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Governments today face increasing demands for services by the public in an environment of limited resources. Thus, by ensuring tax and revenue systems are managed effectively, government can maximize revenues as well as minimising revenue leakages. Public revenue or any monies received by a government is the most important tool of the fiscal policy of the government as without it, the government will not have the funds to perform political, social and economic duties so as to maximize social and economic welfare and well-being of her citizens.

As revenue or tax collection has been cited as one of the high risk areas that are prone to leakage and mismanagement, revenue audit plays a very significant role in the field of public sector auditing. This includes tax audits as stated under Section 20, ISSAI 1 (The Lima Declaration): SAsLs shall be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files. Besides that, it states that tax audits are primarily legality and regularity audits; however, when auditing the application of tax laws, SAls shall also examine the system and efficiency of tax collection, the achievement of revenue targets and, if appropriate, shall propose improvements to the legislative body.

However, auditors often find taxation to be one of the most challenging and complex fields to audit. This is mainly due to the complexity of tax/VAT/GST laws and its regulations. Such laws and regulations could not be made simple as it has other goals, including fairness, equity, efficiency, and enforceability. Inefficient and ineffective Revenue Collecting Agencies can have a huge impact on the fiscal policy of the government. Therefore, rigorous audits of revenue play an important role in assuring efficiency and effectiveness in revenue collection. Auditors have to be well prepared to identify weaknesses and assess the risks in revenue collection to ensure revenue that should have been collected, are collected and accounted for. Besides that, auditors need to identify and plug any instances of revenue leakages.
With limited auditing guidance materials available, there is a need for ASEANSAI to collaboratively address this issue to overcome the shortcomings and promote best practices in revenue audit. The ASEANSAI Revenue Audit Guidelines have been produced as a result of the ASEAN Supreme Audit Institutions (ASEANSAI) Focus Group Discussion (FGD) on revenue audit. The guidelines were developed based on the discussions of seven (7) ASEANSAI countries, namely Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Thailand and Vietnam. The team met thrice in 2016 to discuss and finalize the content. Meanwhile, the project lead is SAI Malaysia.

In general, the ASEANSAI Revenue Audit Guidelines have eight (8) sections and other parts are references, appendices and glossary. This guideline outlines a definition of public revenue and revenue audits. Whereas the details of revenue audit are documented and are in compliance with ISSAIs. All ASEAN countries can adopt or use it as guidance. This is consistent with the objectives of ASEANSAI Knowledge Sharing Committee which is to improve and assist ASEAN countries in auditing matters. This guideline is intended to help auditors understand the process of auditing public revenue. Here, auditors can audit public revenue as part of the financial and compliance audit or even evaluates the efficiency and effectiveness of Revenue Collection Agencies and to investigate fraud and corruption.

Revenue or taxation of ASEANSAI countries is governed by the established laws and regulations of each country. Though such laws and regulations may differ in matters of detail, all countries can be guided by this generic guideline. The common elements are audit planning, conducting, reporting and follow-up but includes quality controls to ensure that the audit complies with professional standard. Besides that, a chapter on issues for considerations is also included. The idea is to provide auditors a unique insight in the various types of tax evasion and warning signs of fraud and corruption in revenue collection within ASEANSAI countries. Hopefully, with the launch of this guideline, the ASEANSAI objectives to build capacity and promote cooperation through the exchange and sharing of knowledge and experience would be achieved.

H.E. TAN SRI HJ. AMBRIN BIN BUANG
AUDITOR GENERAL OF MALAYSIA
1. INTRODUCTION

1.1. BACKGROUND

Public revenue is defined as money received by a government. It is the most important tool of the fiscal policy of the government as without it, the government will not have the funds to its perform political, social and economic duties so as to maximize social and economic welfare and well-being of her citizens. Public revenue comprises of all kinds of government income and receipts including taxes, duties, fees, levies, interests, dividends, income from sale of asset investment and services rendered, lease of government properties, etc.

1.2. TYPES OF REVENUES

1.2.1. Tax Revenues

Taxes are the key component of the macro-economic policy of a government and are compulsory contributions imposed by the government on its citizens to finance its projects/programs for the common good, without any corresponding benefits to the taxpayer. It is a compulsory contribution mandated by law and exacted by the government. Tax Revenue comprises Direct Tax Revenue and Indirect Tax Revenue where:

- Direct Tax Revenue includes Income Tax (individual, company, petroleum, withholding and cooperative); Stamp Duty and Real Property Gains Tax; and

- Indirect Tax Revenue includes revenue from Value-Added Tax (VAT), Goods and Services Tax (GST), export duties, import duties, excise duties and levies.

The main characteristics/features of a tax are as follows:

- A tax is a compulsory payment to be paid by the citizens who are liable to pay it. Hence, refusal to pay a tax is a punishable offense.

- The tax payer cannot claim reciprocal benefits against the taxes paid. However, the government has to do something for the community as a whole for what the tax payers have contributed in the form of taxes.
• A tax is levied to meet public spending incurred by the government in the general interest of the nation. It is a payment for an indirect service to be made by the government to the community as a whole.

• A tax is payable regularly and periodically as determined by the tax authority.

1.2.2. Non-Tax Revenues

Public income received through the administration, commercial enterprises, gifts and grants are the sources of non-tax revenues of the government. Non-tax revenue consists of:

• licenses and permits, charges imposed on the granting of rights to individuals, corporations, businesses including petroleum royalty and other enterprises as well as motor vehicle licenses for the purpose of control or regulation;

• fees for services rendered by the government to the public;

• proceeds from sales of goods and physical assets owned by the government including land, buildings, office equipment, storage facilities and other miscellaneous goods;

• rentals on land, buildings, vehicles and machinery;

• interest and return on investments, proceeds from divestment, dividends from shares, interest income and coupon bonds as well as interest on loans granted by the government;

• fines and penalties including out-of-court settlement fees and forfeitures;

• contributions and compensations received locally and from abroad; and

• income from exploration of oil and gas as well as petroleum operations.

1.3. REVENUE COLLECTING AGENCIES

As taxes are mandatory in every country, the government assigns or appoints a specific agency or organization that is responsible in collecting taxes. These agencies/organizations are empowered through law and regulations to carry out their functions. There is a seemingly endless list of entities that create and enforce tax laws and collect tax revenues. They range from the local government, such as cities and other municipalities, townships, districts and counties to regional, state and
federal levels. They may include agencies, districts, utility companies, and schools, just to name a few.

1.4. LAWS AND REGULATIONS

Every country under ASEAN has its own tax law. It covers the rules, policies and laws that oversee the tax process including the rates and exemptions. The area of tax law is exceedingly complex and in constant flux as it has been used increasingly more often for objectives other than raising revenue, such as meeting political, economic and social agenda(s).
2. REVENUE AUDIT

2.1. INTRODUCTION

2.1.1. Revenue audit is a systematic review or examination of assessment records, collection reports, and other accounting records for the purpose of determining whether revenues are properly assessed, collected and accounted for in accordance with laws, rules and regulations, and whether these revenues are fairly presented in the financial statements.

2.1.2. For effective audit, one needs to understand clearly the broad policy framework within which the Revenue Collecting Agency is functioning, the law, rules and regulations that govern it and its decision, and organization and administration of the agency. It is also important for the auditor to know what are the basic records and other important documents which the agency is supposed to keep and the purpose for which these are being kept. A complete revenue audit includes an evaluation of the internal controls of the revenue administration system, determination of adherence to the appropriate laws, rules and regulations, and assessment of efficiency in revenue-generating activities.

2.2. TYPES OF REVENUE AUDIT

There are many types of audit that can be adopted in the field of revenue audits as enumerated below:

2.2.1. Financial Audit

a. The purpose of financial auditing is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, or whether the financial statements are presented fairly, in all material respects, or give a true and fair view, in accordance with that framework.
b. In conducting revenue audits through financial audit, the overall objectives of the auditor are:

i. to obtain reasonable assurance about whether the revenue as reflected in the financial statement as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

ii. to report on total revenue as stated in the financial statements, and communicate the result of the audit, in accordance with the auditor’s findings.

2.2.2. Compliance Audit

a. Compliance auditing is the independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities which govern the audited entity. The objective of compliance auditing, therefore, is to enable the auditor to assess whether the activities of public-sector entities are in accordance with the authorities governing those entities. Compliance auditing may be concerned with regularity (adherence to formal criteria such as relevant laws, regulations and agreements) or with propriety (observance of the general principles governing sound financial management and the conduct of public officials). While regularity is the main focus of compliance auditing, propriety may also be pertinent given the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials. Compliance auditing may also lead SAIs with jurisdictional powers to pronounce judgments and sanctions on those responsible for managing public funds. Some SAIs are mandated to refer facts liable to criminal prosecution to the judicial authorities. In this context, the objective of the compliance audit may be extended, and the auditor should take due account of the relevant specific requirements when devising the audit strategy or planning and throughout the audit process.

b. Revenue audits in the context of compliance audit is the systematic review or examination of assessment records (including tax files), collection reports, and other accounting records for the purpose of determining whether revenues are properly assessed, collected and accounted for in accordance with laws, rules and regulations. It includes an evaluation of the internal controls of the revenue
administration system, as well as the determination of adherence to the appropriate laws, rules and regulations.

2.2.3. Performance Audit

a. Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. It seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by providing new analytical insights (broader or deeper analysis or new perspectives); making existing information more accessible to various stakeholders; providing an independent and authoritative view or conclusion based on audit evidence; and providing recommendations based on an analysis of audit findings.

b. Here, performance audit is conducted to determine the extent to which the Revenue Collecting Agency is able to effectively and efficiently optimize tax revenue. It can include an evaluation of the Revenue Collecting Agency's exposure to risk associated with revenue collection as well as determining if the agency is operating efficiency and effectively as well as minimizing revenue leakage.

2.2.4. Information Technology (IT) Audit

a. IT auditing is the process of deriving assurance on whether the development, implementation and maintenance of IT systems meet business goals, safeguards information assets and maintains data integrity. In other words, IT audit is an examination of the implementation of IT systems and IT controls to ensure that the systems meet the organization's business needs without compromising security, privacy, cost, and other critical business elements.

b. As many governments have computerized the revenue collection process, it changes the processing, storage and communication of financial information, thus affecting the accounting and internal control systems used by the Revenue Collecting Agency. Hence IT audits on revenue collection has become important as it gives assurance that the electronic revenue collection systems are adequately protected, provide reliable information to users and properly managed to achieve their intended benefits. IT auditing could also help to reduce risks of
data tampering/loss or leakage, service disruption, and poor management of electronic revenue systems.

c. Besides that, auditors can use e-auditing techniques such as:

i. **Live Interrogations** - interrogating the system by using existing reporting options within the application itself or utilizing a Report Generator, in-built into or bolted onto the application, where there is a simple language which can be used to perform interrogations on the application data.

ii. **Off-line Interrogations** - interrogate off-line by identifying and downloading data and perform interrogations (using ACL or even Microsoft Excel) on the downloaded data.

iii. **Continuous Auditing** - essentially a bolt-on program that set up regular routines (daily, weekly or monthly) to detects fraud; confirm that controls are working; identifying exceptions that require further investigation; and detecting unusual activity.

iv. **Data Mining** - a technique for finding useful information from a mass of data, when an auditor is not quite sure what he/she is looking for at the outset. It is normally achieved using a data warehouse, a huge database system, where data is stored, having been regularly extracted from the key applications and systems of the organization. Mining the information can be complex, using expensive and specialized software incorporating intricate rules or algorithms that look for patterns and associations.

### 2.2.5. Forensic Audit

a. Forensic auditing is the application of accounting and auditing methods and techniques, other investigative skills, and a knowledge of the law to track and collect forensic evidence, that is, evidence that is admissible in a court of law, usually for the investigation and the prosecution of a criminal act/fraud. Forensic auditing is distinguished from statutory auditing in that forensic auditing:

i. seeks to determine the correctness of accounts or whether any fraud has actually taken place;

ii. involves analysis of past trend and substantive or in-depth checking of selected transactions;
iii. is not limited in scope of examination to a particular accounting or fiscal period; and

iv. involves the verification of suspected items independent of management.

b. Forensic audit evidence is evidence collected by an auditor or investigator during the course of an investigation that will be used in an administrative tribunal or court of law or other proceeding to demonstrate that a law, a contract term, or other covenant has been violated. Audit evidence is also used in a court of law. However, the primary purpose of audit evidence is only to support the auditor’s conclusions, in the case of fraud, a conclusion that probable fraud may exist, and whatever is contained in the reports an auditor may issue.

c. The term fraud is generally used to encompass such acts as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, and collusion. For all practical purposes fraud is a corrupt act. It uses deception with the intention of obtaining an advantage, avoiding an obligation, or causing loss to another party. Fraud is deemed to comprise anything calculated to deceive, including all acts, omissions, and concealment involving a breach of legal or equitable duty, trust, or confidence justly reposed, resulting in damage to another, or by which an undue and unconscionable advantage is taken of another. Fraud indicates that there has been disclosure or detection of deceit, abuse, wastage or illegal act that has resulted in loss or damage to public funds and properties. Consequently, there has been a violation of law, rule or regulation. Fraud is an illegal act characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage. Hence, fraud encompasses an array of irregularities and illegal acts specifically characterized by intentional deception and usually involve the deliberate concealment of facts. Fraud can be described in a number of ways:

- the intentional misrepresentation or concealment of a material fact that results in financial or other damages to another party;

- the use of deception, false suggestions, suppression of the truth, or other unfair means, which is believed and relied upon to deprive another of property or money, resulting in a loss to the party that believed and relied upon the deception;
an illegal act characterized by deceit, concealment or violation of trust committed by individuals or organizations to obtain money, property or services, avoid payment or loss of services, or to secure personal or business advantage; and

- the intentional deception perpetrated by individuals or organizations, either internal or external to the organization, which could benefit themselves, others, or the organization or which could cause detriment to others or the organization, including falsifying financial or other records to cover up the theft of money or other assets.

d. Regardless of the definition used, the following characteristics are common to virtually all fraud:

- misrepresentation of a material fact;
- made knowingly and with the intent to deceive;
- reliance by the victim on the misrepresentation; and
- resulting in injury or damage from such reliance.

2.3. OBJECTIVES OF REVENUE AUDIT

2.3.1. Revenue audit objectives are broad statements developed by auditors and define the intended audit accomplishments. Generally, the objectives of revenue audit depend on the output or outcome that the auditors need to accomplish. For example, the audit objectives of revenue audit could be as follows:

a. to obtain reasonable assurance about whether the revenue as reflected in the financial statement as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework;

b. revenues are properly assessed, collected and accounted for (including exemption, deductions and refunds) and are in accordance with laws and regulations;

c. determining the extent to which the Revenue Collecting Agency is able to effectively and efficiently optimize tax revenue;
d. evaluating the Revenue Collecting Agency’s exposure to risk associated with revenue collection as well as determining if the agency is operating efficiently and effectively as well as minimizing revenue leakage; and

e. gives assurance that the electronic revenue collection systems are adequately protected, provide reliable information to users and properly managed to achieve their intended benefits to reduce risks of data tampering/loss or leakage, service disruption, and poor management of electronic revenue systems.

2.4. SCOPE AND METHODOLOGY OF REVENUE AUDIT

2.4.1. The scope of revenue audit pertains to the number of offices to be selected as audit sample, the amount of time and type of examination to be performed and the extent of audit procedures. It establishes how comprehensively the audit is performed. The clear definition of audit scope is important to keep the audit work in focus and to enable the auditor to correctly formulate the objectives and procedures to be included in the audit program.

2.4.2. As revenue audits has a wide coverage that includes multiple disciplines of taxation such as income tax, Value Added Tax (VAT)/Goods and Service Tax (GST) as well as custom duties, audit methodologies should relate to the audit objectives as well as the types of revenue audit conducted, namely, financial, compliance or performance audit.

2.4.3. For the purpose of this guideline, we will limit the discussion to financial and performance audit only. However, compliance audit as stated under ISSAI 4100 (Compliance Audit Guidelines - For Audits Performed Separately from the Audit of Financial Statements) and ISSAI 4200 (Compliance Audit Guidelines - Compliance Audit Related to the Audit of Financial Statements) should be taken into account in conducting revenue audit.
3. PLANNING

3.1. INTRODUCTION

3.1.1. This section of the guideline contains planning requirements for revenue audits conducted through financial auditing as well as performance auditing. It sets out the key issues to be taken into account for planning the audit to ensure that the audit is conducted in an effective and efficient manner. The purpose of these requirements is to establish the overall approach for the auditor to apply when planning the revenue audit. This section has two main parts. The first part relates to Financial Audit Planning for revenue (Overall Audit Strategy and the Detailed Audit Plan) and the second part is Performance Audit Planning for revenue (Strategic Planning Process and the individual auditor's design of each audit, focusing on what to audit, what criteria to use and what methods to use).

3.1.2. Under ISSAI 100 (Fundamental Principles of Public-Sector Auditing), the principles relating to the planning process are:

3.1.2.1. Auditors should ensure that the terms of the audit have been clearly established. Audits may be required by statute, requested by a legislative or oversight body, initiated by the SAI or carried out by simple agreement with the audited entity. In all cases, the auditor, the audited entity’s management, those charged with governance and others as applicable should reach a common formal understanding of the terms of the audit and their respective roles and responsibilities. Important information may include the subject, scope and objectives of the audit, access to data, the report that will result from the audit, the audit process, contact persons, and the roles and responsibilities of the different parties to the engagement.

3.1.2.2. Auditors should obtain an understanding of the nature of the entity/program to be audited. This includes understanding the relevant objectives, operations, regulatory environment, internal controls, financial and other systems and business processes, and researching the potential sources of audit evidence. Knowledge can be obtained from regular interaction with management, those charged with governance and other relevant stakeholders. This may mean consulting experts and examining documents (including earlier studies and other sources) in order to gain a broad understanding of the subject matter to be audited and its context.
3.1.2.3. Auditors should conduct a risk assessment or problem analysis and revise this as necessary in response to the audit findings. The nature of the risks identified will vary according to the audit objective. The auditor should consider and assess the risk of different types of deficiencies, deviations or misstatements that may occur in relation to the subject matter. Both general and specific risks should be considered. This can be achieved through procedures that serve to obtain an understanding of the entity or program and its environment, including the relevant internal controls. The auditor should assess the management’s response to identified risks, including its implementation and design of internal controls to address them. In a problem analysis, the auditor should consider actual indications of problems 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.

3.1.2.4. Auditors should identify and assess the risks of fraud relevant to the audit objectives. Auditors should make enquiries and perform procedures to identify and respond to the risks of fraud relevant to the audit objectives. They should maintain an attitude of professional scepticism and be alert to the possibility of fraud throughout the audit process.

3.1.2.5. Auditors should plan their work to ensure that the audit is conducted in an effective and efficient manner. Planning for a specific audit includes strategic and operational aspects. Strategically, planning should define the audit scope, objectives and approach. The objectives refer to what the audit is intended to accomplish. The scope relates to the subject matter and the criteria which the auditors will use to assess and report on the subject matter, and is directly related to the objectives. The approach will describe the nature and extent of the procedures to be used for gathering audit evidence. The audit should be planned to reduce audit risk to an acceptably low level. Operationally, planning entails setting a timetable for the audit and defining the nature, timing and extent of the audit procedures. During planning, auditors should assign the members of their team as appropriate and identify other resources that may be required, such as subject experts. Audit planning should be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the audit.
3.1.3. The audit plans should include the following considerations (Ref: Civil Audit Manual by The Office of the Comptroller and Auditor General of Bangladesh):

i. ensuring that the provisions of the ISSAI on planning are fulfilled;

ii. providing a framework for auditors to carry out an efficient, timely and fully integrated audit;

iii. the application of a risk-based approach to the allocation of resources across the revenue audit work so that resources are used to the best effect, including the usage of cumulative knowledge of audit, understanding the audited entity, consideration of the control environment, using the concept of materiality, and appropriate audit techniques;

iv. ensuring that the audit coverage for each assignment is comprehensive and directed in such a way as to identify any irregularities, material errors or omissions in the accounts of the audited bodies or other problem areas; and

v. ensuring consistency and working disciplines through the clear documentation of plans and work, which will also facilitate quality review processes.

3.2. PLANNING A FINANCIAL AUDIT ON REVENUE RELATED ACCOUNTS AND/OR STATEMENTS

3.2.1. Objectives

3.2.1.1. Normally, the objective of financial audit is to express an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. However, for financial audit on revenue statements, the objective is much broader. The audit mandate, or obligations for Revenue Collection Agencies, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include auditing and reporting responsibilities, for example, relating to reporting whether the public sector auditors found any instances of non-compliance of authorities including revenue budgets (exaggeration in the revenue estimates) and accountability frameworks and/or
reporting on the ineffectiveness of internal controls that could result in negligence in collection and revenue leakages.

3.2.1.2. Under ISSAI 200 (Fundamental Principles of Financial Auditing), in planning a financial audit, the auditor should:

i. develop an Overall Audit Strategy that includes the scope, timing and direction of the audit, as well as an audit plan;

ii. have an understanding of the audited entity and its environment, including internal control procedures that are relevant to the audit;

iii. assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures so as to provide a basis for further audit procedures;

iv. act appropriately to address the assessed risks of material misstatement in the financial statements; and

v. identify and assess the risks of material misstatement in the financial statements due to fraud, should obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud and should respond appropriately to fraud or suspected fraud identified during the audit.

