most efficient and effective audit approach*;
- ▣ Provide for a review to *determine whether appropriate action has been taken on previously reported audit findings and recommendations*; and
- ▣ Provide for *appropriate documentation of the audit plan and for the proposed fieldwork*.

# Planning Process

- Planning process
  - ▣ Collect information about the audited entity and its Organization in order to assess risk and to determine materiality;
  - ▣ Define the objective and scope of the audit;
  - ▣ Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
  - ▣ Highlight special problems foreseen when planning the audit;
  - ▣ Prepare a budget and a schedule for the audit;
  - ▣ Identify staff requirements and a team for the audit; and
  - ▣ Familiarise the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary.

# Supervision

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- Supervision is essential to ensure the fulfillment 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.

# Supervision

- ❑ The members of the audit team have ***a clear and consistent understanding of the audit plan;***
- ❑ The ***audit is carried out in accordance with the auditing standards*** and practices of the SAI;
- ❑ The ***audit plan and action steps specified in that plan are followed*** unless a variation is authorized;
- ❑ ***Working papers*** contain evidence adequately supporting all conclusions, recommendations and opinions;
- ❑ The auditor ***achieves the stated audit objectives;*** and
- ❑ The ***audit report includes the audit conclusions, recommendations and opinions, as appropriate.***

# Field auditing standards - Review

- All audit work should be reviewed by a senior member of the audit staff before the audit opinions or reports are finalized. It should be carried out as each part of the audit progresses.
- Review brings more than one level of experience and judgment to the audit task
- This standard emphasizes the importance of involvement of each higher level of supervision and does not in any way absolve the lower levels of audit staff carrying out field investigations from any negligence in carrying out assigned duties.

# Review

- 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;
- 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
- 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.

# Study and evaluation of internal controls

- The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control.
- The study and evaluation of internal control should be carried out according to the type of audit undertaken.
- The extent of the study and evaluation of internal control depends on the objectives of the audit and on the degree of reliance intended.

# Study and evaluation of internal controls

- In the case of **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.**

# Compliance with applicable laws and regulations

- 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.

# Compliance with applicable laws and regulations

- 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 organizations, programs, services, activities, and functions are created by laws and are subject to more specific rules and regulations.
- Because the laws and regulations that may apply to a specific audit are often numerous, the auditors need to exercise professional judgment in determining those laws and regulations that might have a significant impact on the audit objectives.

# Audit Evidence

- ***Competent, relevant and reasonable*** evidence should be obtained to support the auditor's judgment and conclusions regarding the Organization, program, activity or function under audit

# Audit Evidence

- Audit *findings, conclusions and recommendations* should be *based on evidence*.
- *Data collection and sampling techniques* should be *carefully chosen*
- *Sound understanding of techniques and procedures* such as inspection, observation, enquiry and confirmation, to collect audit evidence.
- Evidence should be *as direct as possible* to reduce the need for inference.

# Documentation

- Proper *documentation of Planning, procedures executed and evidence.*



# Reporting Standards

- On the completion of each audit assignment, the Auditor should prepare **a written report setting out the audit observations and conclusions in an appropriate form;**
- its content should be **easy to understand, free from ambiguity**
- supported by **sufficient, competent and relevant audit evidence**
- be **independent, objective, fair, complete, accurate, constructive and concise.**
- The auditor should **issue the reports in a timely manner** for use by management, legislature and other interested users.
- The audit report may be **presented on other media that are retrievable by other users and the audit organizations.**

# Reporting Standards

- The audit report should be **complete**.
- A **single example of a deficiency is not sufficient to support a broad conclusion** or a related recommendation.
- Accuracy requires that the **evidence presented is true and the conclusions be correctly portrayed**.
- The need for accuracy is based on the need to assure the users that **what is reported is credible and reliable**.
- The report should include only information, findings and conclusions that are **supported by competent and relevant evidence in the auditor's working papers**.

# Reporting Standards

- Objectivity requires that the presentation throughout the report be ***balanced in content and tone***.
- The audit report should be ***fair and not be misleading and should place the audit results in proper perspective***.
- presenting the ***audit results impartially and guarding against the tendency to exaggerate or over-emphasise*** deficient performance.
- In describing shortcomings in performance, the Auditor should ***present the explanation of the audited entity and stray instances of deviation should not be used to reach broad conclusions***.

# Reporting Standards

- The ***tone of reports should encourage decision-makers to act*** on the auditor's findings and recommendations.
- Although findings should be presented clearly and forthrightly, the auditor should keep in mind that one of the objectives is to persuade and this can best be done by ***avoiding language that generate defensiveness and opposition.***
- Being convincing requires that the ***audit results be presented persuasively and the conclusions and recommendations followed logically*** from the facts presented.
- The ***information presented should be sufficient to convince the readers*** to recognise the validity of the findings and reasonableness of audit conclusions.

# Reporting Standards

- **Clarity** requires that the *report be easy to read and understand.*
- Use of non-technical language is essential.
- Wherever technical terms and unfamiliar abbreviations are used, they should be clearly defined.
- Both *logical Organization of the material and precision in stating the facts and in drawing conclusions* significantly contribute to clarity and understanding.
- **Appropriate visual aids** (such as photographs, charts, graphs and maps etc.) should be used to clarify and summaries complex material.

# Reporting Standards

- Being concise requires that the report *is not longer than necessary to convey the audit opinion* and conclusions.
- Too much of details detracts from the report and conceals the audit opinion and conclusions and confuses the readers.

# Reporting Standards

- Being ***constructive requires*** that the report also ***includes well thought out suggestions, in broad terms, for improvements,*** rather than how to achieve them.
- In presenting the suggestions due ***regard should be paid to the requirements of rules and orders, operational constraints and the prevailing milieu.***
- The suggestions should be ***discussed with sufficiently high level functionaries*** of the entities and ***as far as possible, their acceptances obtained*** before these are incorporated in the report.

# Reporting Standards

- Timeliness requires that the audit report should be made available promptly to be of utmost use to all users, particularly to the auditee organizations and/or Government who have to take requisite action.
- Timely *follow-up Audit reports* should be prepared

# Reporting Standards

- **Title.** The opinion or report should be preceded by a suitable title or heading.
- **Signature and date.** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about, which the auditor became aware up to that date.
- **Objectives and scope.** The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

# Reporting Standards

- **Completeness.** Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing.
- The auditor's opinions and **reports should be presented as prepared by the auditor.**
- In exercising its independence CAG may acquire **information** from time to time, **which in the national interest cannot be freely disclosed.** This can affect the completeness of the audit report. In this situation the **auditor should consider the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.**

# Reporting standards

- ***Identification of subject matter.*** The opinion or report should identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates.
- This includes information such as the ***name of the audited entity, the date and period covered by the financial statements and the subject matter*** that has been audited.

- ***Legal basis.*** Audit opinions and reports should identify the legislation or other authority providing for the audit.
- ***Compliance with standards.*** Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.



Thank You.