The auditor should plan the audit properly to ensure that it is conducted in an effective and efficient manner.

3.2.2. The Role and Timing of Planning

3.2.2.1. According to ISSAI 1300, planning a financial audit involves establishing the Overall Audit Strategy and developing a Detailed Audit Plan. Adequate planning benefits the audit of revenue statement in several ways, including the following:

i. helping the auditor to devote appropriate attention to important areas of the audit;

ii. helping the auditor identify and resolve potential problems on a timely basis;
iii. helping the auditor properly to organize and manage the audit engagement so that it is performed in an effective and efficient manner;

iv. assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them;

v. facilitating the direction and supervision of engagement team members and the review of their work; and

vi. assisting, where applicable, in coordination of work done by auditors of components and experts.

3.2.2.2. The nature and extent of planning activities will vary according to the size and complexity of the Revenue Collecting Agency, the auditor’s previous experience with it, and changes in circumstances that occur during the audit engagement.

3.2.2.3. Planning includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures. For example, planning includes the need to consider, prior to the auditor’s identification and assessment of the risks of material misstatement, such matters as:

i. the analytical procedures to be applied as risk assessment procedures;

ii. obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework;

iii. the determination of materiality;

iv. the involvement of experts; and

v. the performance of other risk assessment procedures.

3.2.2.4. As financial audits on revenue have broader objectives, additional planning considerations may include:

i. obtaining an understanding of the legal and regulatory framework applicable to revenue collection; identifying any possible leakage of revenue or misinterpretation of the provisions of the law; whether or not levies and collection of tax were confirming to legislation (collection is
promptly made, classified and properly accounted) and promptly credited to the National Treasury;

ii. the implications from knowledge obtained from performance audits and other audit activities relevant to the Revenue Collecting Agency, including the implications of previous recommendations;

iii. the implications from knowledge obtained from planning activities related to the Revenue Collecting Agency; and

iv. the expectations of the legislature and other users of the auditors’ report.

3.2.2.5. The auditor may decide to discuss elements of planning with the Revenue Collecting Agency’s management to facilitate the conduct and management of the audit (for example, to coordinate some of the planned audit procedures with the work of the entity’s personnel). Although these discussions often occur, the Overall Audit Strategy and the Detailed Audit Plan remain the auditor’s responsibility. When discussing matters included in the Overall Audit Strategy or Detailed Audit Plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.

3.2.3. Requirements of Planning

According to ISSAI 1300, the requirements of financial audit planning are:

3.2.3.1. Involvement of Key Audit Team Members

The auditor and other key team members shall be involved in planning the audit and participate in the discussion among team members. The involvement of the auditor and other key team members in planning the audit draws from their experiences and insights, thereby, enhancing the effectiveness and efficiency of the planning process.

3.2.3.2. Preliminary Engagement/Audit Activities

Performing the preliminary engagement/audit activities assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor’s ability to plan and perform the audit. It also enables the auditor to plan the audit where, the auditor maintains the necessary independence and
ability to audit; there are no issues with management integrity that may affect the auditor's willingness to continue the audit; and there is no misunderstanding with the entity as to the scope and methodology of the audit. The preliminary engagement/audit activities that the auditor shall undertake are:

i. performing procedures regarding the specific audit;

ii. evaluating compliance with relevant ethical requirements, including independence; and

iii. establishing an understanding on the scope and methodology of the audit.

3.2.3.3. Planning Activities

The auditor shall establish an Overall Audit Strategy that sets the scope, timing and direction of the audit, and that guides the development of the Detailed Audit Plan. Once the overall audit strategy has been established, a Detailed Audit Plan can be developed to address the various matters identified in the Overall Audit Strategy, taking into account the need to achieve the audit objectives through the efficient use of resources. The establishment of the Overall Audit Strategy and the Detailed Audit Plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

3.2.3.4. Documentation

a. The documentation of the Overall Audit Strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the audit team. For example, the auditor may summarize the Overall Audit Strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

b. The documentation of the Detailed Audit Plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.
c. A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

Para 84 ISSAI 200
Both the overall strategy and the audit plan need to be documented. They must also be updated, as necessary, during the course of the audit.

3.2.4. Steps for Financial Audit Planning for Revenue

The financial audit plan for revenue audits comprises the Overall Audit Strategy and the Detailed Audit Plan as presented in the diagram below:

![Audit Planning Diagram]

Source: ISSAI 1315 - Identifying and Assessing the Risk of Material

3.2.4.1. Overall Audit Strategy

a. According to ISSAI 1300, the process of establishing the Overall Audit Strategy assists the financial auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:
i. the resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters;

ii. the amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors’ work in the case of group audits, or the audit budget in hours to allocate to high risk areas;

iii. when these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates; and

iv. how such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.

b. In establishing the Overall Audit Strategy, the auditor may consider four matters as follows:

I. Characteristics of the Engagement/Audit

i. the financial reporting framework/industry-specific reporting requirements;

ii. expected audit coverage;

iii. nature of the control relationships between entity and its components;

iv. extent to which components are audited by other auditors;

v. nature of the business segments to be audited;

vi. need for a statutory audit of standalone financial statements or for consolidation purposes;

vii. whether the entity has an internal audit function and if so, whether, in which areas and to what extent, the work of the function can be used;
viii. the entity’s use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them;

ix. the expected use of audit evidence obtained in previous audits;

x. the effect of IT on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques;

xi. the coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews; and

xii. the availability of client personnel and data.

II. Reporting Objectives, Timing of the Audit, and Nature of Communications

i. the entity’s timetable for reporting (interim and final stages);

ii. the organization of meetings with management to discuss the nature, timing and extent of the audit work; expected type and timing of reports and other communications; and

iii. whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

III. Significant Factors, Preliminary Engagement/Audit Activities, and Knowledge Gained on Other Engagements/Audits

i. the determination of materiality;

ii. preliminary identification of areas where there may be a higher risk of material misstatement;

iii. impact of the assessed risk of material misstatement;

iv. the need for auditors to maintain a questioning mind and to exercise professional scepticism in gathering and evaluating audit evidence;

v. results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them;
vi. discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity;

vii. evidence of management’s commitment to the design, implementation and maintenance of sound internal controls;

viii. volume of transactions, which may determine whether it is more efficient for the auditor to rely on internal controls;

ix. importance attached to internal control throughout the entity to the successful operation of the business;

x. significant business developments affecting the entity, including changes in IT and business processes, changes in key management, and acquisitions, mergers and divestments.

xi. Significant industry developments such as changes in industry regulations and new reporting requirements;

xii. significant changes in the financial reporting framework, such as changes in accounting standards; and

xiii. other significant relevant developments, such as changes in the legal environment affecting the entity.

IV. **Nature, Timing and Extent of Resources**

i. the selection of the audit team (including, where necessary, the engagement quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement; and

ii. engagement budgeting, including considering the appropriate amount of time to set aside for areas where there may be higher risks of material misstatement.

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**Para 80 ISSAI 200**
The auditor should develop an overall audit strategy that includes the scope, timing and direction of the audit, as well as an audit plan.

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**3.2.4.2. Detailed Audit Plan**
a. ISSAI 200 requires the auditor to develop a Detailed Audit Plan that includes:

i. description of the nature, timing and extent of planned risk assessment procedures and further audit procedures at the assertion level; and

ii. other planned audit procedures that are necessary so that the auditor complies with the applicable standards, such as a review of the legal framework for the audit; a brief description of the activity, program or entity to be audited; reasons for carrying out the audit; factors affecting the audit, including those determining the materiality of matters to be considered; the audit objectives and scope; audit approach; characteristics of the audit evidence to be collected, and the procedures required to collect and analyse evidence; the necessary resources; a timetable for the audit; and the form, content and users of the auditor’s report and management letter.

b. The Detailed Audit Plan is more detailed than the Overall Audit Strategy in that it includes the nature, timing and extent of audit procedures to be performed by auditors. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor’s risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures. A sample format of Detailed Audit Plan is shown in Appendix 1.

c. The planning of a financial audit on revenue statements is important to ensure that the auditor decides to audit the right things at the right time and that the audit is effectively conducted. To plan properly, an auditor needs to carry out three very important tasks, namely:

- identifying and assessing the risks of material misstatement through understanding the entity and its environment (ISSAI 1315);

- materiality in planning and performing an audit (ISSAI 1320); and

- the auditor’s responses to assessed risks (ISSAI 1330).
d. A description of the three tasks is as follows:

I. Identifying and assessing the risks of material misstatement through understanding the entity and its environment

i. The objective of this task is to enable the auditor to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity’s internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

ii. First the auditor gathers information about the Revenue Collecting Agency how it is managed by the Government, its material processes and the key controls. The information gathering is focused on areas that are deemed to be risky or material and that are included in the revenue statement and the processes and key controls that affect these areas. In that way, the auditor can restrict information gathering to things that are most relevant to the audit. The purpose of information gathering is thus not to obtain comprehensive information about the Revenue Collecting Agency with extensive analyses of changes in appropriation directions etc. but to collect the information the auditor need to be able to make a relevant analysis of the risks of material misstatement in the revenue statement.

iii. Information can be obtained both from the Revenue Collecting Agency and from the relevant ministry, as well as other relevant parties that the auditor considers are able to contribute interesting information, for example from completed performance audits. It is important that the auditor also obtain knowledge of the legal framework applicable to the Revenue Collecting Agency. It may also be relevant to obtain knowledge of the expectations the Government or legislature. The auditor documents all material
information in the audit working paper. In cases where the auditor decides to describe processes and key controls in the flow chart the auditor gives a brief description.

iv. The planning objective includes identifying and assessing the risks of material misstatement in the revenue statement. The auditor therefore needs to understand the entity’s environment and its internal control structure, as well as if there are incentives to exaggerate or embellish parts of the revenue statement. Such incentives indicate areas of high risk of material misstatement in the revenue statement. Examples of such incentives may be that the management benefits from exaggerating the results of operations as described in the performance reporting.

v. The auditor gathers information by, for example, putting questions to the Revenue Collecting Agency’s management and others who may have relevant information. The auditor also carries out analytical procedures to get a feeling for natural relationships and also to try to clarify what could be a reasonable result in the year’s revenue statement. The auditor also makes observations and carries out inspections to identify key controls. In addition, there is a lot of knowledge about the entity in previous years’ audit files and among previous auditors.

vi. The auditor should obtain an understanding of the internal control within the entity. The auditor therefore needs to understand the control environment. Moreover, the auditor needs to assess the entity’s risk assessment process. For the agencies that are required to comply with the regulations on Internal Control there should be ample documentation of the risk assessment process. For other agencies the auditor has to discuss with the entity management what risks they see in the operations and what measures they have taken to handle them. However, auditor must be aware that risks of material misstatement in the revenue statement are not necessarily the same risks as the entity presents in its risk analysis. Some of the entity’s risks may be irrelevant from our perspective of risk of material misstatement in the revenue statement. At the same time, there may be risks that are material from our perspective, but not from that of the entity. The auditor also need to obtain an understanding of the control measures in
place at the entity and that are relevant for our audit, including how the entity has dealt with IT related risks. The auditor also needs to assess how the internal control functions to ensure compliance and the ability to forecast revenue. Finally, the auditor has to obtain an understanding of the entity’s most important activities to monitor internal control. The internal audit function/office often has important knowledge regarding how internal control functions at the entity. The auditor needs therefore also to decide if the auditor can rely on the audits performed by the internal audit office.

vii. The following describe the concepts of internal control.

- Internal control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. The new framework of internal control is presented below.

**FRAMEWORK OF INTERNAL CONTROL**

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Source: Chapter 2 of the 2013 COSO Internal Control: Integrated Framework
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- The five components of the internal control are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. To have an effective internal control relating to one, two or more categories of objectives, all five components must be present and functioning and operating together. Determine whether a particular internal control system is effective is a subjective judgment resulting from an assessment of whether each of the five components of internal control is present and functioning, and that the five components of internal control operate together to provide reasonable assurance that the relevant objectives are met. For further
details, auditor can refer to The updated COSO Internal Control Framework Second Edition or www.coso.org. Sample internal control checklist which may help auditor to assess and evaluate the effectiveness of the internal control is in Appendix 2.

- Internal control systems in revenue administration include every management system that tries to identify any important job relating to collections have been missed by any level of management personnel. Such evaluation helps management to adopt appropriate systems for the protection of government revenue. Internal audit report may also provide areas of audit significance. Audit should evaluate the internal control systems in every revenue stream to identify whether:
  - statement of returns have been collected and assessed;
  - assessment orders have been delivered to tax payers in time which resulted in timely collection of revenue;
  - access to assets and records is permitted only in accordance with management’s authorization;
  - tax evasion has been minimized; and
  - execution of control systems have been evaluated.

viii. Having understanding the entity and its environment as well as examples of conditions that may indicate risks of material misstatement for the revenue authority. The auditor should identify the risks of material misstatement at the financial statement level and at the relevant assertion level.

ix. The auditor shall relate the identified risks to what can go wrong at the relevant assertion level and consider whether the risks are of a magnitude that could result in a material misstatement of the revenue statement and the likelihood that the risks could result in a material misstatement of the revenue statement. The nature of the risks arising from a weak control environment is such that they are not likely to be confined to specific individual risks of material misstatement in particular classes of transactions, account balances, and disclosures.
x. The auditors should evaluate the following risk commonly encountered in the revenue administration. Examples of risk statements are depicted below:

- A person having a taxable income may be running his business without registering with the tax authority.
- Taxpayer may conceal his actual transaction to avoid his tax liability.
- Taxpayer may not submit required papers and documents along with his self-assessed tax return.
- It is possible that a registered person may not submit tax returns.
- It is possible that various government agencies may not provide information to the tax officer relating to the taxpayers.
- It is possible that a taxpayer, who is a temporary resident, may leave the country without submitting tax returns.
- It is possible that a person liable to pay income tax may close or sell out the business or may change the name of the business without paying the tax due.

xi. Risk Prioritization - Risks are typically measured in terms of impact and likelihood of occurrence. Impact scales of risk should represent the units of measure, which may reflect different types of impact such as financial, people, and/or reputation. The auditor should use professional judgments to prioritize the risks. (RISK=LIKELIHOOD X SIGNIFICANCE). To help the auditor map the risks in the right direction according to its likelihood and impact, the following criteria may be considered.

<table>
<thead>
<tr>
<th>Likelihood Level</th>
<th>Likelihood Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>The threat's source is highly motivated and sufficiently capable, and controls that prevent the vulnerability from being exercised are ineffective.</td>
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<tr>
<td>Medium</td>
<td>The threat's source is motivated and capable, but controls are in place that may impede a successful exercise of the vulnerability.</td>
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A SEANSAI - GUIDELINE AUDIT REVENUE

### Likelihood Level

<table>
<thead>
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<th>Likelihood Level</th>
<th>Likelihood Definition</th>
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<tbody>
<tr>
<td>Low</td>
<td>The threat’s source lacks motivation or capability, and controls are in place to prevent or significantly impede the vulnerability from being exercised.</td>
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### IDENTIFYING THE RISK’S IMPACT

<table>
<thead>
<tr>
<th>Impact/Significance Level</th>
<th>Impact/Significance Definition</th>
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<tbody>
<tr>
<td>High</td>
<td>High impact risks may result in material revenue loss.</td>
</tr>
<tr>
<td>Medium</td>
<td>Medium impact risks may result in likely material revenue loss.</td>
</tr>
<tr>
<td>Low</td>
<td>Low impact risks may result in less material revenue loss.</td>
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xii. After all the risks of an entity have been identified, the auditor shall prioritize those risks which are significant based on the auditor’s professional judgment in the tables below.

### RISK IDENTIFICATION

<table>
<thead>
<tr>
<th>Risk No.</th>
<th>Risk Description</th>
<th>W/P Ref</th>
<th>Account Impacted</th>
<th>Significance/Impact</th>
<th>Likelihood</th>
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Source: SAI Cambodia

### RISK MATRIX

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<th>Risk No.</th>
<th>Risk Description</th>
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<th>Account Impacted</th>
<th>Significance/Impact</th>
<th>Likelihood</th>
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</table>

Source: SAI Cambodia

xiii. The result of risk assessment process can also be set out in the chart below.
II. Materiality in planning and performing an audit

The auditor should apply the concept of materiality in an appropriate manner when planning and performing the audit.

i. The objective of this task deals with the auditor’s responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

ii. When determining materiality for planning purposes in the public sector both quantitative and qualitative matters as well as the nature of items are of importance. The context in which the matter appears may be of importance. Furthermore, the inherent nature or characteristics of items, or groups of items, may render them material.

iii. In the report, the auditor expresses an opinion on whether the revenue statement provides a true and fair view. As a basis for our opinion it is required that the auditor achieves reasonable assurance that the revenue statement as a whole does not contain material misstatements. Reasonable assurance is a high, but not an absolute level of assurance and means that the auditor has obtained sufficient appropriate audit evidence for our opinion. The concept of materiality is central in an audit, in planning, execution and reporting.
iv. ISSAI 1320 (ISA 320) states that determining materiality involves the exercise of professional judgment and is affected by the auditor's perception of the financial information needs of the users of the revenue statement. However, the auditor expresses an opinion on the revenue statement as a whole and is therefore not responsible for discovering misstatements that are not material to the whole. When the auditor plans and performs the audit, the auditor has to take a professionally sceptical approach to the information the auditor obtains and makes professional assessments of the audit evidence the auditor collects. If the auditor is unable to achieve reasonable assurance that the revenue statement as a whole does not contain material misstatements and it is not sufficient to write a qualified auditor’s report or an adverse auditor’s report, the auditor is to issue a disclaimer of opinion on the revenue statement.

v. In the public sector there may be both qualitative and quantitative aspects to materiality. Material misstatements in the public sector are not restricted to matters that may reasonably be expected to affect economic decisions made by users based on the revenue statement. Consequently, the definition of material misstatement is broader in the public sector and covers both quantitative and qualitative aspects. It is more difficult to set materiality levels for other decisions since they cannot always be formulated in money or amounts. The auditor therefore elects to set descriptive materiality levels for evaluating risks of deficient compliance. When these materiality levels are set the auditor should take into account the expectations of the principal regarding fair reporting, cost effectiveness of operations and compliance. Instead of a descriptive materiality, the auditor can set other types of threshold values, such as the number of benefit recipients affected.

vi. The reasoning above is also supported by ISSAI 1320: The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. Although it is not practical to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but
also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the revenue statement.

vii. When does the auditor use the concept of materiality? ISAs specify three occasions when the concept of materiality is to be used.

   - Materiality in planning and risk assessment (quantitative and qualitative factors).
   - Materiality in carrying out audit procedures (when the auditor makes selections and use sampling).
   - Materiality in forming the opinion in the auditor’s report that is based on a professional assessment of all audit findings.

viii. The overall materiality for the revenue statement as a whole is determined as an amount and is used as a basis for what are regarded as material misstatements as regards the financial parts of the revenue statement. Overall materiality is based on the users’ information needs, not on how risky it may be to audit a specific account. It is not probable that overall materiality will change very often. But it may need to be revised when the auditor receives knowledge of new information or if there is a change in the auditor’s understanding of the entity and its operations.

ix. Performance materiality is used by the auditor to reduce the risk of the accumulated uncorrected and unidentified misstatements exceeding materiality for the revenue statement as a whole (overall materiality) to an acceptably low level. Performance materiality is set at an amount lower than overall materiality. The purpose is to carry out more audit work than would be required for overall materiality in order to ensure that misstatements that are below overall materiality are detected in order to appropriately reduce the probability of the total non-corrected and undetected misstatements exceeding materiality for the revenue statement as a whole.

x. The auditor has to list the misstatements identified during the audit, apart from those that are clearly trivial. Before evaluating the impact of uncorrected misstatements, the auditor is to make a revision of the materiality set during planning to confirm that the materiality figure is still appropriate in the context of the revenue statement
submitted by the entity. This is because the planning is based on an estimate of what will be in the revenue statement. The estimate is for the most part based on the previous year’s revenue statement. In cases where the revenue statement deviates considerably from the previous year the auditor needs to make a revised materiality assessment. It may also be relevant if the auditor’s understanding of the entity and its operations has changed after continued audit measures. For example, that the internal control at the entity did not meet the auditor’s expectations.
III. The auditor’s responses to assessed risks

Para 97 ISSAI 200
The auditor should act appropriately to address the assessed risks of material misstatement in the financial statements.

i. The objective of this task deals with the auditor’s responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in the audit of revenue statements.

ii. The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

iii. The audit procedures responsive to the assessed risks of material misstatement at the assertion level requires the auditor to:

- consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure;

- design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls;

- perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls;

- test controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls, in order to provide an appropriate basis for the auditor’s intended reliance;

- obtain audit evidence about significant changes to those controls subsequent to the interim period;

- consider the effectiveness of other elements of internal control, including the control environment, the entity’s monitoring of controls, and the entity’s risk assessment process including risks arising from the characteristics of the controls (manual or IT);
• use audit evidence from a previous audit about the operating
effectiveness of specific controls and establish the continuing
relevance of that evidence by obtaining audit evidence about
whether significant changes in those controls have occurred
subsequent to the previous audit;

• test controls in the current period if the auditor plans to rely on
controls over a risk the auditor has determined to be a significant
risk;

• evaluate whether misstatements that have been detected by
substantive procedures indicate that controls are not operating
effectively;

• make specific inquiries to understand the reason and its potential
consequences if there are deviations from controls;

• design and perform substantive procedures for each material
class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement;

• consider whether external confirmation procedures are to be
performed as substantive audit procedures;

• perform substantive procedures related to the Financial Statement
closing process such as reconciling the financial statements with
the underlying accounting records and examining material journal
entries and other adjustments made;

• perform substantive procedures responsive to significant risks
including tests of details;

• perform substantive procedures at an interim date (if necessary)
by auditor shall cover the remaining period by combining tests of
controls for the intervening period or provide a reasonable basis
for extending the audit conclusions from the interim date to the
period end; and

• evaluate whether the related assessment of risk and the planned
nature, timing or extent of substantive procedures covering the
remaining period need to be modified if misstatements that the
auditor did not expect when assessing the risks of material misstatement are detected at an interim date.

iv. For audit procedures on the auditor’s responses to assessed risks, the following terms have the meanings attributed below:

- **Substantive procedure** - an audit procedure designed to detect material misstatements at the assertion level and it comprises:
  - Tests of details (of classes of transactions, account balances, and disclosures); and
  - Substantive analytical procedures.

- **Test of controls** - an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

### 3.2.5. Determine Audit Criteria

3.2.5.1. According to ISSAI 100, subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. It can take many forms and have different characteristics depending on the audit objective. An appropriate subject matter is identifiable and capable of consistent evaluation or measurement against the criteria, such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion.

3.2.5.2. The criteria are the benchmarks used to evaluate the subject matter. Each audit should have criteria suitable to the circumstances of that audit. In determining the suitability of criteria the auditor considers their relevance and comprehension for the intended users, as well as their completeness, reliability and objectivity (neutrality, general acceptability and comparability with the criteria used in similar audits). The criteria used may depend on a range of factors, including the objectives and the type of audit. Criteria can be specific or more general, and may be drawn from various sources, including laws, regulations, standards, sound principles and best practices. They should be made available to the intended users to enable them to understand how the subject matter has been evaluated or measured.

3.2.5.3. Subject matter information refers to the outcome of evaluating or measuring the subject matter against the criteria. It can take many forms and
have different characteristics depending on the audit objective and audit scope.

3.2.5.4. As for financial auditing, the financial position, financial performance, cash flows and notes presented in the financial statements are subject matter information that results from applying a financial reporting framework for recognition, measurement, presentation and disclosure (criteria) to a public-sector entity's financial data (subject matter). The term "subject matter information" refers to the outcome of the evaluation or measurement of the subject matter. It is on the subject matter information (e.g. the entity's financial statements) that the auditor gathers sufficient appropriate audit evidence to provide a reasonable basis for expressing an opinion in the auditor's report.

3.2.5.5. Determining audit criteria is important because it is a communication tool between auditor and audited entity or between audit team members, as a way for auditor to build the link between audit objective and audit program, and also as the basis for audit procedure preparation, data collection, and audit findings.

3.2.5.6. Steps to determine criteria in revenue audit are:
   i. determining the source of valid criteria;
   ii. analysing the suitability of criteria with subject matter;
   iii. determine the criteria to be used by the auditor; and
   iv. ensure criteria to be used are accepted by the parties involved.

3.2.6. Audit Program

3.2.6.1. When the auditor has made an overall investigation as to what internal control exists in the entity, the auditor selects the most effective audit method, substantive procedures or test of internal controls. The auditor can also combine the various audit methods to best carry out the audit measures that focus on the areas the auditor has identified. If the auditor intends to rely on the internal control the auditor has to assess the function of the controls and determine that they have been used during the year.

3.2.6.2. The auditor's objective is to obtain sufficient and appropriate audit evidence of the assessed risks of material misstatement by designing and implementing appropriate measures to manage these risks. In this, the auditor
has to take into consideration the basis of risk assessment, the inherent risk and control risk. The higher the risk is assessed to be the more persuasive the audit evidence required. The auditor needs to gain an overall understanding of the auditee’s internal control, regardless of the size of the entity, and even if the auditor has decided to only perform substantive procedures.

3.2.6.3. To gain an understanding of the level of internal control it is necessary to have a process for identifying and assessing the controls that directly or indirectly reduce the risk of material misstatements.

3.2.6.4. Factors in determining the audit program are as follows:

a. Extent

The extent of audit procedures increases as the risk of material misstatement increases. For example, in response to the assessed risk of material misstatement due to fraud, increasing sample sizes or performing substantive analytical procedures at a more detailed level may be appropriate.

b. Nature

For example, if an assessed risk is lower because of the particular characteristics of a class of transactions without consideration of the related controls, then the auditor may determine that substantive analytical procedures alone provide sufficient appropriate audit evidence.

c. Time

The higher the risk of material misstatement, the more likely it is that the auditor may decide that it is more effective to perform substantive procedures nearer to, or at, the period end rather than at an earlier date.

3.2.6.5. Sample format of audit plan is shown in Appendix 1.

3.3. PLANNING A PERFORMANCE AUDIT ON REVENUE

3.3.1. Objectives

3.3.1.1. Under ISSAI 300 (Fundamental Principles of Performance Auditing) performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities
or organizations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.

3.3.1.2. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement. Performance audits deliver new information, knowledge or value by:

i. providing new analytical insights (broader or deeper analysis or new perspectives);

ii. making existing information more accessible to various stakeholders;

iii. providing an independent and authoritative view or conclusion based on audit evidence; and

iv. providing recommendations based on an analysis of audit findings.

3.3.1.3. For performance audits on revenue, the applications of 3Es (refer to ISSAI Implementation Handbook - Performance Audit) could be as follows:

i. **Economy - Keeping the cost low**

Economy means minimizing costs of resources used in the collection of revenue, without compromising quality standards. It refers to the ability of a Revenue Collecting Agency to properly manage its financial resources in order to achieve its objectives (for example, achieving the targeted revenue for government). Here, the Revenue Collecting Agency should create a cost effective manner to collect tax and a potential way to reduce internal costs is by “going digital.”

ii. **Efficiency - making the most of available resources**

Efficiency is the relationship between products generated (revenue collected) by an activity and the costs of inputs used to collect them in a certain period of time. The principle of efficiency is about getting the most from available resources. It is concerned with the relationship between resources employed, conditions given and results achieved; in terms of quantity, quality and timing of outputs or outcomes. For example, to improve efficiency in revenue collections, Revenue Collecting Agencies could improve the systems and procedures by deploying IT or digitizing the out-of-date manual procedures.

iii. **Effectiveness - achieving the stipulated aims or objectives**
Effectiveness is essentially a goal-attainment concept. It is concerned with the relationship between goals or objectives, outputs and impacts. It refers to the relationship between the outcomes of a program in terms of its effects on the target population (observed impacts), and the desired goals (expected impacts). It means verifying if the changes in the target population could be attributed to the actions of the evaluated program. Among examples of effective ways in revenue collection are the implementation of innovative revenue collection strategies; extensive implementation strategies in its operations (such as improving its organization structures, training, manpower planning, developing teamwork among management and staff); new approaches to reward management; and the adaptation of total quality management.

3.3.2. Steps for Performance Audit Planning for Revenue

As for revenue audits conducted through performance auditing, the steps comprise the Strategic Planning Process and Designing the Audit.

3.3.2.1. The Strategic Planning Process

The Strategic Planning Process should cover several years and considering the dynamic of the context in the public sector and the changing strategies in fiscal policies (especially in the context of tax regime or tax structure) it is recommended to revise the Strategic Plan annually. The Strategic Planning Process comprises 3 parts, namely the selection of topics; assessing potential audit topic in terms of materiality and risk; and selecting audit topics that are auditable.
a. Selection of topics

i. The auditor shall select audit topics through the Strategic Planning Process by analysing potential topics and conducting research to identify risks and problems.

ii. The auditor should conduct the process of selecting audit topics to maximize the expected impact of the audit while taking into account audit capacities. One such possible strategic choice is to decide to contribute to minimizing revenue leakages or ensuring Revenue Collection Agency is able to effectively and efficiently optimize tax revenue.

b. Assessing potential audit topic in terms of materiality and risk

i. Revenue audit topics are generally selected on the basis of problem and/or risk assessments and an assessment of materiality. Materiality relates not only to financial, but also social and/or political aspects.

ii. Risks also involve areas where there is reason to suspect inefficiency that concern citizens such as inefficiency of Revenue Collecting Agency in optimizing revenue. Factors that may indicate higher risk include:

- types of revenue involved are substantial, or there have been significant changes in the fiscal policies;
- areas traditionally prone to risk and fraud (for example, tax exemptions, refunds, input tax credits);
- new or urgent activities or changes in tax structure/regime;
- complicated tax structure, with possible confusion about responsibilities; and
- lack of reliable, independent, and updated data.

iii. The analysis of potential topics must give consideration to maximizing the expected impact of an audit (optimizing revenue or plugging
revenue leakage). As part of analysing potential topics and conducting research to identify risks and problems, the auditor is advised to consider the following:

- the greater the risk for consequences in terms of efficiency and effectiveness on revenue collection, the more important the problems tend to be; and

- adding value is about providing new knowledge and perspectives. The better the prospects of carrying out a useful audit of good quality, and the less the policy field or subject has been previously covered by audits or other reviews, the greater the added value might be.

iv. Selection of topics depends on the assessed risks that are the likelihood and impact of an event with the potential to affect the achievement of an organization’s objectives such as the non-achievement of targeted revenue. A risk analysis is a two-step process:

- identifying possible events that, should they occur, would prevent the entity/functional area from attaining its objectives; and

- assessing the possible magnitude and likelihood of each event.

v. This assessment helps the auditor identify the inherent risks. The auditor may also focus on residual risk - the risk that remains even when controls are in place to mitigate the inherent risk - or on areas of suspected weaknesses.

Para 33 ISSAI 300
Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.

c. Selecting audit topics that are auditable

i. Assessing auditability is an important requirement in selecting the audit. At this stage, determining whether a topic is auditable or not depends on whether the audit topics are in compliance with the audit mandate of the SAI and whether the SAI has the audit capacities (for example human resources and technical skills) to conduct the audit.
ii. It is also important that the auditor takes into account the expected net impact of the audit as defined in the SAI’s strategy. When designing the audit, auditability will have to be considered yet again, more in detail (see section on Designing the Audit below).

iii. If SAIs get requests to conduct audits on a specific topic, it is not always possible to meet the specific requirements on the topic selected. However, it is still important to follow the requirements for Designing the Audit.

3.3.2.1. Designing the Audit

a. In designing the audit, it is important to plan an audit, to consider eight factors, namely: understanding what is audited; defining the audit objective(s); defining the scope of the audit and the specific audit questions; setting the audit criteria; choosing methods to gather audit evidence; assessing auditability; managing audit risks; and communication in the planning phase.

I. Understanding what is audited

i. The audit topic is often a rather broad area of interest so it has to be narrowed down by determining the audit objective(s) and the audit scope. This is often done in the form of a pre-study.

ii. The purpose of a pre-study is to establish whether the conditions for an audit exist and if so, to produce an audit proposal with a work plan and a research design. A pre-study helps provide answers to questions like: Is this subject auditable and worth auditing? What information is needed and how should the audit be conducted? In addition, it provides background knowledge and information needed to understand the entity or entities to be audited (program, function, service or organization).
iii. A pre-study enables the auditor to produce an appropriate audit proposal and makes it easier to ensure that the performance audit coverage is comprehensive and realistic. The pre-study is normally carried out in a fairly short period. The pre-study of a specific topic can be conducted in less than a month, while a broader approach to the audit can normally be conducted within 3 months. The time spent on the pre-study is not recommended to exceed the time used on the main-study. The outcome of the pre-study phase is the audit proposal.

iv. As part of the pre-study, it is advisable to test some of the hypotheses that led to the topic selection. It is also important to check the availability of data. For example, if the audit objective is efficiency of officers in collecting revenue, it is advisable to visit the Revenue Collecting Agency and collect central material in the pre-study phase.

v. The auditor is advised to consider the needs and interests of the primary intended users, including the responsible parties when designing the audit. The needs and interests of the users could influence the selection of audit objectives and the types of analysis conducted by the audit team. Ultimately, by taking into account the needs and interests of the primary intended users, the auditor can ensure that the audit report is useful and understandable.

vi. The aim at the beginning of the design phase is to develop a basic understanding of the subject matter (what is audited), and of the risks and challenges in the area. Obtaining the required knowledge is a continuous and cumulative process of gathering and assessing information at all stages of the audit. Therefore, it might be necessary to gather further information and to test initial hypotheses in the planning stage once the audit topic is decided. This information will help the auditor decide on the most relevant approach of the audit. It is important that the auditor weighs the costs of obtaining information against the additional value of the information to the audit. The information gathered in the planning phase may make it necessary to adjust what is to be audited.

vi. Sources of information for understanding what is audited may include:

- enabling legislation and legislative speeches on the fiscal policy;
• ministerial statements, government submissions, and decisions on the tax structure;
• entity risk profile;
• recent audit reports, reviews, evaluations, and inquiries;
• scientific studies and research (including those from other countries);
• strategic and corporate plans, mission statements, and annual reports;
• policy files and management committee and board minutes;
• organization charts, internal guidelines, and operating manuals;
• program evaluation and internal audit plans and reports;
• viewpoints from experts in the field;
• discussions with the audited entities and key stakeholders;
• IT systems or other relevant information systems;
• official statistics;
• reports from other SAIs; and
• press coverage.

II. Defining the audit objective(s)

i. The auditor shall set a clearly defined audit objective(s) that relates to the principles of economy, efficiency or effectiveness. The objective(s) determines the approach and the design of the audit.

ii. The audit objective(s) can be thought of as the overall audit question concerning the subject matter (for instance the Key Performance Index (KPI) of the Revenue Collecting Agency) that the auditor seeks the answer to. Or put differently, it can be thought of as the hypothesis that will be tested through the collection and analysis of evidence. The audit objective therefore needs to be framed in a way that allows a clear and unambiguous conclusion. Many audit
objectives can be expressed in the form of one overall audit question which is then broken down into more detailed/specific sub-questions.

iii. The audit objective(s) addressed by performance auditors do not have to be exclusively based on a retrospective (ex post) audit approach. In a performance audit, the auditor can take an early initiative and provide ex ante audits where appropriate, and if this is allowed by their legal mandate.

iv. It is important that the audit objective is based on rational and objective considerations. In determining the audit objective(s), the auditor must determine where the greatest risks are, and where the audit can add most value. To help defining appropriate audit objective(s) the auditor can conduct interviews with major stakeholders and experts, and analyse potential problems from various viewpoints. If an audit takes place on request, the audit objective(s) might however be more or less determined or obvious.

v. The objective(s) is typically based on the requirements of the relevant legislation, regulations, and policies, government objectives, or reflect what is expected based on sound principles and best practices, or what could be given better conditions.

vi. The audit objective(s) must give sufficient information to the audited entity and other stakeholders about the focus of the audit. Well-defined audit objectives relate to a single entity or an identifiable group of government undertakings, systems, operations, programs, activities or organizations.

vii. A good practice is to describe the audit objective(s) as simply as possible. Presenting the audit objective(s) as clearly and concisely as possible prevents the audit team from undertaking unnecessary or overly ambitious audit work. Ambiguous or vague audit objectives must be avoided. The auditor is advised to avoid multiple objectives where more than one question is asked. This will enable the auditor to reach clear conclusions.

viii. One way of examining whether the potential audit objective(s) can be concluded against is by considering:
- whether the objective(s) identified is auditable (e.g. whether audit criteria are available or can be developed, whether resources and competence are available, etc.);

- whether audit evidence exists or can be generated and is accessible by the auditor; and

- whether audit methodologies can be used successfully to collect and analyse such evidence.

ix. The audit objective(s) and scope are interrelated and need to be considered together. Even minor changes in the objective(s) or the problem to be studied may have a major impact on the general scope of the audit.

**Para 25 ISSAI 300**

*Auditors should set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness.*

### III. Defining the scope of the audit and the specific audit questions

i. The scope defines the boundary of the audit. To define the scope, the auditor needs to identify which entities are to be included in the audit or which particular program or aspect of a program defines the boundary of the audit. The auditor must also identify the period of time to review and the locations that will be included. To avoid an overly complex audit, the audit scope can exclude certain activities or entities from the audit, even if they in principle would be relevant to the audit objective.

ii. The scope of an audit can be determined by answering the following questions:

*What?* What specific questions or hypotheses are to be examined?  
*What kind of study seems to be appropriate?*  
*Who?* Who are the key players involved and the auditee(s)?  
*Where?* Are there limitations in the number of locations to be covered?  
*When?* Are there limitations on the time frame to be covered?

iii. It is a good practice to discuss the audit scope with the audited entities at the earliest opportunity. In some cases, it may also prove
useful to explicitly clarify what is not going to be audited based on the actual study (what is not intended to be covered). This may contribute to reduce misconceptions or false expectations among stakeholders.

iv. It is a good practice for the auditor to create specific audit questions to help define and the structure of the audit. The audit questions must therefore, when established, have a further impact and defining the scope.

v. It is important for the audit questions to be thematically related, complementary, not overlapping and collectively exhaustive in addressing the audit objective(s) (or main question). The aim is to cover all aspects of the audit objective by specific audit questions. All terms employed in the questions need to be clearly defined. The questions are stated in neutral form, even if the auditor expects to find problems in relation to the question.

vi. Audit questions may be analytical, normative or descriptive. Even if it is advisable to formulate audit questions in a normative or analytical way, descriptive questions can sometimes be useful in an audit, especially when preparing an audit in an area where information on economy, efficiency or effectiveness is lacking. However, they seldom add much value to those who seek comprehensive explanations, or well-founded information on how to significantly improve performance. They therefore work best when combined with analytical or normative questions.

vii. The formulation of audit questions is an iterative process in which the auditor repeatedly specifies and refines the questions, taking account of known and new information on the subject as well as the feasibility of obtaining answers. During the planning stage, the purpose of formulating audit questions is to systematically direct attention to what the auditor needs to know to accomplish the audit objective. Audit questions may have to be adjusted to better reflect the subject matter as the auditor becomes more knowledgeable during the audit. However, it is advised that this be done infrequently. Since it is recommended that audit questions are communicated with the audited entity, changing the audit questions during the course of an audit may raise questions as to the professionalism, objectivity and fairness of the audit.
viii. The auditor must also define the approach of the study: what kind of study is needed to answer the audit objective? There are three common approaches in performance auditing: system-oriented, results-oriented and problem-oriented or a combination thereof.

ix. Performance auditing is often based on an overall perspective, that is, a top-down perspective. It concentrates mainly on the requirements, intentions, objectives and expectations of the legislature and central government. However, it is also possible to add a client-oriented perspective, a focus on service-management, waiting-time, and other issues relevant to the ultimate clients or consumers involved.

**Para 26 ISSAI 300**
Auditors should choose a result-, problem- or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.

### IV. Setting the audit criteria

i. The auditor needs to establish suitable criteria, which correspond to the audit objective(s) or questions. Criteria are the benchmarks or a standard used to evaluate the subject matter to determine whether a program meets or exceeds expectations. The criteria provide a basis for assessing the evidence, reaching audit findings and developing conclusions on the audit objectives.

ii. The criteria can be qualitative or quantitative and define what the audited entities will be assessed against. The criteria may be general or specific, they may reflect a normative (ideal) model for the subject matter under review, and they may represent best or good practice, an expectation of what should be according to laws, regulations or objectives. The criteria may also be what is expected according to sound principles, scientific knowledge and best practice, or what could be (given better conditions). The nature of the audit and the audit questions determine which criteria are the most suitable.

iii. Audit criteria are deduced from authoritative sources. The auditor can use many different sources to identify criteria, for example:

- laws and regulations governing the operation of the audited entity;
• political goals or statements by the legislature;
• decisions made by the legislature or the executive;
• KPIs set by the auditee or the government;
• detailed procedures for a function or activity;
• standards from research, literature, professional and/or international organizations;
• international benchmarks of good performance;
• corresponding performance in the private sector;
• benchmarks – same entity, different years; different entities same activity;
• planning documents contracts and budgets from the audited entity;
• general management and subject-matter literature;
• criteria used previously in similar audits or by other SAIs;
• standards set by the auditor, possibly after consultation with subject matter experts (necessary to agree with the relevant audited entities); and
• identification of what could be (given better conditions).

iv. Sometimes audit criteria are easy to define, for example when the goals set by the legislature or the executive branches are clear, precise and relevant. However, this is often not the case. The goals may be vaguely formulated, conflicting or non-existent. Under such conditions, the auditor may have to establish criteria that reflect the ideal or expected result to which the performance of the entity can be measured.

Tips for setting good audit criteria. Ensure that they are:
• short and clear i.e. unambiguous and easy to comprehend;
• relevant and logically or causally linked to the audit questions;
• mutually exclusive, i.e. different and distinct from one another, and not overlapping;
The audit criteria need to be set objectively. The process requires rational consideration and sound judgment. It is therefore important that the auditor acquires:

- an understanding of the area to be audited, recent studies and audits in the area;
- knowledge of the motives and the legal basis of the government program or activity to be audited and the goals and objectives set by the legislature or the government; and
- knowledge of practices and experience in other relevant or similar programs or activities.

When setting criteria, one possibility is to allow experts in the field to answer questions such as ‘what ought to be the ideal results under perfect conditions according to rational thinking or best-known comparable practice?’ Alternatively, to define and obtain support for well-founded and realistic criteria, it may prove helpful to discuss benchmarks with stakeholders and decision makers.

According to ISSAI 3000/51, the auditor shall, as part of planning or conducting the audit, discuss the audit criteria with the audited entities and possibly with the relevant stakeholders. Disagreement about criteria can then be identified, discussed, and, perhaps, resolved at an early stage. It is especially the case when criteria are developed specifically for the engagement or they are not self-evident and are capable of dispute by audited entity management.

It is important that the auditor listens to good arguments from the audited entities but at the same time be aware of their potential interest to hide their weaknesses. The facts and arguments presented by the audited entity must be weighed against other relevant facts and arguments (from other sources, experts etc.) and the auditor may accept the criticism by the audited entity of a criteria...
after careful discretion. However, the final decision on criteria belongs
to the auditor and it is important for the auditor to remain independent
during the process.

ix. An example on the structure in a performance audit design where the
concepts presented above are used.

<table>
<thead>
<tr>
<th>Audit topic</th>
<th>Desk Audit Function of the Tax Department</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit objective:</strong></td>
<td>Does the Desk Audit Unit of the Tax Department carry out its function efficiently and effectively in order to optimize tax collection?</td>
</tr>
<tr>
<td>Audit scope</td>
<td>· There are 13 Desk Audit Units across the country; the audit covers all Desk Audit Units.</td>
</tr>
<tr>
<td></td>
<td>· The audit covers the period from 2013 to 2015 (3 years).</td>
</tr>
<tr>
<td>Audit questions (and sub-questions):</td>
<td>· Does the Desk Audit Unit set Key Performance Indicators (number of cases to be audited and additional tax collected per year)?</td>
</tr>
<tr>
<td></td>
<td>· Has the Desk Audit Units achieved the set number of cases to be audited and additional tax collected for the 3 years?</td>
</tr>
<tr>
<td></td>
<td>· Was the human resource of the Desk Audit Units enough when compared to the number of tax cases in each state (human resource as compared to auditing responsibility)?</td>
</tr>
<tr>
<td></td>
<td>· What was the output (in terms of additional tax collected) of the Desk Audit Units?</td>
</tr>
<tr>
<td></td>
<td>· Has the Desk Audit Units carried out its function effectively?</td>
</tr>
</tbody>
</table>

V. Choosing methods to gather audit evidence

i. An important part of planning the conducting phase is to determine the methods to be used to gather data and data analyse. The audit scope, the audit objective, the audit questions and the audit criteria are the guiding factors to what evidence is needed and the methods most appropriate to obtain that evidence.

ii. To manage audit risk, it is important that the auditor in the planning phase gathers information about availability and quality of relevant
data needed to answer the audit question(s). If there is a problem with the availability of secondary data, or the quality of the data is poor, the auditor could decide to collect primary data, by developing questionnaires, statistical records, observations etc. There is also the possibility to report on the poor quality of or missing data. When changing the design, it is important that this is done as early as possible in the planning phase. The auditor must also consider the relevance and added value of these changes.

iii. Performance audits can draw upon a large variety of data-gathering techniques that are commonly used, such as surveys, interviews, observations, collection of administrative data and of written documents. Sampling methods and surveys might allow general conclusions to be drawn and case studies provide an opportunity for in-depth analysis.

iv. Different types of audit evidence can be obtained by using different methods of collecting data, as illustrated in the table below.

<table>
<thead>
<tr>
<th>AUDIT EVIDENCE</th>
<th>METHODS OF DATA COLLECTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Testimonial evidence</td>
<td>• Interviews</td>
</tr>
<tr>
<td></td>
<td>• Surveys, questionnaires</td>
</tr>
<tr>
<td></td>
<td>• Focus groups</td>
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<tr>
<td></td>
<td>• Reference groups</td>
</tr>
<tr>
<td>Documentary evidence</td>
<td>• Document review</td>
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<tr>
<td></td>
<td>• File reviews</td>
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<tr>
<td></td>
<td>• Using existing statistics</td>
</tr>
<tr>
<td></td>
<td>• Using existing databases</td>
</tr>
<tr>
<td>Physical evidence</td>
<td>• Observation of people</td>
</tr>
<tr>
<td></td>
<td>• Inspection of objects or processes</td>
</tr>
</tbody>
</table>

v. It is important for the auditor to establish an appropriate strategy for the audit. The challenge is to establish an appropriate strategy combining study of designs, methods and techniques in the audit to suit the context, objective, questions, criteria and the availability of skills and resources as well as the availability of data.

vi. The auditor will normally use a range of techniques to gather and analyse evidence. The auditor has to decide on which methods are appropriate to use in the audit, i.e. what the advantages and disadvantages are and whether methods are too costly to use compared with the expected outcome. When planning the audit, the
The auditor will have to identify the probable nature, sources, and availability of audit evidence required.

vii. While primary data developed by the auditor is usually the most reliable, secondary data collected and/or analysed by others (for example performance evaluation reports, internal reports, etc.), can be an important source of information in performance audits.

viii. During the planning stage, the purpose of choosing the methods is to systematically direct attention to what the auditor needs to know to answer the audit questions/criteria, and from where and how the auditor can obtain the information. The aim is to adopt best practices, but practical reasons such as availability of data may restrict the choice of methods, and the auditor may often have to settle for the second-best solution. It is therefore important to have an open mind when conducting the audit. The choice of methods must not be rigid at this stage.

VI. Assessing auditability

i. Assessing auditability is also an important requirement in the designing process. It defines whether a topic is suitable for conducting an audit and whether an audit can be carried out. A topic must be both auditable and worth auditing in order to be included in the audit scope. The auditor may have to consider, for instance, whether there are criteria available and whether the information or evidence required is likely to be available and can be obtained efficiently. Furthermore, it is important that reliable and objective information exists and that there are reasonable possibilities of obtaining this information.

ii. During the planning phase, the auditor must consider if conducting an audit is still relevant and cost effective. Even if the selected topic is consistent with the SAI’s strategy, the auditor might observe during the pre-study that the expected problem is already handled by the auditee. Similar studies covering similar objectives may already have been conducted by other institutions, or there are no relevant criteria available. Another reason could be that the information or evidence required is unlikely to be available and cannot be obtained efficiently. In such circumstances it is important that the auditor informs the
management of the SAI of these important aspects and that management decides how to proceed.

iii. In designing the audit, the auditor must link together the audit objective, the audit scope and questions, the audit criteria and the methods and strategy for data collection and analysis.

iv. It must be stressed that there is no universally applicable model on how to plan and design performance audits. The detail in which the audit is planned is another decision to be made. Careful planning will reduce the likelihood of problems arising at a later stage. At the same time, planning that is too detailed may sometimes inhibit innovative thinking and openness. Audits are carried out in a complex environment, and it is therefore rarely possible to devise a comprehensive audit design that predicts the progress of a performance audit in every detail.

v. The method presented below represents a good practice and is often applicable, but it may not fit all audits and the more complicated engagements. The auditor must therefore in each case reflect on whether it is suitable to apply the method presented below, or if there are better alternatives.

vi. The purpose of the design matrix is to clarify the feasibility of concluding against the main audit objective, and to assure a logical
chain from the audit criteria to the specific audit questions all the way to the main audit objective. The matrix helps the auditor to impose a logical disciplined pattern on the design of the study and to ensure that all aspects of a question are considered. It also helps define the scope of the audit. However, when using the technique it may arise that the main audit objective needs to be re-formulated or clarified. Most importantly the design matrix requires the auditor, at the planning stage, to clarify what sources of evidence the audit criteria can be tested against.

vii. The figure shows how the audit objective can be broken down into specific audit questions. For each specific audit question there must be established specific audit criteria. It is advisable to formulate the audit objective so that the auditors can answer the audit questions and conclude against the audit objective. Since the audit criteria are the benchmarks used to evaluate the subject matter they are expressed in terms of what should be, what is expected or what could be.

viii. For example “Did the entity have effective procedures in place to manage its program?” Here the auditor must identify, by setting the audit criteria, what precisely are “effective procedures.”

ix. It is important that the auditor clearly outlines in the design matrix what kind of analysis is needed to be able to obtain sufficient, appropriate audit evidence in order to establish findings. This requires that the auditor describes what kind of information and data are to be collected, from the specific sources, the techniques needed to gather data, and the kind of methods to be used to analyse data.

x. As shown in the figure, the expected audit findings are directly related to and supported by the audit criteria. The auditor will have to assess whether the program or entity fulfils the criteria. If the audit shows that some of the criteria are met while others are not, the auditor must use his or her professional judgment to consider what the audit conclusion would be.

xi. The auditor is advised to consider the expected findings, conclusions and impacts of the examination to make sure that the proposed outcome of the audit still is expected to be useful and feasible. The pre-study might provide some indications in this regard and become
part of the basis for the decision on whether to continue with the audit.

xii. As performance auditing is time-consuming and costly, it is essential that the audit be properly planned and that the implementation of the plan be regularly monitored and corrective action taken when appropriate. The auditor shall submit the audit plan to the audit supervisor and SAI’s senior management for approval. Early discussions with the supervisor and senior program management to gain an overall program perspective are also important.

xiii. A sufficient audit team and team leader with the right skills need to be assigned. When making an audit plan, it is important to determine the timetable and the resources needed. The auditor also has to consider if there is need to consult with internal or external experts (consultants, other auditors) in order to secure the quality of the audit.

xiv. A milestone plan may help the team break down the audit process into smaller parts. This makes it easier for the team to assess how realistic the use of resources is compared to the work needed. If the plan shows that the timelines are too tight, the team may need to expand the timelines or consider which audit questions are the most important ones, and spend time and resources accordingly. Sometimes less important questions can be answered by using less time-consuming data collection methods, such as using available secondary sources as opposed to using questionnaires or interview data.

xv. The team leader is responsible for the day-to-day management of the audit and for ensuring that the budget and timelines are adequately documented and that the performance audit is completed within the budget and on time. Where more complex performance audits are concerned, the SAI may consider appointing an experienced supervisor or a steering committee to guide the audit team and to monitor the progress of the audit.

xvi. Audit supervisors provide guidance and direction to staff assigned to the audit in order to address the audit objectives and follow applicable requirements. At the same time they stay informed about significant problems encountered, review the work performed, and provide effective on-the-job training. The nature and extent of the
supervision of staff and the review of audit work may vary depending on a number of factors, such as the size of the audit organization, the significance of the work, and the experience of the staff.

VII. Managing audit risks

i. A good practice is to include a discussion of the specific audit risks and how the auditor plans to mitigate them in the audit plan or pre-study. Risk assessment can take many forms but may be done by addressing the following questions:

- Is there enough data available and is this data of good quality?
- Does the audit team possess sufficient skills and knowledge for this particular audit?
- Are the time frames and resources (i.e. hours/funds) needed to conduct the audit feasible?
- Is the audit topic sensitive, highly visible or controversial? (e.g. political sensitivity, media sensitivity, parliamentary sensitivity)
- Is the audit and/or the subject matter very complex?
- Is there a risk related to management integrity or entity relations?

ii. If the audit risk is significant it may be necessary to modify the audit plan and develop additional mitigation strategies. The auditor can then develop and modify the evidence collection strategy to lower the audit risk. For example, it may be useful to consider the following:

- establishing a different staff mix - for example more senior staff;
- using additional internal or external specialists;
- adjusting the data collection methods;
- setting up specific communication arrangements with the audited entity; and
- establishing specific quality control measures.
VIII. Communication in the planning phase

i. It is advisable to plan contacts with the audited entity and the relevant stakeholders throughout the audit process in order to keep them continuously informed of the audit progress.

ii. Practices regarding the communication may vary. Some SAIs prefer to give the audited entity, especially senior management, detailed information on the pre-study, since their early involvement can contribute to reassuring the audited entities and the government institutions concerned. Other SAIs do not provide detailed information at this stage and prefer to provide such information after the audit proposal has been approved. Even without providing detailed information, it is generally good practice to provide the audited entity with information on the assumptions and reasons behind the decision to carry out a pre-study. Preliminary discussions with the audited entity are vital to inform them about the pre-study, what a possible audit could be about and why it may be undertaken.

iii. Discussions with managers and staff at the audited entity are important to gain basic knowledge of the audit area and its functions and conditions. It is also important to seek knowledge from other stakeholders, e.g. clients, researchers, evaluators, scientists, and other experts; but it is desirable to inform the audited entity involved about this. In addition (but to some extent depending on the subject matter), it is important to have discussions with the internal auditors and take advantage of their experiences.

The following topics may serve as examples for discussion during the pre-study:

- whether the audit is requested by others, e.g. the legislature, or is at the initiative of the SAI itself;
- whether the audit is addressing a general risk, involves a strategic assessment or whether it relates to economy, efficiency or effectiveness issues, and if so on what grounds;
- the purpose and the objectives of the pre-study;
- the audit design;
• the audit criteria;
• the kind of information the SAI may need to get from the audited entity at this stage in order to build up knowledge, test potential designs, etc.

iv. In addition to meetings and discussions with the audited entities, several methods can be used to support the communication process in the planning phase:

• **Send a letter** directly to the head of the audited entity or entities. This will ensure the proper presentation of the audit to the senior management at the audited entity. A template can be made to ensure that the information is presented in the same way for all audits.

• **Make a leaflet** presenting an outline of the audit process. This will facilitate the understanding of what performance audit is all about and what the audit process will include. It can be placed on the SAI’s website for a general introduction to performance audit.

• **Establish contact persons** at the audited entities to enable the auditor to have direct contact with the auditees and make the audit process run smoothly. Nevertheless, it is important to keep senior management on both sides informed on important matters.

v. It is the responsibility of the auditor to try to foster a proper dialogue and communication. However, if a disagreement occurs, it is important to handle it in a professional and fair manner - listen carefully, focus on facts, be objective and keep one’s integrity.

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**Para 29 ISSAI 300**
Auditors should maintain effective and proper communication with the audited entities and relevant stakeholders throughout the audit process and define the content, process and recipients of communication for each audit.

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**3.3.3. Audit Program/Audit Planning Memorandum**

3.3.3.1. Methodological planning involves many different activities. For instance, it is important to distinguish between the audit program (the type of investigation that is needed for the data collection) and the data-collection techniques. Performance audits can draw upon a large variety of data-gathering techniques that are commonly used in the social sciences, such as
surveys, interviews, observations, and studying written documents. The aim is to adopt best practices, but practical reasons such as availability of data may restrict the choice of methods, i.e. the auditors may often have to settle for the second-best solution. As a general rule, it is advisable to be flexible and pragmatic in the choice of methods. Practical considerations will also have to influence the audit program. Sampling methods and surveys might allow general conclusions to be drawn and case studies provide an opportunity for in-depth studies.

3.3.3.2. According to the Performance Audit Manual 2015 by European Court of Auditors, a detailed audit plan is set in the Audit Planning Memorandum (APM) where:

(i) the APM should identify in a clear and concise manner the audit work to be performed, the resources and time frames required, and the anticipated impact of the audit;

(ii) the APM should show (e.g. by way of an Evidence Collection Plan - see Appendix 3) how evidence will be obtained and analysed to answer the audit questions. It should also contain an outline of the audit procedures required for collecting and analysing the necessary information to allow the auditors to reach valid conclusions;

(iii) in order to promote efficiency in planning, and creativity and flexibility in conducting the performance audit, the audit team should as a rule avoid preparing excessively detailed or sophisticated APMs. This is due to the fact that certain tests may only be properly determined once audit work gets underway, and the detailed tests required may change during the course of the audit;

(iv) the implementation or audit testing should not start until the APM has been approved by the Auditor General or top management of the SAI concerned; and

(v) the issues to be addressed during the detailed planning of the audit, the results of which will appear in the APM, are set out in the following figure.

### DETAILED PLANNING OF THE AUDIT - ISSUES TO BE ADDRESSED

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Define the audit question and sub-questions;</td>
</tr>
<tr>
<td>ii.</td>
<td>Set the audit scope;</td>
</tr>
</tbody>
</table>
iii. Establish the audit criteria to be used;  
iv. Identify the audit evidence required and its sources;  
v. Define the audit methodology to be employed;  
vi. Consider the potential audit observations, recommendations and impact;  
vii. Determine the timetable, resources and quality control arrangements; and  
ix. Communicate with the auditee.

3.3.3.3. An example of the contents of an APM and the Outline Audit Program is set out in Appendix 4 and Appendix 5, respectively.
4. IMPLEMENTATION

4.1. INTRODUCTION

4.1.1. This section of the guideline contains implementation of a financial audit or conducting a performance audit on revenue. It details out the relevant auditing standards and the process of implementing a financial audit as well as conducting a performance audit.

4.1.2. The audit work can only begin when the planning process has been finalized and documented. Generally, audit procedures is to obtain sufficient audit evidences in order to draw conclusions on which to base the auditor’s opinion on the revenue statement or to establish findings, reach conclusions in response to the audit objectives and questions as well as issue recommendations.

4.1.3. When conducting revenue audits, there are two areas which could be examined by SAIs, namely the assessment process and the collection process. The audit on the assessment process will require the auditors to ensure the correct revenue has been properly assessed and collected. Here, issues raised will be mostly related to compliance aspect. The audit on collection process will require the auditors to ensure the effectiveness and efficiency of a Revenue Collection Agency in collecting revenue for government.

4.2. AUDITING STANDARDS

4.2.1. It is the responsibility of the auditor to design and perform audit procedures to obtain sufficient appropriate audit evidences to be able to draw reasonable conclusions on which to base the auditor’s opinion that can support the findings in audit report.

4.2.2. The auditor’s decisions on the nature, timing and extent of audit procedures will impact on the evidence to be obtained. The choice of procedures will depend on the risk assessment or problem analysis and audit evidence or any information used by the auditor to determine whether the subject matter complies with the applicable criteria.
4.2.3. After completing the audit procedures, the auditor will review the audit documentation in order to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, the auditor reconsiders the initial assessment of risk and materiality in the light of the evidence collected and determines whether additional audit procedures need to be performed.

4.2.4. The auditor should evaluate the audit evidence with a view to obtaining audit findings. When evaluating the audit evidence and assessing materiality of findings the auditor should take both quantitative and qualitative factors into consideration. Based on the findings, the auditor should exercise professional judgement to reach a conclusion on the subject matter or subject matter information.

4.3. PROCESS OF CONDUCTING AN AUDIT

Generally, the process of conducting an audit (whether financial or performance audits) starts by having an Entrance Conference. After that, auditors implement/conduct the audit, before discussing the audit findings and conclusion through the Exit Conference. The details of the process of conducting an audit are as follows:

4.3.1. Entrance Conference

The entrance conference is a meeting between the auditor and the auditee, prior to the auditing process. This is generally the first formal meeting between those two parties. In the case of revenue audit, the meeting will be held to discuss matters including but not limited to audit plan; scope of works; audit objectives; audit criteria; the timing of audit; right and obligation of auditors; rights and obligations of the auditee in accordance with the laws and regulations. The main purpose of the Entrance Conference is to ensure better coordination and communication between the audit team and the auditee.
4.3.2. Implementing/Conducting the Audit

4.3.2.1. Financial Audit

a. Audit evidence is obtained by performing audit procedures to test accounting records. Audit evidence comprises both information that supports and corroborates management’s assertions, and any information that contradicts such assertions. In the case of revenue statements, management may often assert that transactions and events have been carried out in accordance with legislation or proper authority.

b. When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. If audit evidence obtained from one source is inconsistent with that obtained from another or if the auditor has doubts over the reliability of information to be used as audit evidence, the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.

c. Audit evidence can be obtained by performing risk assessment procedures and further audit procedures, which comprise:

(i) Tests of controls, when required by the ISA or when the auditor has chosen to do so; and

(ii) Substantive procedures, including tests of details and substantive analytical procedures.

d. Tests of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control, and deviation conditions which indicate departures from adequate performance. The presence or absence of those conditions can then be tested by the auditor.

e. Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. Designing substantive procedures includes
identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

f. Among the generic techniques of audit testing are as follows: (Ref: Para. A14i A23, ISA 500)

i. **Inspection**

Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorization. In addition, inspecting an executed contract may provide audit evidence relevant to the entity’s application of accounting policies, such as revenue recognition.

ii. **Observation**

Observation consists of looking at a process or procedure being performed by others, for example, the auditor’s observation of inventory counting by the entity’s personnel, or of the performance of control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.

iii. **External confirmation**

An external confirmation represents audit evidence obtained by the auditor as a direct written response from a third party (the confirming party), in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if
any modifications have been made to the agreement and, if so, what the relevant details are.

iv. **Recalculation**

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

v. **Re-performance**

Re-performance involves the auditor’s independent execution of procedures or controls that were originally performed as part of the entity’s internal control.

vi. **Analytical Procedures**

Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

vii. **Inquiry**

Inquiry consists of seeking information from knowledgeable persons, both financial and non-financial, within or outside the entity. Inquiry is used extensively throughout the audit in addition to other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, for example, information regarding the possibility of management override of controls. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

g. **Data Collection and Analysis**
i. In order for the auditor to get reliable evidences, it is important to make sure that the process of data collection, interpretation and analysis has been carried out systematically and carefully. While primary or own source data is usually the most reliable, secondary data which is collected and/or analysed by others (e.g. performance evaluation reports, internal audit reports, etc.), can be an important source of information in performance audits. It is important, that the reader of the audit report is informed about the source and quality of the data, particularly when it contains estimations. The analysis of data consists in combining results from different types of sources. There is no general method for doing this. In a properly conducted performance audit, the arguments put forward are balanced against the best possible counter arguments, and the various contrasting views are weighed against each other. The conclusions have to be based on the objective(s) criteria, evidence and findings.

ii. The analysis undertaken must be rigorous and objective, using appropriate methods and sound evaluative criteria. Evidence has to be triangulated and conclusions drawn from the evidence on the basis of considered and balanced judgment. Triangulation of evidence means forming findings and conclusions that are supported by different types of evidence from more than one source. In pulling together the conclusions, the auditor has to regularly test them against the evidence base. Such conclusions are likely to be more reliable that those based upon only on one source of evidence.

h. To obtain reliable audit evidence, information produced by the auditee that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of auditing revenue by applying standard tax rate to records of sales volume is affected by the accuracy and completeness of the sales volume data. Similarly, if the auditor intends to test a population (for example, refunds of tax) for a certain characteristic (for example, authorization), the results of the test will be less reliable if the population from which items are selected for testing is not complete.

i. An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained or to be obtained, will be
sufficient for the auditor’s purposes. The means available to the auditor for selecting items for testing are:

i. selecting all items (100% examination);

ii. selecting specific items; and

iii. audit sampling.

j. The application of any one or combination of these means may be appropriate depending on the particular circumstances, for example, the risks of material misstatement related to the assertion being tested, and the practicality and efficiency of the different means.

k. In selecting all items, the auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). A 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. A 100% examination may be appropriate when, for example:

i. the population constitutes a small number of large value items;

ii. there is a significant risk and other means do not provide sufficient appropriate audit evidence; or

iii. the repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

l. The auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include the auditor’s understanding of the entity, the assessed risks of material misstatement, and the characteristics of the population being tested. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

i. **High value or key items**: The auditor may decide to select specific items within a population because they are of high value, or exhibit some other characteristic, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error (e.g. import of critical items like alcohol and cigarettes that are prone to smuggling).
ii. **All items over a certain amount**: The auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of a class of transactions or account balance.

iii. **Items to obtain information**: The auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions.

m. While selective examination of specific items from a class of transactions or account balance will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide audit evidence concerning the remainder of the population.

n. **Audit sampling** is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. There are two general sampling methodologies which are statistical sampling and non-statistical sampling. An auditor is advised to use statistical sampling to avoid sampling bias. Audit sampling is discussed in ISSAI 1530.

o. After completing the audit procedures, the auditor will review the audit documentation in order to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, the auditor reconsidered the initial assessment of risk and materiality in the light of the evidence collected and determines whether additional audit procedures need to be performed.

p. From performing the audit procedures and obtaining sufficient appropriate audit evidence, the auditor shall then be able to draw reasonable conclusions on which to base the auditor’s opinion.

**4.3.2.2. Performance Audit**

a. The auditor starts by gathering the evidence needed to answer the audit objective(s) and questions. When the audit evidence is obtained, the auditor has to assess whether the evidence is sufficient and appropriate. Based on this assessment the auditor has to decide if more or different evidence is needed.
b. The auditor has to continue identifying potential sources of information that could be used as evidence. Not all situations can be foreseen during the planning phase, and therefore the auditor, as he or she becomes more knowledgeable during the audit, may have to adjust the methods and the need for data.

c. The auditor also has to evaluate whether the lack of sufficient and appropriate evidence is due to internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate evidence could be the basis for audit findings.

d. In performance audits, evidence is rarely conclusive (yes/no or right/wrong). More typically, performance audit evidence is persuasive (points towards the conclusion that...). When working in areas where evidence is persuasive rather than conclusive, it can be useful to have discussions in the planning phase or in the beginning of the conducting phase with the experts in the field about the nature of the evidence to be obtained and the way in which it will be analysed and interpreted by the auditor. This approach reduces the risk of misunderstanding the evidence and may speed up the process. It is also important that the auditor seeks information from different sources, since organizations, individuals in an organization, experts, and interested parties have different perspectives and arguments to put forward.

e. In assessing evidence, the auditor has to evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Audit objectives may vary widely, and maybe the level of work necessary to assess the sufficiency and appropriateness of evidence to address the objectives. For example, in establishing the appropriateness of evidence, the auditor may test its reliability by obtaining corroborating evidence.

f. The concepts of risk and significance assist the auditor in assessing the audit evidence. Here, the auditor must determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives. Professional judgment assists the auditor in determining the sufficiency and appropriateness of evidence as a whole.

g. Interpreting, summarizing, or analysing evidence is typically used in the process of determining the sufficiency and appropriateness of evidence
and in reporting the results of the audit work. When appropriate, auditors may use statistical methods to analyse and interpret evidence to assess its sufficiency.

h. The auditor shall analyse the collected information and ensure that the audit findings are put in proper perspective and answers the audit objective(s) and questions.

i. Performance auditing involves a series of analytical processes that evolve gradually through interaction, allowing questions and methods employed to develop. The whole process is closely linked to that of drafting the audit report.

j. The analytical steps to reach audit conclusions can be illustrated in this way:

![Analytical Steps Diagram]

Source: ISSAI 3200 - Guidelines for the Performance Auditing Process

k. Audit findings are the specific pieces of evidence gathered and analysed by the auditor to satisfy the audit objective(s), in order to answer the audit questions and verify the stated hypotheses. Audit findings normally contains the following elements: criteria (‘what should be’), condition (‘what is’), effect (‘what are the consequences’), and causes (‘why is there a deviation from criteria’).

l. Meeting or exceeding the criteria may indicate a ‘good practice’ leading to good performance. Failing to meet criteria would indicate that improvements are needed. It is however unrealistic to expect that the audited entity’s performance regarding economy, efficiency, and effectiveness will always meet the criteria. It is important to appreciate that satisfactory performance does not mean perfect performance, but is based
on what a reasonable person would expect, taking into account the audited entity circumstances.

m. Most audits involve some types of analysis in order to understand or explain what has been observed. A wide range of models or methods of analysis are used depending on the objective of the audit. This could be done in the form of more detailed statistical analysis, discussing the findings between the auditors, systematic analysis of interviews or other evidence, studies of documentation and working papers.

n. When analysing collected information to reach findings and later conclusions, it is recommended to focus on the audit question and objective(s). This will help to organize data and also provides the focus for analysis.

o. While it is important to seek explanations for deviations from criteria, causes must be presented with caution. They have to be supported by evidence. Where possible, the auditor has to assess causes that are stated by the auditee and make a judgment as to whether they are relevant or not.

p. The auditor may have to identify possible effects of the criteria not being met. If possible, in identifying the effects, the actual situation must be compared with the ideal situation where the criteria would have been met. To a certain extent these possible effects would have been considered at an earlier stage as a motivation for carrying out the audit of this particular problem.

q. The effects could be noted either as what has already occurred or as likely future impact based on logical reasoning. The nature of the findings determines whether the auditors can present actual or potential effects. Actual effects from past or current conditions help to demonstrate the consequences and generally provide evidence that corrective action is needed. Potential effects are generally described as the logical consequences that could follow should the condition did not meet the criterion. Potential effects are to some degree speculative, so the auditor has to use them with care, especially in the absence of any related evidence or observed past effects.

r. Cause and effect will have to be carefully scrutinized by doing a full critique of the data and ensuring that other exogenous (external) factors
have been allowed for in the data. It may be necessary to use enhanced analytical techniques in order to answer questions on cause and effect.

It is important to understand the nature of any relationships that may exist. It is not always the case, for example, that lack of manpower causes inefficient revenue collection as it might be due to poor monitoring by supervising officers or ineffective usage of IT. When scrutinizing data the auditor has to remember there are many reasons for relationships to exist:

- There may be a **direct cause-and-effect** relationship. For instance, an increase of crude oil price should have a marked effect on total revenue.
- There may be a **reverse cause-and-effect** relationship. For example, government's decision to lower VAT/GST rate could boost consumer spending and this leads to an overall rise in revenue, but equally, an overall rise in revenue could cause government to lower VAT/GST rate.
- The relationship may be a coincidence. For example, there may be a relationship between the quality of tax officers and their output in collecting taxes, but it is hard to proof that one causes the other.
- There may be a confounding effect. For example, the relationship between quality of tax officers and their output in collecting taxes could be due to adaptation of new approaches to reward management for tax officers.

s. Once the auditor has established the findings, determined why the criteria are not being met (causes), and possible consequences (effects), the auditor has to draw conclusions. Conclusions are statements inferred by the auditor from those findings. Since performance audits point out deficiencies in economy, efficiency and/or effectiveness, the conclusions have to specify the reasons behind the lack of economy, efficiency or effectiveness.

t. Audit conclusions clarify and add meaning to specific findings in the report. It is not always easy to make a clear distinction between the findings and the conclusions. One reason for this is that conclusions are based on findings and can include summaries of the findings. However, conclusions present the auditor's opinion and go beyond merely restating the findings. Whereas, the audit findings are identified by comparing *what should be* with *what is* the conclusions reflect the auditor's explanations and views based on these findings. Conclusions might include identifying a general topic or a certain pattern in the findings. An underlying problem that explains the findings may also be identified.
u. The conclusions must flow logically from the findings, their causes and their effects. All analytical steps taken beyond the findings will have to be clearly explained and justified.

v. In the process of developing conclusions it can be necessary for the auditor to adjust or tweak the audit questions and on rare occasions even the audit objective (s). Slight adjustments can be done when, during the analysis it becomes clear that it will not be possible to precisely answer the posed questions with the obtained evidence and findings. The auditor may also realize that some of the audit questions need to be adjusted as he or she gains more knowledge about the subject matter. If adjustments are needed they have to be discussed and communicated both internally and to the audited entity.

w. It is important for the auditor to be goal-oriented and to work systematically and with due care and objectivity. It is vital that the auditor adopts a critical approach and maintains an objective distance to the information put forward. At the same time, the auditor must be receptive to views and arguments. The auditor must be able to see things from different perspectives and maintain an open and objective attitude to various views and arguments. If the auditor is not receptive, the auditor may miss the best arguments. This also underscores the importance of making rational assessments, in that the auditor discounts his or her own personal preferences and those of others. It is therefore important for the auditor’s involvement to be expressed in a process of reflection and objective analysis rather than in a conviction that certain viewpoints are correct.

x. It is important to monitor audit risk and the planned mitigation strategies throughout the audit, and make adjustments as needed to changing circumstances. Good planning will enable the auditor to manage audit risk when conducting the audit, as the auditor will have planned for eventualities and different scenarios. For example, if the planned data collection procedures do not allow the team to collect sufficient evidence, the auditor needs to develop an alternative plan for adjusting these procedures. Also, the auditor always needs to consider whether the audit risks have changed in a way that can lead to inappropriate conclusions, unbalanced information or not adding value. Proper quality control procedures and supervision are important in this regard.

4.3.2.3. Audit Evidences
a. Evidence may take many forms, such as electronic and paper records of transactions, written and electronic communication with outsiders, observations by the auditor, and oral or written testimony by the audited entity. Methods of obtaining audit evidence can include inspection, observation, inquiry, confirmation, recalculation, re-performance, analytical procedures and/or other research techniques. Evidence should be both sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) i.e. relevant, valid and reliable. The auditor’s assessment of the evidence should be objective, fair and balanced. Preliminary findings should be communicated to and discussed with the audited entity to confirm their validity. In obtaining audit evidence, the auditor must respect all requirements regarding confidentiality. (ISSAI 100).

b. Audit evidence is any information used by the auditor to determine whether the subject matter complies with the applicable criteria.

c. According to Para 21, ISSAI 3100, evidences can be categorized as physical, documentary, testimonial, or analytical. The types of evidence to be obtained should be explainable and justifiable in terms of sufficiency, validity, reliability, relevance, and reasonableness.

d. Both ISSAI 3000 and ISA 500 for financial audit have explained the criteria for audit evidence i.e. evidence should be both sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) i.e. relevant, valid and reliable.

e. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions. In assessing the sufficiency of evidence, the auditor should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable. The need for further evidence is weighed against the cost and time needed to collect it.

f. Appropriateness is the measure of the quality of audit evidence; that is, its relevance, validity and reliability.

i. Relevance refers to the extent to which the evidence has a logical relationship with, and importance to, the audit objective(s) and questions being addressed.
ii. Validity refers to the extent to which the evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which the evidence represents what it is purported to represent.

iii. Reliability refers to the extent to which the audit evidence is supported by corroborating data from a range of sources, or produces the same audit findings when tested repeatedly.

g. Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives. Evidence is not sufficient or not appropriate when using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion, and the evidence has significant limitations, given the audit objectives and intended use of the evidence, or the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. Auditors may not use mentioned above there are different types and sources of evidence that the auditor may use. Each type of evidence has its own strengths and weaknesses. The following contrasts are useful in assessing the appropriateness of evidence:

i. Evidence obtained when internal control is effective is more reliable than evidence obtained when internal control is weak or non-existent.

ii. Evidence obtained through the auditor’s direct observation, computation, and inspection is more reliable than evidence obtained indirectly.

iii. Examination of original documents is more reliable than examination of copies.

iv. Testimonial evidence obtained under conditions in which persons may speak freely is more reliable than evidence obtained under circumstances in which persons may be intimidated.

v. Evidence obtained from a knowledgeable, credible, and unbiased third party is more reliable than evidence obtained from management of the audited entity or others who have direct interest in the audited entity.
vi. Documentary evidence is considered to be more reliable than oral evidence.

vii. Testimonial evidence that is corroborated in writing is more reliable than oral evidence alone.

h. The following presumptions are useful in assessing the sufficiency of evidence:

i. The greater the audit risk, the greater the quantity and quality of evidence required.

ii. Stronger evidence may allow less evidence to be used.

iii. Having a large volume of audit evidence does not compensate for a lack of relevance, validity, or reliability.

iv. Less evidence may allow for a less precise or less detailed finding.

i. Sufficiency and appropriateness of evidence are relative concepts, which may be thought of in terms of a continuum rather than as absolutes. Sufficiency and appropriateness are evaluated in the context of the related findings and conclusions. For example, even though the auditor may have some uncertainties about the sufficiency or appropriateness of some of the evidence, the auditor may nonetheless determine that in total there is sufficient and appropriate evidence to support the findings and conclusions.

4.3.2.4. Documentation and Working Papers

a. Working papers are important because they are necessary for audit quality control purposes; provide assurance that the work delegated by the audit partner has been properly completed; provide evidence that an effective audit has been carried out; increase the economy, efficiency, and effectiveness of the audit; contain sufficiently detailed and up-to-date facts which justify the reasonableness of the auditor’s conclusions; retain a record of matters of continuing significance to future audits. Working papers provide evidence that an effective, efficient, and economic audit
has been carried out. They should therefore be prepared with care and skill. They should be sufficiently detailed and complete so that an auditor with no previous experience of that audit can understand the working papers in terms of the work completed, the conclusions reached, and the reasoning behind these conclusions.

b. Auditors should prepare and organize their working papers in a timely basis to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the report is finalized.

c. The auditor should avoid preparing or accumulating unnecessary working papers, and should therefore avoid making extensive copies of the taxpayer’s accounting records. It is worth noting at this stage that it is neither necessary nor practicable for the auditor to document every matter considered during the audit.

d. Because it is difficult to reconstruct and recall specific activities related to gathering audit evidence weeks after the work was actually performed, work needs to be documented as the audit team completes it in order to reduce risk of inaccurate audit documentation, improve audit quality, and improve engagement efficiency.

e. The nature and extent of audit documentation for a particular audit are largely a matter of professional judgment, based on the unique circumstances of each audit. However, an auditor will typically be expected to document the following:

i. the objective(s), scope, and methodology of the audit; and

ii. the work performed and evidence obtained to support significant judgments and conclusions

Para 42 ISSAI 100
Auditors should prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached.
4.3.3. Exit Conference

The purpose of the Exit Conference is to communicate audit results to management and to obtain management's comments on proposed findings and recommendations before the draft audit report is issued. The issues presented at the Exit Conference may have been previously discussed with management in the course of the audit. This is management's last opportunity to comment on the findings and recommendations prior to issuance of the draft report and their input is important to ensure that the audit results are fairly presented and that recommendations are reasonable and free of any errors or misrepresentations. After the Exit Conference, management is asked to respond to the findings and recommendations in writing.
5. REPORTING

5.1. INTRODUCTION

5.1.1. This section of the guideline contains relevant reporting standards and reporting structure for reporting the output of financial audit on revenue statement and performance audit on revenue. The reporting process and good practices also have been outlined in this section to ensure quality audit report that can provide benefits to the intended users.

5.1.1. The audit report is a document written at the conclusion of an audit. The audit report communicates the result of an audit to all of its intended users. Through an audit report, SAIs make the audit result available for any corrective actions needed by the audited entity, as an evaluation for the governing body, and also provide means for public to evaluate SAIs’ audit function performance.

5.1.2. The audit report should clearly answer the objective of the audit. Writing an audit report is an ongoing process throughout the audit, it started from the planning phase until the auditor finished the audit.

5.1.3. In the audit report, the auditor should describe in logical flow the work performed, the facts uncovered, and how those facts lead to an audit conclusion. Reports should be easy to understand, free from vagueness or ambiguity and complete. They should be objective and fair, only including information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into proper perspective and context.

5.1.4. Auditor should prepare a written report, setting out the findings in appropriate form at the end of each audit. Reporting is essential in an audit assignment and involves reporting deviations and violations so that corrective actions may be taken, and so that those accountable may be held responsible for their actions.

Para 51 ISSAI 100
Auditors should prepare a report based on the conclusion reached.
5.2. REPORTING PROCESS

5.2.1. Reporting processes are as follows:

a. Drafting the audit report

The first step in reporting is drafting the audit report. Inputs used for this step are the audit findings. As mentioned earlier, writing an audit report is an ongoing process, it is a process of writing and revising. The draft report then is further reviewed by the supervisor to ensure its quality.

b. Getting responses from entity

Before the audit report is published, the auditor should ask for responses from the management of the audited entity. This is done to achieve balance and fair reporting. All responses either oral or written should be documented. The auditor then evaluates the responses from management of the audited entity in a balanced manner.

c. Submitting the final audit report

In this phase, the auditor finalized the draft and then submit it to its intended users such as governing body or government.

5.3. REPORTING IN FINANCIAL AUDIT

5.3.1. Reporting Standards

a. Based on the evaluation and audit evidence obtained from the audit work, the auditor should form an opinion. Usually, there are other factors needed to be taken into account before drawing a conclusion and forming an opinion on the financial statements such as:

   i. Whether the financial statements are prepared in all materials aspects;

   ii. Whether the financial statements adequately disclose the significant accounting policies selected and applied;

   iii. Whether the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

   iv. Whether the accounting estimates made by management are reasonable;
v. Whether the information presented in the financial statements is relevant, reliable, comparable, and understandable;

vi. Whether the financial statements provide adequate disclosures;

vii. Whether the terminology used in the financial statements is appropriate; and

viii. Whether the financial statements adequately refer to or describe the applicable financial reporting framework.

Para 143 ISSAI 200
The auditor should form an opinion based on an evaluation of the conclusions drawn from the audit evidence obtained, as to whether the financial statements as a whole are prepared in accordance with the applicable financial reporting framework. The opinion should be expressed clearly in a written report that also describes the basis for the opinion.

b. As for the reporting of the financial audit on the revenue statements, the same factors should be consider for conclusion in forming an opinion on the revenue statements. These factors are as follows:

i. Whether the revenue statements are prepared in all materials aspects;

ii. Whether the revenue statements adequately disclose the significant accounting policies regarding revenue recognition properly selected and applied;

iii. Whether the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

iv. Whether the estimates of revenue made by management are reasonable;

v. Whether the information presented in the revenue statements is relevant, reliable, comparable, and understandable;

vi. Whether the revenue statements provide adequate disclosures;

vii. Whether the terminology used in the revenue statements is appropriate; and

viii. Whether the revenue statements adequately refer to or describe the applicable financial reporting framework.
5.3.2. Structure of Audit Report for Revenue Related Accounts and/or Statement

a. A written report encompasses reports issued in hard copy and those using an electronic medium. The auditor’s report should be in written form and contain the following elements:

   i. A title that clearly indicates that it is the report of an independent auditor;

   ii. An addressee as required by the circumstances of the engagement;

   iii. Auditor’s opinion where it also shall:

   - identify the entity whose financial statements have been audited,
   - state that the financial statements have been audited,
   - identify the title of each statement comprising the financial statements,
   - refer to the summary of significant accounting policies and other explanatory information, and
   - specify the date or period covered by each financial statement comprising the financial statements.

   iv. Basis for opinion;

   v. Going concern (if applicable);

   vi. Key audit matters;

   vii. Responsibilities for the financial statements including management’s responsibility or those charged with governance;

   viii. Auditor’s responsibilities for the audit of the financial statements;

   ix. Location of the description of the auditor’s responsibilities for the audit of the financial statements;

   x. Other reporting responsibilities;

   xi. Name of the engagement partner;

   xii. Signature of the auditor;

   xiii. Auditor’s address; and
xiv. Date of the auditor’s report.

**ISSAI 1700 Para 20. The auditor’s report shall be in writing.**

b. In reporting financial audit on revenue statement, the following structure could be applied as a guide to ensure the objective of the report is in according to the proper standard.

<table>
<thead>
<tr>
<th>Title</th>
<th>Independent Auditor’s Report on Revenue Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Addressee</td>
<td>The name of audited entity</td>
</tr>
<tr>
<td>Report On The Revenue Statements</td>
<td></td>
</tr>
<tr>
<td>Basis for Opinion</td>
<td>The auditor applied and follow appropriate standards and code of conduct in conducting audit to form opinion.</td>
</tr>
<tr>
<td>Opinions</td>
<td>This paragraph states the opinion of the auditor on the revenue statements whether it was presented fairly in all material aspects.</td>
</tr>
<tr>
<td>Key Audit Matters</td>
<td>Description of each key audit matter in accordance with ISA 701.</td>
</tr>
<tr>
<td>Management’s Responsibilities For The Revenue Statements</td>
<td>Statements stating the responsibilities of management and those charged with governance.</td>
</tr>
<tr>
<td>Auditor’s Responsibilities</td>
<td>Statements stating the responsibility of the auditor.</td>
</tr>
<tr>
<td>Report on Other Legal and Regulatory Requirements</td>
<td>The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards.</td>
</tr>
<tr>
<td>Auditor’s Signature</td>
<td>The auditor’s report shall be signed.</td>
</tr>
<tr>
<td>Auditor’s Address</td>
<td>The auditor’s report shall name the location in the jurisdiction where the auditor practices.</td>
</tr>
<tr>
<td>Date Of The Auditor’s Report</td>
<td>The auditor’s report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.</td>
</tr>
</tbody>
</table>

Source: ISSAI 1700 - Forming an Opinion and Reporting on Financial Statements
5.4. REPORTING IN PERFORMANCE AUDIT

5.4.1. Reporting Standards

a. A good audit report must be understandable, it can speak of itself, means that users can understand the content of the report without having to speak with the author. The report should include information about the audit objective, audit questions and answers to those questions, the subject matter, criteria, methodology, sources of data, any limitations to the data used, and audit findings. It should clearly answer the audit questions or explain why this was not possible. Other specific characteristics of good audit report are as follows:

i. **Complete:** The Audit report should contain all information and arguments needed to meet the audit objective.

ii. **Accurate:** The audit report should be supported by relevant and competent evidences. The need for accuracy is based on the need to assure users that information reported is credible and reliable.

iii. **Objective:** The audit report should present balanced and fair information. Even though in its very nature the focus of any audit is on identifying shortcoming, but performance audit report can make room to narrate both negative and positive finding.

iv. **Convincing:** The audit report should logically provide relationship among audit objective, criteria, finding, conclusion, and recommendation (as appropriate). The information presented should convince the readers to recognize the validity of the finding, the reasonableness of the conclusion, and benefit of implementing the recommendation.

v. **Clear:** The audit report should be easy to read and to understand. Auditors should use simple language, avoid technical jargons, and organize the report logically.

vi. **Concise:** The audit report should include only relevant information to meet the audit objective.

vii. **Timely:** The audit report should be prepared in a timely manner in order to gain its maximum benefit. A carefully written audit report but submitted late will reduce its value.
5.4.2. Structure of Audit Report for Performance Audit

a. The structure of an audit report for performance audit can vary among SAIs depending on the circumstances such as mandate, regulations, the objective of the particular revenue audit, customary reporting practices, the complexity of the reported issues, the needs of the intended users, and the type of the audit conducted, etc.

b. According to ISSAI 3000, in ensuring comprehensive report, the report should include all the information and arguments needed to address the audit objective(s) and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the findings and conclusions. The minimum content of a performance audit report includes the following:

   i. subject matter;
   ii. audit objective(s);
   iii. audit questions;
   iv. criteria and its sources;
   v. method;
   vi. time period covered;
   vii. sources of data;
   viii. limitations to the data used;
   ix. audit findings; and
   x. conclusions.
c. However, some elements that are generally found in audit report are as follows (not necessarily in the following order):

<table>
<thead>
<tr>
<th><strong>Executive Summary</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary summarizes the audit report. The executive summary should reflect fully and accurately, the content of the report in a brief and concise manner.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Title</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The report should be preceded by a suitable title that depicts the audit subject matter. The title will help users to distinguish it from statement and information issued by others.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Addressee</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit report should state to whom the audit report is addressed.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Objective of the Audit</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit report should contain clear statement of the audit objectives, such as to assess the compliance on tax duty collection.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Scope of the Audit</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit report should state the specific time, objects, covered by the audit. The audit scope establishes the boundaries of the audit.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Audit Findings</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>This is the main section of the report. This section describes the audit work performed and the respective findings. It should be structured in a logical manner, and in a way that assist readers in following the logical flow of auditor argument.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Conclusion</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit report should answer the audit objectives.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Recommendation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit report may include, as appropriate, constructive recommendations designed to result improvement in audited entity. While such recommendations may be constructive, they should not be as detailed that may impair the auditor’s objectivity in the future audit.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Date</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The auditor’s report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion or conclusion.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Entity Response</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit report should attach response from audit entity. The practice is an application of contradiction principle which are agreeing facts and incorporating response.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Signature</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit report should be signed by the person with appropriate authority to represent the SAI.</td>
</tr>
</tbody>
</table>

Source: ISSAI 4100 - Compliance Audit Guidelines: For Audits Performed Separately from the Audit of Financial Statements
5.4.3. **Good Practices**

a. Performance audit reports aim to contribute better knowledge and highlight improvements needed. When writing the audit report it is vital that both the audit team, supervisors and quality control reviewers critically consider the conclusions in relation to the findings, evidence, data material, and criteria. Findings must be substantiated and conclusions must be supported by solid evidence. Recommendations, if provided, must be linked to the conclusions. Proper procedures for clearance and fact validation with the audited entity will also be important.

b. In order to fulfil the good practices in writing a report, the auditor should:

i. write comprehensive reports that include a description of the audit objective(s) and the scope, methodology used for addressing the audit objective(s) and audit questions, any significant limitations (if any) and background information of the audit to establish context for better understanding;

ii. write convincing report that has a logical flow with findings, conclusions and recommendations clearly linked to the subject matter and audit criteria. An accurate report is fact-based, with clear statement of sources, methods and assumptions;

iii. write timely reports that accessible, concise and up-to-date information, which the government, the legislature, and government entities can use for improvements;

iv. write balanced reports that is fair report and support the overall findings, conclusions and recommendations. The report should be able to present findings objectively and fairly, with different perspectives and viewpoints and complete; and

v. write reader-friendly reports that meets the audience’s needs, report structure is easy to understand and clear writing to ensure easy reading for the user.
6. FOLLOW UP

6.1. INTRODUCTION

6.1.1. Based on ISSAI, follow-up process will be conducted for performance audit. There is no follow-up process for financial audit, though auditors need to consider any subsequent events which occur between the date of the financial statements and the date of the auditor’s report that may require an adjustment or disclosure. In revenue audit, follow-up is a process where SAIs assess and evaluate the corrective actions taken by Revenue Collecting Agencies based on previous audit findings and recommendations within a reasonable period of time. Follow-up in audit is also useful in assessing the improvement in the government financial and revenue administration and the initiatives taken by Revenue Collecting Agencies on the audit recommendations.

Para 51 ISSAI 100
Follow-up focuses on whether the audited entity has adequately addressed the matters raised, including any wider implications. Insufficient or unsatisfactory action by the audited entity may call for a further report by the SAI.

6.2. FOLLOW-UP FOR PERFORMANCE AUDIT

6.2.1. Follow-up refers to the auditors’ examination of corrective action taken by the audited entity, or another responsible party, on the basis of the results of a performance audit. It is an independent activity that increases the value of the audit process by strengthening the impact of the audit and laying the basis for improvements to future audit work. It also encourages the audited entities and other users of reports to take the latter seriously, and provides the auditors with useful lessons and performance indicators.

6.2.1. Follow-up is not restricted to the implementation of recommendations but focuses on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time. For revenue audit, follow-up is very important especially if the issues involved are related to uncollected revenue which can become a loss to government.
6.3. PURPOSE OF FOLLOW-UP

6.3.1. According to ISSAI 3000, a follow-up process will facilitate the effective implementation of report recommendations and provide feedback to the SAI, the legislature and the government on performance audit effectiveness.

6.3.2. Following up on SAI recommendations may serve four main purposes:

i. increasing the effectiveness of audit reports - the prime reason for following up audit reports is to increase the probability that recommendations will be implemented;

ii. assisting the government and the legislature - following up may be valuable in guiding the actions of the legislature;

iii. evaluation of SAI performance - following up activity provides a basis for assessing and evaluating SAI performance; and

iv. creating incentives for learning and development - following up activities may contribute to better knowledge and improved practice.

6.4. WHAT MATTERS NEED TO FOLLOW-UP

6.4.1. Findings and Recommendations

When conducting follow-up of an audit report, the auditor needs to concentrate on findings and recommendations that are still relevant at the time of the follow-up.

6.4.2. Rectification Actions

Insufficient or unsatisfactory action by the audited entity may call for a further audit by the SAI. The benefit from audit work is not in the recommendations made, but in their effective implementation. Important measures of an audit organization’s effectiveness are the type of issues it tackles and the changes/improvements it is able to effect. When a recommendation is made to an agency, its management is basically responsible for implementing it. But auditors can do a great deal to improve the likelihood that a recommendation will be appropriately implemented.
6.5. HOW TO DO FOLLOW UP EFFECTIVELY

6.5.1. According to ISSAI 3100, when conducting follow-up of audit reports, the auditor should adopt an unbiased and independent approach. The focus should be to determine whether actions taken on findings and recommendations remedy the underlying conditions. The results of the follow-up should be reported appropriately in order to provide feedback to the legislature, together if possible, with the conclusions and impacts of the corrective actions taken where relevant.

6.5.2. Different methods may be used to follow-up on the findings and recommendations made such as the following:

   i. arrange a meeting with the responsible parties after a certain time has elapsed to find out what actions have been taken to improve performance and to check which recommendations have been implemented;

   ii. request the responsible parties to inform the SAI in writing on what actions they have taken to address the problems presented in the audit report;

   iii. stay updated on reactions from responsible parties, parliament and the media and analyse whether identified problems have been appropriately addressed or not;

   iv. carry out a follow-up audit, resulting in a new performance audit report which focusing on the impact of recommendation made to the auditee in the previous audit; and

   v. Bespoke systems designed by the organization or purchased from software suppliers can make follow-up more efficient and effective. This approach enables the ownership of actions to be assigned to managers and enables tracking of action through to completion. As an example, Auditor General’s (AG’s) Dashboard system has been used by the office of Auditor General of Malaysia to monitor the status of actions taken by the audited entity.

6.5.3. Results from the follow-up of audit recommendations should be recorded. Deficiencies and improvements identified in the follow-up of audits should, if needed, be reported to the government or the legislature.
7. QUALITY CONTROL

7.1. INTRODUCTION

7.1.1. This section of the guideline contains Quality Control (QC) for revenue audits conducted through financial auditing as well as performance auditing. It sets out the key elements and principles under ISSAI 40 (Quality Control for SAIs) to ensure that SAIs will consistently deliver high quality audits. This section has four main parts. The first part relates to QC for SAIs as a prerequisite for the functioning of SAIs. The second and third parts are the guidelines of QC at individual engagement levels, namely Financial Audit and Performance Audit respectively. The fourth part relates to the mechanism for Quality Assurance (QA).

7.1.2. QA is a process-driven method with specific steps to help SAI in attaining its set of goals. This involves adopting and applying policies and procedures to determine whether the SAI’s work meets the required standards. QA is not a means to the end, but rather, a process that yields the best possible outcome for the SAI as far as quality is concerned. This is done by ensuring that the SAI establishes a process through which: required QCs are in place; QCs are properly implemented; and other means of enhancing QCs are established. (Refer PASAI Quality Assurance Guidelines).

7.1.3. There are significant benefits to be gained from a robust QA regime, which include the following:

i. ensure a high standard of audit work by improving audit performance and results thus avoiding possible litigation;

ii. ensure that the audit is carried out in the most efficient and cost-effective way that can lead to a saving in audit time and cost;

iii. improve the capability of the SAI;

iv. maintain a high degree of integrity, accountability, and competence;

v. enhance the credibility and reputation of the SAI;

vi. improve method of training and identify additional training needs;

vii. motivate the personnel of the SAI;

viii. carry out self-assessment of audit work performed; and
ix. provide management tool for measuring performance of the SAI.

7.1.4. Besides that, the benefits to be gained by auditees and stakeholders are: higher quality services through the provision of audit; and increased reliability and credibility of the audit reports.

7.1.5. Three QA related concepts are Quality, QC and the differences between QC and QA as depicted below:

a. Quality

Quality is an essential or distinctive characteristic, property, or attribute. It is the degree to which a set of inherent characteristics of a product or service fulfils its requirements. In the case of the quality of different audits carried out by the SAI, the general characteristics of the quality may include:

i. Scope - the audit plan should properly address all issues for it to be successful and effective;

ii. Reliability - audit findings and conclusions should truly reflect conditions on the matters being examined;

iii. Timeliness - audit results delivered at an appropriate time;

iv. Clarity - audit report should be clear and concise in presenting the results of the audit;

v. Significance - matters audited should be significant;

vi. Objectivity - auditee’s responses to preliminary audit observations duly considered and working papers demonstrate an impartial consideration and analysis of all evidence gathered;

vii. Efficiency - resources assigned to the audit reasonable in light of the significance and complexity of the audit; and

viii. Effectiveness - audit findings, conclusions, and recommendations get an appropriate response from the auditees, the government, and/or Parliament and the desired effect achieved.

b. Quality Control

The QC process consists of the systems and practices designed to ensure that SAIs issue reports that are appropriate in the circumstances, and in keeping with applicable standards, rules, practices, and procedures. QC should be
implemented for all phases of the audit process, including: selecting matters for audit; deciding the timing of the audit; planning the audit; executing the audit; evaluating audit findings; reporting audit results, including conclusions and recommendations; and following up audit reports to ensure that appropriate action is taken.

c. Differences between QC and QA

QC is the process through which an SAI ensures that all phases of an audit process are carried out in keeping with applicable standards, rules, practices, and procedures. As such, it must be recognized that QC is a line function directly associated with the responsibility of management. The applicable standard for QC is ISSAI 40. By contrast, QA is an assessment process that focuses on the operational aspect of the QC system by persons independent of the audit under review. A Quality Assurance Review (QAR) can either be done on audits that have been completed, or while in progress at various phases of the audit.

7.2. QUALITY CONTROL FOR SAIs

7.2.1. The prerequisites/conditions for the functioning of SAIs are stipulated under Level 2 of the ISSAI Framework. Among the conditions related to QA and QC are as follows:

7.2.1.1. **Principle 3, ISSAI 20** (Principles of Transparency and Accountability) states that SAIs adopts audit standards, processes and methods that are objective and transparent. Among these are iSAIs should implement a system of quality control and assurance over their audit activities and reporting and subject such system to periodic independent assessment.

7.2.1.2. **ISSAI 40** (Quality Control for SAIs) states:

a. a major challenge facing all SAIs is to consistently deliver high quality audits and other works. The quality of work performed by SAIs affects their reputation and credibility, and ultimately their ability to fulfil their mandate.

b. for a system of QC to be effective, it needs to be part of each SAI's strategy, culture, and policies and procedures. In this way, quality is built into the performance of the work and each SAI and the production of the SAI's report, rather than being an additional process once a report is produced.
c. the elements and key principles of QC framework outlined in ISQC 1 (International Standard on Quality Control, International Federation of Accountants) are adapted by INTOSAI; and

d. The 6 elements and their key principles adapted are as follows:

**Element 1: Leadership responsibilities for quality within the SAI**

SAI should establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing all of its work. Such policies and procedures should be set by the Head of the SAI, who retains overall responsibility for the system of QC.

**Element 2: Relevant ethical requirements**

SAI should establish policies and procedures designed to provide it with reasonable assurance that the SAI, including all personnel and any parties contracted to carry out work for the SAI, comply with relevant ethical requirements.

**Element 3: Acceptance and continuance**

SAI should establish policies and procedures designed to provide the SAI with reasonable assurance that it will only carry out audits and other work where the SAI:

i. is competent to perform the work and has the capabilities; including time and resources, to do so;

ii. can comply with relevant ethical requirements; and

iii. has considered the integrity of the organization being audited and has considered how to treat the risk to quality that arises.

The policies and procedures should reflect the range of work carried out by each SAI. In many cases, SAIs have little discretion about the work they carry out. SAIs carry out work in three broad categories:

i. Work that is required of them by their mandate and statute and which they have no option but to carry out;

ii. Work that is required by their mandate, but where they have discretion as to the timing, scope and/or nature of work; and

iii. Work that they can choose to carry out.
Element 4: Human resources

SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources (personnel and, where relevant, any parties contracted to carry out work for the SAI) with the competence, capabilities and commitment to ethical principles necessary to:

i. carry out its work in accordance with relevant standards and applicable legal and regulatory requirements; and

ii. enable the SAI to issue reports that are appropriate in the circumstances.

Element 5: Performance of audits and other work

SAI should establish policies and procedures designed to provide it with reasonable assurance that its audits and other work are carried out in accordance with relevant standards and applicable legal and regulatory requirements, and that the SAI issues reports that are appropriate in the circumstances. Such policies and procedures should include:

i. matters relevant to promoting consistency in the quality of the work performed;

ii. supervision responsibilities; and

iii. review responsibilities.

Element 6: Monitoring

SAI should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of QC are relevant and adequate and are operating effectively. The monitoring process should:

i. include an ongoing consideration and evaluation of the SAI’s system of QC, including a review of a sample of completed work across the range of work carried out by the SAI;

ii. require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority in the SAI to assume that responsibility; and
iii. require that those carrying out the review are independent (i.e. they have not taken part in the work or any QC review of the work).

7.2.2. Auditors should perform the audit in accordance with professional standards on QC. SAI’s QC policies and procedures should comply with professional standards, the aim being to ensure that audits are conducted at a consistently high level. QC procedures should cover matters such as the direction, review and supervision of the audit process and the need for consultation in order to reach decisions on difficult or contentious matters. (Refer Para 38 ISSAI 100)

7.3. QUALITY CONTROL FOR FINANCIAL AUDIT

7.3.1. Auditing Standards

7.3.1.1. As INTOSAI has adopted IFAC standards as the basis for Financial Audit Guidelines, ISQC issued by IFAC that cover the aspects of quality in audit was also adopted and adapted. Here ISQC 1 establishes the standard and provides guidance about the responsibilities of a system of QC for audit (at the institutional level). ISSAI 1220 (Quality Control for an Audit of Financial Statements) establishes standards and provides guidance about the specific responsibilities for management and staff regarding QC procedures for individual financial audits.

7.3.1.2. These two standards, (ISQC 1 and ISSAI 1220) include the public sector perspective and are suitable for use in the SAI environment. The main difference between the two is that ISQC 1 is focused on policies, procedures, and systems of control for the SAI as a whole whereas ISSAI 1220 aims at the implementation of QC procedures by staff assigned to the individual audit level, and focuses on the audit team and its leadership.

7.3.1.3 Many of the key instruments that would be employed to comply with the two standards are also similar. For example, the Head of SAI would ensure that the SAI has auditing standards and manuals (ISQC 1), while the audit team that should have access to these standards and manuals receive the necessary training and actually use these tools during their audit (ISSAI 1220). Individual audit files should demonstrate that audit teams have implemented all relevant requirements.
7.3.1.4. Public-sector auditors engaged on audits of financial statements in accordance with standards based on or consistent with the principles of ISSAI 200 are subject to QC requirements at the engagement level. When developing standards based on ISSAI 200 or adopting standards consistent with ISSAI 200, SAIs should consider formulating requirements related to:

i. the need for the lead auditor to take responsibility for overall quality in each audit engagement;

ii. the need for the lead auditor to ensure that members of the audit team comply with the relevant ethical requirements;

iii. the need for the lead auditor to form a conclusion regarding compliance with the independence requirements that apply to the audit engagement, and to take appropriate action to eliminate threats to independence;

iv. the need for the lead auditor to be satisfied that the audit team and any external experts collectively have the appropriate competence and capabilities; and

v. the need for the lead auditor to take responsibility for the performance of the audit, specifically: leading, supervising and carrying out the audit; and ensuring that reviews are conducted in accordance with the SAI’s review policies and procedures.

7.3.2. Quality Control Processes

7.3.2.1. ISSAI 1000 (General Introduction to the INTOSAI Financial Audit Guidelines) focus on the Supreme Audit Institution’s responsibility to establish quality assurance arrangements whilst ISSAI 1220 (ISA 220) requires the
auditor to implement QC procedures on individual audits. The provisions of ISA 220 are applicable to the work of Supreme Audit Institutions. This ISA is premised on the basis that the firm (or the public sector equivalent) is subject to QC procedures according to ISQC 1 or national requirements that are at least as demanding.

7.3.2.2. For SAIs, an Auditor General/Board has overall responsibility, although the day-to-day operational responsibility may be delegated to others. For example, all those with engagement partner responsibility in a SAI with an Auditor General would, because of the hierarchical structure ultimately report to the Auditor General. In the public sector, it is important to select engagement QC reviewers who are independent of the audited entity and can provide an objective evaluation even though they are part of the same strategic leadership as the person with engagement partner responsibility.

7.3.2.3. Furthermore, ISQC 1 requires engagement partner rotation for listed entities after a predefined period. For SAI, this requirement may be applied to significant public interest entities. However, legislation establishing the appointments and terms of office of the Auditor General may make rotation impractical. SAIs may establish policies and procedures to promote compliance with the spirit of this requirement (e.g., by rotating key personnel with operational responsibility for the audit engagement, requiring engagement QC reviews, or carrying out regular peer reviews).

7.3.3. **Requirements of Quality Controls**

7.3.3.1. The requirements for QC are as follows:

   i. Leadership Responsibilities for Quality on Audits
   ii. Relevant Ethical Requirements
   iii. Independence
   iv. Acceptance and Continuance of Client Relationships and Audit Engagements
   v. Assignment of Engagement Teams
   vi. Engagement Performance Direction, Supervision and Performance
   vii. Reviews
   viii. Consultation
ix. Engagement Quality Control Review
x. Differences of Opinion
xi. Monitoring
xii. Documentation

7.3.3.2. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of SAI may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of independence. This may include, where the public sector auditor’s mandate does not permit withdrawal from the engagement, disclosure through a public report, of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

7.4. QUALITY CONTROLS FOR PERFORMANCE AUDIT

7.4.1. Auditing Standards

7.4.1.1. In accordance with ISSAI 300 (Fundamental Principles of Performance Auditing), the following specific issues need to be addressed for QA in performance audits

i. Performance audit is a process in which the audit team gathers a large amount of audit-specific information and exercises a high degree of professional judgment and discretion concerning the relevant issues. This must be taken into account in QC. The need to establish a working atmosphere of mutual trust and responsibility and provide support for audit teams should be seen as part of quality management. This may entail applying QC procedures that are relevant and easy to manage and ensuring that auditors are open to feedback received from QC. If there is a difference of opinion between supervisors and the audit team, appropriate steps should be taken to ensure that the audit team’s perspective is given sufficient consideration and that the SAI’s policy is consistent;

ii. In performance auditing, even if the report is evidence-based, well-documented and accurate, it might still be inappropriate or insufficient
if it fails to give a balanced and unbiased view, includes too few relevant viewpoints or unsatisfactorily addresses the audit questions. These considerations should therefore be an essential part of measures to safeguard quality; and

iii. As audit objectives vary widely between different audit engagements, it is important to define clearly what constitutes a high-quality report in the specific context of an audit engagement. General QC measures should therefore be complemented by audit-specific measures.

7.4.1.2. No QC procedures at the level of the individual audit can guarantee high-quality performance audit reports. It is equally important for auditors to be competent and motivated. Control mechanisms should therefore be complemented by support, such as on-the-job training and guidance for the audit team.

7.4.2. Quality Control Processes

7.4.2.1. ISSAI 3100 (Central Concepts for Performance Auditing), SAIs are required to establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair reports that add value and answer the audit questions.

7.4.2.2. Here good practices of QCs while conducting the audit and after the completion of the audit are as follows:

a. While conducting the audit

i. A QC system or process includes policies and procedures designed to provide the SAI with reasonable assurance that it, and its personnel, comply with professional standards and applicable legal and regulatory requirements. The objective is to ensure that audits are conducted at a consistently high level. QC procedures cover matters such as direction, review and supervision of the audit
process and the need for consultation in order to reach decisions on difficult or contentious matters.

ii. The system of QC needs to be designed so it is appropriate to the SAI’s mandate and circumstances and able to respond to their risks to quality. For the system of QC to be effective, it needs to be part of the SAI’s strategy, culture, and policies and procedures. This way, quality is built into the performance of the audit and the production of the report, rather than being an additional process once the report is produced. Maintaining a system of QC requires ongoing monitoring and a commitment to continuous improvement.

iii. A QC process needs to be an integral part of the conduct of each performance audit to minimize the risks of error and drive consistency in conduct. This process needs to be documented and include, for example, the various steps in the audit process, checks to be undertaken (such as peer review of draft work and editorial review of final reports). In essence, the QC process could be covered in a “checklist” that audit managers are required to complete while conducting the audit. It may be helpful for the SAI to first clearly define the characteristics of what constitutes a high-quality audit report.

iv. A key aspect of any performance audit is the formal and informal consultation that takes place within audit teams, between audit teams, and with internal or external specialists. Consultation during the course of an assurance engagement is important, as it helps to promote quality and improves the application of professional judgment, as well as reduces the risk of error. Consultation is advantageous for reaching sound conclusions, for ensuring that the report is appropriate, fair and balanced and that it adds value.

v. A key component of QC is an Engagement Quality Control Reviewer (EQCR). An EQCR is an individual, independent from the audit team that conducts an objective evaluation of significant matters, including identified risks and significant judgments made by the audit team, and the team’s conclusions reached in formulating the audit report.

vi. There are no QC procedures at the level of the individual audit that can guarantee high-quality performance audit reports. It is equally important for the auditor to be í and remain í competent and
motivated as well as open to feedback from QC. Control procedures need therefore to be complemented by support, such as on-the-job training and guidance for the audit team.

b. After the completion of the audit

i. A QA process allows audits after their completion to be independently assessed on a consistent basis against specific criteria. Undertaking a QC process outlined while conducting the audit would be step one that the QA process would review and the SAI can develop its own criteria, based on its particular circumstances, with examples of criteria-based questions including:

- To what extent does the report clearly describe the context within which the area examined is carried out?
- To what extent is the report well-structured and well written, and does it include an effective executive summary?
- To what extent is the rationale for the scope clearly set out?
- Is the audit methodology clearly set out?
- To what extent were the report’s conclusions and recommendations balanced, logical, consistent and supported by the evidence quoted?
- To what extent has the audit been successful in concluding against its objectives and providing useful information to help improve public services?
- To what extent is there sufficient documentation on team competencies, audit procedures carried out, evidence to support findings, consultations done and disposition of comments received, and supervision?

ii. Those carrying out the independent QA could be senior members of the performance auditing unit (with no involvement in the conduct of the audit), or external figures such as senior academics from universities and business schools. Using external QA provides an opportunity for the SAI to demonstrate its accountability to stakeholders. Following QA reviews the SAI can circulate good examples of performance audit reports within the SAI for the benefit
of all auditors. Where performance audit reports are found to need strengthening, a senior staff member could work with the audit team concerned to identify lessons learned and possibilities for training, mentoring and coaching in specific areas.

7.4.3. Requirements of Quality Control

7.4.3.1. According the ISSAI 3000 (Performance Audit Standard), the requirement of QC is that the SAI shall establish and maintain a system to safeguard quality, which the auditor shall comply with to ensure that all requirements are met, and place emphasis on appropriate, balanced, and fair reports that add value and answer the audit questions.

7.4.3.2. In establishing a quality control and assurance system (QCA), the SAI can use the guidance provided in ISSAI 40, which offers a framework for developing such a system. It is important to develop QCA procedures that are adequate, flexible and easy to manage. It is also important to develop consistent policies and procedures that are communicated to all audit teams and supported by training, as needed.

7.4.3.3. Measures that safeguard the quality of the audit process will be effective if they can ensure that the audit provides a balanced and unbiased view, adds value, considers all relevant viewpoints and satisfactorily addresses the audit questions.

7.4.3.4. An effective QCA system will also have mechanisms to take into account the audit team’s perspectives ensuring that audit teams are open to feedback.

7.5. MECHANISM FOR QUALITY ASSURANCE

According to PASAI Quality Assurance Guidelines, two commonly used mechanisms of QA are internal review and external review as explained below:

a. Internal review is a periodic review carried out by persons from within the SAI who are fully familiar with audit procedures, practices, and standards. The review could either be performed by a dedicated QA function within the SAI, or a peer review mechanism involving other divisions/sections.

b. External review is done by parties external to the SAI and may include another SAI from within the ASEANSAI region, a private auditing firm, management
consulting firm, academic expert, or regulatory body. The task involves performing a QAR for the SAI by appraising the quality of its audit activity. This is done by providing independent assurance of audit quality to management, the board, audit committee, external auditors, as well as those who rely on the work of the audit activity. Persons who are involved in performing the review must be qualified, independent from the organization, and do not have any real or apparent conflict of interest. The timing of the reviews depends on relevant auditing standards as well as the terms agreed on between partners SAIs.
8. ISSUES FOR CONSIDERATIONS

8.1. FRAUD AND CORRUPTION PRACTICES IN REVENUE COLLECTION

INTOSAI Lima Declaration, I General, Section 1 -
“The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent or at least render more difficult such breaches”

a. In ISSAI 1240, Practice Note 6 states that public sector auditors were to remain alert throughout the audit for the occurrences of abuse. Abuse involves behaviour that is deficient or improper when compared with behaviour that a prudent person would consider reasonable and necessary business practices given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations or provisions of contract or grant agreement. Abuse is a departure from the concept of propriety, which relates to the general principal of sound public sector financial management and conduct of public sector officials.

b. In the public sector, revenue recognition may not always be the most relevant area for the presumption that there are risks of fraud, as required by paragraph 26 of ISA 240. Revenue recognition may be highly relevant for tax authorities or other agencies that collect revenues such as state universities and colleges, hospitals or regulatory agencies, which charges fees for services rendered, or are recipients of donor funds.

c. In SAS No. 99 - Consideration of Fraud in a Financial Statement Audit, it is stated that material misstatements due to fraudulent financial reporting often result from an overstatement of revenues (for example, through premature revenue recognition or recording fictitious revenues) or an understatement of revenues (for example, through improperly shifting revenues to a later period). Therefore, the auditor should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition.
8.1.1 Correlation between Fraud and Corruption

a. It appears that the elements of fraud and corruption have similarities. In fraud, there are two parties: the perpetrator and the victim. In corruption, there are at least two parties: the person who offers reward and the party accepting it. It will be noted that the first element under corruption appear to be contradicted by the sixth element which states necessarily include third party involvement. But this contradiction can be explained by the fact that the ASOSAI guidelines which are the source of the first element mentioned only persons as parties to corruption, the person giving the offer and the person receiving the offer. In the public sector, the offeror may be a person from the private sector and the person receiving the offer or reward is a public officer who has a principal who is not a person, the government, thus, there are actually three parties: the offeror, the public officer receiving the offer and the government who ultimately suffers the damage spawned by corruption.

b. In both fraud and corruption, there is intent, for fraud the intent to falsely is present while for corruption there is an intent to solicit an offer of reward as benefit for the performance of an official act.

c. There are also certain distinctions. In fraud, there is a material omission or false representation made knowingly by perpetrator for a personal gain; in corruption, there must be misuse of office or position of authority for personal gain. However, if the perpetrator of the fraud is a public officer, his material omission or false representation assumes the form of misuse of office or position for personal gain, hence, there is no difference in this case.

d. Another distinction is the betrayal of trust: in fraud there is betrayal of trust between the perpetrator and the victim, whereas in corruption there is a breach of loyalty to a principal. However, in fraud, if the perpetrator of the fraud is a public officer, the victim which is the government is also the principal of the public officer, there is therefore a breach of loyalty to the government, in which case, there is no distinction between these two elements.

e. Another distinct element is the involvement of a third party. According to Professor Deon Rossouw, CEO of the Ethics Institute of South Africa (EthicsSA), fraud may not have third party involvement; while corruption necessarily includes third party. Likewise, in fraud there is always loss to one party and gain by another; in corruption, the effort to misuse position or illicitly influence another may not necessarily result in loss to a party.
8.1.2. Description and Characteristics of Fraud

a. According to ISA, fraud is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

b. Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor: misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

c. The public sector auditor’s responsibilities relating to fraud may be a result of law, regulation or other authority applicable to public sector entities or separately covered by the auditor’s mandate. Consequently, the public sector auditor’s responsibilities may not be limited to consideration of risks of material misstatement of the financial statements, but may also include a broader responsibility to consider risks of fraud.

d. The COSO Report found that in over half the companies examined, the financial statement fraud involved overstating revenues. Sales-based performance incentives, management pressure to meet revenue growth goals, and aggressive analyst projections are circumstances which increase the risk of fraudulent revenue recognition within companies.

8.1.3. Description and Characteristics of Corruption

a. Corruption is often defined as the abuse of public authority or trust for private benefits. It is closely related to governance. There are greater incentives and more scope for corruption if there is poor governance.

b. Corruption can be divided into individualized corruption - involving a definite number of people, and collective corruption - extending to entire interest groups, leading to dependencies in which the donor becomes the recipient and vice versa.
c. Among other types of wrongdoing, corruption is associated with the following:

- Nepotism - providing favours based on consanguinity or favouritism granted to relatives regardless of merit;
- Favouritism - giving favours based on informal relations or the practice of giving special treatment to a person or group;
- Clientelism - a complex chain of personal bonds between political patrons or bosses and their individual clients or followers;
- Cronyism - showing partiality to long-standing friends, especially by appointing them to positions of authority, regardless of their qualifications;
- Patronage - the support, encouragement, privilege, or financial aid that an organization or individual bestows upon another;
- Graft - a form of political corruption that can be defined as an unscrupulous use of a politician's authority for personal gain;
- Bribery - the act of conferring a benefit in order to improperly influence an action or decision;
- Extortion;
- Embezzlement - theft of property by someone to whom it was entrusted;
- Theft; and
- Fraud - involves the use of false or misleading information to induce the owner of the property to part with it voluntarily

8.1.4. Warning Signs of Possible Fraud and Corruption in Revenue Collection

a. Three conditions are normally present when fraud occurs. These conditions are often present in various ways in the public sector. These include:

i. Incentive or pressure (placed on or perceived by management or employees giving them a reason to commit fraud) in public sector employees are often under pressure to deliver high quality services with few resources and to meet budget expectations. This may be especially relevant in tough economic conditions where there is pressure to maintain user charges and tax rates, resulting in incentives to overstate revenues
and understate expenditures. There may also incentives to spend the available budget by the end of the financial year;

ii. Opportunity (characteristics or circumstances related to an entity allowing for the perpetration of fraud) — a difficult recruitment environment or a lack of sufficient qualified personnel may be more prevalent in the public sector. Such situations may often result in deficiencies in internal control creating the opportunity for fraud. The widespread use of high volume, low value cash transactions in certain public sector entities such as cash transactions at police departments or health clinics may add to those risks. Although monetary values may be small, such situations may lead to violation of public trust, expectations and accountability; and

iii. Rationalization or attitude (Behaviour, character or ethical values that allow individuals to justify their reasons for committing fraud) — generally lower salary levels in the public sector compared to the private sector may lead employees to believe that they can justify misuse of funds. As above, this may violate principles of public trust, expectations and accountability.

b. Warning signs of possible fraud and corruption in revenue collection:

- Poor internal controls;
- Management inappropriate override of internal controls;
- Collusion;
- Shortages/overages;
- Forged, fictitious or altered official receipts;
- Cash collections not deposited in the bank;
- Unexplained gap between receipt in revenue report of revenue sources with bank deposits receipt;
- Conducting cash receipts and failing to record the receipts;
- No system generated pre-numbered revenue document;
- Lapping and kiting;
- Receiving cash and only crediting an account for a part of the revenue;
- Receiving/ recording cash, not depositing it, and calling it "Deposit in Transit";
- Employee lifestyle changes: expensive cars, jewellery, homes, clothes;
- Significant personal debt and credit problems;
- High employee turnover, especially in those areas which are more vulnerable to fraud;
- Nonexistence of job rotation for revenue collection officials; and
- Limited access for SAI to the source document for revenue collection.

c. Common forms of tax evasion in developing countries - mechanisms of integrity violations in revenue administrations:

<table>
<thead>
<tr>
<th>Types</th>
<th>Mechanism of integrity violations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 'Unadulterated' tax evasion (without the involvement of tax officers)</td>
<td></td>
</tr>
<tr>
<td>Smuggling</td>
<td>Smuggling of goods (beer, spirits, soap, sugar, cooking oil, etc.). Border police is involved in some cases.</td>
</tr>
<tr>
<td>Taxable income/ transactions are not reported or are underreported in accounts</td>
<td>Several ledgers are often used, including one for taxation purposes that may show a deficit. Common within many businesses.</td>
</tr>
<tr>
<td>Underreporting of turnover</td>
<td>Common within retail and wholesale sectors.</td>
</tr>
<tr>
<td>Over reporting of expenditures</td>
<td>An accounting trick to reduce tax burden.</td>
</tr>
<tr>
<td>Underreporting of the value of imports</td>
<td>A general problem in imports of goods.</td>
</tr>
<tr>
<td>Misclassification of goods</td>
<td>Import goods with high tax and duty rates are classified as goods with lower rates. One example is the classification of alcoholic beverages as mineral water. May involve customs officers (see below).</td>
</tr>
<tr>
<td>Goods in transit are sold on the domestic market</td>
<td>Could involve many types of commodities. In some African countries it is a particularly big problem with respect to oil and petroleum products. In some cases customs officers and other civil servants are directly involved.</td>
</tr>
<tr>
<td>Sham sales</td>
<td>To cover the fraud, company representatives may falsify inventory records, shipping records, and invoices and record the fictitious transactions as sales. In certain instances, the company may ship the goods to another location. In others, the company may pretend to ship the inventory and hide it from company auditors.</td>
</tr>
<tr>
<td>Premature revenues before all the terms of the sale are</td>
<td>Generally, this scheme involves recording sales after the goods are ordered but prior to shipping them to the customer.</td>
</tr>
<tr>
<td>Types</td>
<td>Mechanism of integrity violations</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Conditional sales</td>
<td>The transactions are recorded as revenues even though the sales involve unresolved contingencies or terms that are amended with side agreements which often eliminate the customer's obligation to keep the merchandise.</td>
</tr>
<tr>
<td>Improper cut off of sales</td>
<td>To increase revenues, the accounting records are held open beyond the balance sheet date so that sales actually occurring in the subsequent accounting period are recorded in the current period.</td>
</tr>
<tr>
<td>Improper use of the percentage-of-completion method</td>
<td>Revenues is overstated by accelerating the estimated percentages of completion for jobs in progress.</td>
</tr>
<tr>
<td>Unauthorized shipments</td>
<td>Revenues are overstated by shipping goods the customer never ordered or by shipping defective products and recording revenues at full, rather than discounted, prices.</td>
</tr>
<tr>
<td>Consignment sales</td>
<td>Revenues are recorded for consignment shipments or shipments of goods for customers to consider on a trial basis.</td>
</tr>
</tbody>
</table>

2. Collusion between revenue officers and taxpayers

| Tax exemptions                | Involves the tax administration, the Ministry of Finance, and other public agencies, such as investment centres, which are in position to issue exemptions. In some cases, the taxpayer is not registered in the tax registers, but pays a lower tax privately to tax collectors. |
| VAT fraud                     | Falsified claims for VAT refunds. Can occur with the help of collaborators within the tax administration.                                                                                                                                                                                                                                                  |
| Goods in transit              | One way of evading tax is to report import goods as transit goods. Customs officers and importers work together occasionally.                                                                                                                                                                                                                       |
| False classification of goods | Customs officers may be involved (see above).                                                                                                                                                                                                                                                                                                           |
| Underreporting value of goods | To avoid pre-shipment inspection of goods before shipment from the export country, a common method is to split the goods into units which individually are worth less than the minimum required to trigger inspection. The goods are therefore exempted from pre-shipment inspection. |

Income tax

- It is possible that the income tax staff, in collusion with the taxpayer may change the record of the income tax due and reduce his tax burden.
- It is possible that the staff maintaining the records of the taxpayer may have collusion with the taxpayer and may not disclose significant data of the assessee.
- Tax officer may reduce the tax liability due to collusion with the taxpayer.
- There is a system of recognizing as complete assessment if a small taxpayer with a turnover of a
<table>
<thead>
<tr>
<th>Types</th>
<th>Mechanism of integrity violations</th>
</tr>
</thead>
<tbody>
<tr>
<td>specified threshold and a taxable income up to a specified amount deposits a fixed amount specified in the Act. It is possible that big businessmen may take advantage of such provision and may run his business in the name of such small taxpayers.</td>
<td></td>
</tr>
<tr>
<td>- It is possible that tax officer may have collusion with the taxpayer and may submit the report with less tax liability by disclosing less transaction. (Ref: Government Auditing Standard of Office of Auditor General, Nepal, Chapter 2 Income Tax)</td>
<td></td>
</tr>
<tr>
<td>3. Corruption without the direct involvement of taxpayers</td>
<td></td>
</tr>
<tr>
<td>Extortion</td>
<td>By taking advantage of taxpayers' incomplete knowledge of tax legislation, revenue officers threaten taxpayers to pay above rates.</td>
</tr>
<tr>
<td>Embezzlement of collected revenue</td>
<td>Revenue officers steal money collected. May take place with the collusion of bank employees and/or auditors within the tax administration.</td>
</tr>
<tr>
<td>Fraud</td>
<td>Falsifying tax receipts is common.</td>
</tr>
<tr>
<td>Corrupt inspectors/auditors</td>
<td>Internal auditing may be inefficient and corrupt. Exacerbates the problems of corruption since it undermines the credibility of the monitoring policy.</td>
</tr>
</tbody>
</table>

Source: Revenue Administrative and corruption, U4 ISSUE 2:2005

8.1.5. Auditor's Roles and Responsibilities

Para 4 ISA 240
The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

a. An auditor conducting an audit in accordance with ISSAIs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISSAIs.

b. As described in ISSAI 1200, the potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud. The risk
of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor’s ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error.

c. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees.

d. When obtaining reasonable assurance, the auditor is responsible for maintaining professional scepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The requirements in this ISSAI are designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement.

8.1.6. Communicating About Fraud and Corruption to Concerned Parties

a. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

b. Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects of fraud involving:

- management;
• employees who have significant roles in internal control; or

• others where the fraud results in a material misstatement in the financial statements,

the auditor shall communicate these matters to those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions to those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.

c. The auditor shall communicate with those charged with governance any other matters related to fraud that are, in the auditor’s judgment, relevant to their responsibilities.

d. The requirements for reporting of fraud in the public sector may be subject to specific provisions of the audit mandate or related legislation or regulation, in line with paragraph 43 of the ISSAI regarding communication to a party outside the entity. Such parties may include regulatory and enforcement authorities. In some environments, there may be a duty to refer indications of fraud to investigative bodies and even cooperate with such bodies to determine if fraud or abuse has occurred. In other environments, public sector auditors may be obliged to report circumstances that may indicate the possibility of fraud or abuse to the competent jurisdictional body or to the appropriate part of the government or legislature, such as prosecutors, the police and (if relevant to legislation) affected third parties.

e. If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor’s professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor’s legal responsibilities may override the duty of confidentiality in some circumstances.
8.2. INEFFICIENCY OF TAX AUTHORITIES AND TAX COMPLIANCE BY TAXPAYERS

8.2.1. The authorities set up to collect revenue may not be efficient in carry out its responsibilities. Developing countries face problems of inefficient tax administration as well as lower level of tax compliance by taxpayers. This could be attributed to insufficient tax administration staffs with requisite skills and a high level of illiteracy among taxpayers.

8.2.2. As an inefficient tax administration and low level of tax compliance could be considered as the main factor influencing optimal revenue collection, the auditor conducting revenue audits should attempt to measure the operating efficiency of tax agencies and the level of tax compliance by taxpayers.

8.2.3. However, in conducting a performance audit on the operating efficiency of tax agencies, auditor must bear in mind that certain variables such as the country’s tax capacity, its tax laws and taxpayers’ participation willingness are beyond the control of tax administrator. For example, the policy makers or Ministry of Finance could grant exemptions which lead to problems in tax collection systems. It also could hamper the determination of tax liabilities, poor enforcement of the collection, poor tax administrations and untimely implementation of prosecution and penalties to evaders. Besides that, lack of clearly define roles, functions and duties of public officials create an environment for abuse. The greater the discretion/authority of tax officials, the greater the opportunity for them to provide favourable interpretation of government rules and regulations in exchange for kickbacks.

8.2.4. In some cases, the administration of tax that was set up might not be efficient to collect tax at a reasonable cost. In auditing efficiency of tax authorities, the auditor should focus on the followings:

- whether the used resources have been put to optimal or satisfactory use;
- technical efficiency, allocative efficiency or scale/synergy efficiency; and
- comparing similar activities in comparable entities.
8.2.5. Listed below are some of the examples of audit findings by ASEANSAI:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Not Registered with the General Department of Taxation</strong>&lt;br&gt;Some firms which were registered at the Ministry of Commerce carried out businesses but failed to register with the General Tax Department. This may lead to tax evasion.</td>
<td></td>
</tr>
<tr>
<td><strong>Shortage in Excise Tax due to Inaccurate Production Volume Data</strong>&lt;br&gt;The excise tax is charged based on the production volume reported by the manufacturer. It was noted that there were differences in the production volume report and the tax report, causing underpayment of excise tax. Besides that, the Customs Office has no mechanism to ensure the accuracy of the production volume report submitted by the manufacturers.</td>
<td></td>
</tr>
<tr>
<td><strong>Improper Estimation of Revenue Budget</strong>&lt;br&gt;The Estimated Revenue Budget of the Tax Department did not include tax obligations of all enterprises.</td>
<td></td>
</tr>
<tr>
<td><strong>Management And Controls Of Duty Free Shops</strong>&lt;br&gt;Duty free shops issued invoices of sale of liquor to crews of ships that had sailed, did not berth or non-existent ships that led to loss of revenue to the government.</td>
<td></td>
</tr>
<tr>
<td><strong>Collections Not Deposited Intact or Within the Prescribed Period</strong>&lt;br&gt;Some Revenue Collection Officers did not deposit their collections intact or within the prescribed period contrary to law and other pertinent rules and regulations. This unnecessarily exposed these collections to the risk of misuse.</td>
<td></td>
</tr>
<tr>
<td><strong>Late Transfer of Tax Revenue to Treasury</strong>&lt;br&gt;Some local tax offices failed to transfer tax revenue within stipulated time. As a result, the government lost the opportunity to use the revenue for developing the country.</td>
<td></td>
</tr>
<tr>
<td><strong>Tax Price Evasion</strong>&lt;br&gt;It was noted that the manufacturer paid lower special consumption tax as it was calculated based on the manufacturer selling price to a subsidiary which was 99.99% owned by the manufacturer instead of subsidiary’s selling price.</td>
<td></td>
</tr>
</tbody>
</table>
REFERENCES

1. A Guide to E-Auditing (Faculty of Information Technology, ICAEW)
2. Civil Audit Manual - The Office of the Comptroller and Auditor General (OCAG) Bangladesh
3. Forensic Auditing Manual by Philippine Commission on Audit
4. INTOSAI Working Group on IT Audit & IDI Handbook on IT Audit for SAIs
5. ISA 220 (Quality Control for an Audit of Financial Statements)
6. ISA 240 (The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements)
7. ISA 500 (Audit Evidence)
8. ISSAI 100 (Fundamental Principles of Public-Sector Auditing)
9. ISSAI 1000 (General Introduction to the INTOSAI Financial Audit Guidelines)
10. ISSAI 1220 (Quality Control for an Audit of Financial Statements)
11. ISSAI 1240 (The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements)
12. ISSAI 1315 (Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment)
13. ISSAI 1320 (Materiality in Planning and Performing an Audit)
14. ISSAI 1330 (The Auditor’s Responses to Assessed Risks)
15. ISSAI 1500 (Audit Evidence)
16. ISSAI 20 (Principles of Transparency and Accountability)
17. ISSAI 200 (Fundamental Principles of Financial Auditing)
18. ISSAI 300 (Fundamental Principles of Performance Auditing)
19. ISSAI 3000 (Performance Audit Standard)
20. ISSAI 3000 (Standards and guidelines for performance auditing based on INTOSAI’s Auditing Standards and practical experience)
21. ISSAI 3100 (Guidelines on Central Concepts for Performance Auditing)
22. ISSAI 3200 (Guidelines for the Performance Auditing Process)
23. ISSAI 40 (Quality Control for SAIs)
24. ISSAI 400 (fundamental Principles of Compliance Auditing)
25. ISSAI 5700 (Guideline for the Audit of Corruption Prevention)
26. ISSAI Implementation Handbook - Performance Audit
28. PASAI Quality Assurance Guidelines
29. Performance Audit Manual 2015 by European Court of Auditors
30. Revenue Audit Manual for the Bureau of Customs by the Philippine Commission on Audit
31. SAS No. 99 - Consideration of Fraud in a Financial Statement Audit
SAMPLE DETAILED AUDIT PLAN FORM

(NAME OF THE ENTITY)

AUDIT OBJECTIVES

Determine the objectives of audit
E.g. The objective of the audit is to determine whether the financial statements have been prepared in accordance to the standards and fairly presented.

AUDIT TEAM

Name
1.
2.
3.

TIME SCHEDULE

Planning
Field work
Management Letter
Feedback from Management
Final Report

OVERVIEW OF AUDITEE

Describe an overview of the auditee

CONTACT PERSON

Name and contact number person in charge in audited entity
ORGANIZATION
Structure
Job Description of Key Personnel

COMPARATIVE REVENUE COLLECTION
Revenue Report

ACCOUNTING POLICY
Explanation of Key Accounts

ANALYTICAL PROCEDURES
Result of the analytical procedures (e.g. comparison year to year balance)

IMPORTANT INFORMATION RELEVANT TO AUDIT
All information relevant (e.g. media, law and regulation etc.)

AUDIT RISKS ASSESSMENT
Result of the process of understanding the agency, internal control and conducting risk of material misstatement
MATERIALITY

How your SAI determine materiality

AUDIT PROCEDURES/PROGRAMS

- Set the audit procedures in your SAI format
- Need to consider the auditor’s responses to assessed risks in determining audit procedures
SAMPLE CHECKLIST FOR INTERNAL CONTROL ELEMENTS

CONTROL ENVIRONMENT

Integrity and Ethical Values

1. Has management promoted a climate that emphasizes integrity and ethical behaviour?
2. Has management employed a code of conduct that emphasizes proper behaviour and sets penalties for unethical conduct?
3. Has management cooperated with (internal) auditors and other evaluators, does not attempt to hide known problems from them, and values their comments and recommendations?
4. Has the entity well-defined and understood the process for dealing with day-to-day operation?

Commitment to Competence

1. Has management performed analyses of the knowledge, skills, and abilities needed to perform jobs in an appropriate manner?
2. Has management provided training and counselling in order to help employees maintain and improve their competence for the job?
3. Has there an appropriate training program to meet the needs of employees?
4. Has management emphasized the need for continuing training and has a control mechanism to help ensure that all employees actually received appropriate training?

Management's Philosophy and Operating Style

1. Has management employed a philosophy that emphasizes the correct reporting of financial information?
   - Has management placed a high degree of importance on retaining competent personnel in key functions over its revenue transactions?
   - Does the entity have adequate authority to interact with other entities as needed, and strong synchronization and coordination exist between the
entity and other entities with responsibilities or information related to its activities?

2. Does management place a high degree of importance on the work of entity officers, external audits, and other evaluations and studies with entity information and is responsive to information from such officers?

**Organizational Structure**

1. Are key areas of authority and responsibility activities defined and communicated throughout the organization? Consider the following:
   - Are executives in charge of major activities or functions fully aware of their duties and responsibilities?
   - Do executives and key managers understand their internal control responsibilities and ensure that their staff also understands their own responsibilities.

**Assignment of Authority and Responsibility**

1. Does the entity appropriately assign authority and delegate responsibility to the proper personnel to deal with organizational goals and objectives.
   - Are authority and responsibility clearly assigned throughout the organization and clearly communicated to employees?
   - Is responsibility for decision making clearly linked to the assignment of authority and responsibility?

2. Does each employee knows how his or her actions or activities interrelate to others' actions and is aware of his or her related duties concerning internal control?

3. Is delegation of authority appropriate in relation to the assignment of responsibility?
   - Are employees at the appropriate level empowered to correct problems or implement improvements?
   - Is there an appropriate balance between the delegation of authority at lower levels to “get the job done” and the involvement of senior level personnel?

**Human Resource Policies and Practices**
1. Are employees' responsibilities properly supervised?

**Oversight Groups**

1. Within the entity, are there mechanisms in place to monitor and review operations and programs?
   - Does the entity have a committee that reviews internal audit work?
   - Does the internal audit functions review the entity's activities and systems and provides information, analyses, appraisals, recommendations, and counsel to management?

**Conclusion:** ....................................................................................................................

**RISK ASSESSMENT**

**Risk Identification**

1. Does management identify entity's risk?
   - Are qualitative and quantitative methods used to identify risk and determine relative risk rankings on a scheduled and periodic basis?
   - How risk is to be identified, ranked, analysed, and mitigated is communicated to appropriate staff?
   - Does risk identification and discussion occur in senior-level management meetings?
   - Does risk identification take place as part of short- and long-term forecasting and strategic planning?
   - Does risk identification occur as a result of consideration of findings from audits, evaluations, and other assessments?

2. Do adequate mechanisms exist to identify risks to revenue transactions arising from external factors? The entity should consider the risks:
   - Arising from changing needs or expectations by Congress, entity officials, or the public?
   - Posed by new legislation, regulations, rulings, and court decisions.
   - Resulting from business, political, or economic changes.

3. Do adequate mechanisms exist to identify risks to revenue collection arising from internal factors? The entity should consider the risks:
   - Associated with major changes of operating processes.
- Associated with restructuring and reorganizations.
- Posed by personnel turnover or personnel who are not adequately qualified and trained?

4. Does management assess other factors such as a history of compliance problems?

**Risk Analysis**

1. After the entity risks have been identified, management should undertake an analysis of their possible effect. Consider the following:
   - Has management established a formal or informal process to analyse risks?
   - Have criteria been established for determining low, medium, and high risks?
   - Are appropriate levels of management and employees involved in the risk analysis?
   - Are risks identified and analysed relevant to the corresponding objective?
   - Does risk analysis include estimating the risk’s significance and sensitivity?
   - Does risk analysis include estimating the likelihood and frequency of occurrence of each risk (susceptibility) and determining whether it falls into the low-, medium-, or high-risk category?
   - Is a determination made on how best to manage or mitigate the risk and what specific actions should be taken?

2. Has management developed an approach for risk management related compliance and control based on how much risk can be prudently accepted? Consider the following:
   - The approach will vary from entity to entity based on the entity’s nature.
   - The approach is designed to keep risks within levels judged to be appropriate, and management takes responsibility for setting the tolerable risk levels.
   - Specific control activities are decided upon to manage or mitigate specific risks, and their implementation is monitored.

**Managing Risks during Change**

1. Does the entity have mechanisms in place to anticipate, identify, and react to risks presented by changes in government, economic, industry, regulatory, operating, or other conditions that can affect revenue collection?
2. Does the entity give special attention to risks presented by changes that can have a more dramatic and pervasive effect on revenue collection?

Conclusion: .................................................................

CONTROL ACTIVITIES
General Application

1. Do appropriate policies, procedures, techniques, and mechanisms exist with respect to revenue transactions?
   - All relevant objectives and associated risks have been identified in relation to the risk assessment and analysis function of internal control.
   - Management has identified the actions and control activities needed to address the risks and directed their implementation.

2. Are control activities identified as necessary in place and being applied? Consider the following:
   - Control activities described in policy and procedures manuals are actually applied and applied properly.
   - Supervisors and employees understand the purpose of internal control activities.
   - Supervisory personnel review the functioning of control activities.
   - Timely action is taken on exceptions, implementation problems, or information that requires follow-up.

Common Categories of Control Activities

1. Management tracks revenue collection in relation to goals.
   - Do managers at all activity levels review performance reports, analyse trends, and measure results against targets?
   - Are appropriate control activities employed such as reconciliations of summary information to supporting detail?

2. The entity effectively manages its workforce to achieve its goals.
   - Are procedures in place to ensure that personnel with appropriate competencies are recruited and retained?
- Are employees provided with orientation, training, and tools to perform their duties and responsibilities, improve their performance, and meet the demands of changing organizational needs.
- Is qualified and continuous supervision provided to ensure that internal control objectives are being met?

3. The entity employs a variety of controls of revenue transactions to ensure accuracy and completeness of information processing.

4. The entity has established and monitors performance measures and indicators for revenue collection.
   - Is actual performance data continually compared and analysed against expected or planned goals?
   - Are unexpected results or unusual trends investigated to identify circumstances where achievement of goals for revenue collection is threatened? Corrective action is taken.

5. Are revenue transactions and other significant events properly classified and promptly recorded so that they maintain their relevance, value, and usefulness to management in controlling operations and making decisions?

6. Only authorized individuals can make adjustments to financial information.

7. Internal control and all transactions and other significant events related to revenues cycle are clearly documented.
   - Written documentation exists for the entity’s internal control structure and all significant transactions and events.
   - Documentation is readily available for examination.

   - Documentation for internal control includes identification of the entity’s activity-level functions and related objectives and control activities and appears in management directives, administrative policies, accounting manuals, and other such manuals.
   - Documentation of transactions and other significant events is complete and accurate and facilitates tracing the transaction or event and related information from before it occurs, through its processing, to after it is completed.
• Documentation, whether in paper or electronic form, is useful to managers in controlling their operations and to auditors and others involved in analysing operations.
• All documentation and records are properly managed, maintained, and periodically updated.

Conclusion:

INFORMATION AND COMMUNICATION

Information

1. Information related to revenue collection from internal and external sources is obtained and provided to management as a part of the entity’s reporting on operational performance relative to established objectives.

2. Pertinent information related to revenue collection is identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively.

3. Management ensures that effective internal communications occur related to revenue collection.
   • Employees understand the aspects of internal control, how their role fits into it, and how their work relates to the work of others.
   • Employees are informed that when the unexpected occurs, they must give attention not only to the event but also to the underlying cause, so that potential internal control weaknesses can be identified and corrected before they can do further harm.
   • Mechanisms exist to allow the easy flow of information down, across, and up the organization and to allow easy communications to exist between functional activities.
   • Mechanisms are in place for employees to recommend improvements in operations.

4. Management ensures that effective external communications occur with groups that can have a serious impact on revenue collection.
• Communication with external parties such as audit institution and other government agencies is encouraged since it can be a source of information on how well internal control is functioning.
• Management makes certain that advice, rulings, and recommendations are fully considered and that actions are implemented to correct any problems or weaknesses they identify.

Forms and Means of Communication

1. The entity employs many and various forms and means of communicating important information with employees and others (policies and procedures manuals, memorandums to staff and regular meeting with staff, etc.).

Conclusion: ....................................................................................................................

MONITORING
Ongoing Monitoring

1. Management has a strategy to ensure that ongoing monitoring of revenue collection measure is effective and will trigger separate evaluations where problems are identified or systems are critical and testing is periodically desirable.
   • Management’s strategy provides for routine feedback and monitoring of performance and control objectives.
   • The monitoring strategy includes identification of critical operational finance-related systems that need special review and evaluation.
   • The strategy includes a plan for periodic evaluation of control activities.

2. In the process of carrying out their regular activities, entity personnel obtain information about whether internal control is functioning properly.

3. Communications from external parties corroborate internally generated data or indicate problems with internal control.
   • Communications from revenue collection officers about compliance or other matters that reflect on the functioning of internal control is used for follow-ups on any problems indicated.
4. Meetings with employees are used to provide management with feedback on whether internal controls are effective.

Separate Evaluations

1. Scope and frequency of separate evaluations of internal control are appropriate for the entity.
   - Risk assessment results and the effectiveness of ongoing monitoring determine the scope and frequency of separate evaluations.
   - Separate evaluations may be prompted by events such as major strategies, expansions, or downsizing, etc.
   - Appropriate portions or sections of internal controls are evaluated regularly.
   - Personnel with required skills, who may include the entity’s internal auditor or an external auditor, conduct separate evaluations.

2. The methodology for evaluating the entity’s internal control is logical and appropriate. Consider the following:
   - The methodology used may include self-assessments using checklists, questionnaires, or other such tools, and it may include the use of this Management and Evaluation Tool or some similar device.
   - The separate evaluations may include a review of the control design and direct testing of the internal control activities.
   - The evaluation team develops a plan for the evaluation process to ensure a coordinated effort.
   - If the evaluation process is conducted by entity employees, it is managed by an executive with the requisite authority, capability, and experience.
   - The evaluation team gains a sufficient understanding of the entity’s objectives related to revenue collection.
   - The evaluation team gains an understanding of how the entity’s internal control system is supposed to work and how it actually works.
   - The evaluation team analyses the results of the evaluation against established criteria.
   - The evaluation process is properly documented.

3. Deficiencies found during separate evaluations are promptly resolved.
   - Deficiencies are promptly communicated to the individual responsible for the function and also to at least one level of management above that individual.
• Serious deficiencies and internal control problems are promptly reported to top management.

Audit Resolution

1. The entity has a mechanism to ensure the prompt resolution of findings from audits and other reviews. Consider the following:
   • Managers promptly review and evaluate findings resulting from audits and assessments, including those showing deficiencies and those identifying opportunities for improvements.
   • Management determines the proper actions to take in response to findings and recommendations.
   • Corrective action is taken or improvements made within established time frames to resolve the matters brought to management’s attention.
   • In cases where there is disagreement with the findings or recommendations, management demonstrates that those findings or recommendations either are invalid or do not warrant action.
   • Management considers consultation with auditors when it is believed to be helpful in the audit resolution process.

2. Entity management is responsive to the findings and recommendations of audits and other reviews aimed at strengthening internal control.
   • The entity takes appropriate follow-up actions with regard to findings and recommendations of audits and other reviews.
   • Problems are corrected promptly.
   • Underlying causes giving rise to the findings or recommendations are investigated by management.
   • Actions are decided upon to correct the situation or take advantage of the opportunity for improvements.
   • Management and auditors follow up on audit and review findings, recommendations, and the actions decided upon to ensure that those actions are taken.

3. Top management is kept informed through periodic reports on the status of audit and review resolutions so that it can ensure the quality and timeliness of individual resolution decisions.

Conclusion: ……………………………………………………………………………………………..
### APPENDIX 3

#### AUDIT EVIDENCE COLLECTION PLAN

<table>
<thead>
<tr>
<th>Audit Questions</th>
<th>Level 2 Questions</th>
<th>Level 3 Questions</th>
<th>Level 4 Questions</th>
<th>Criteria</th>
<th>Evidence</th>
<th>Evidence Sources</th>
<th>Data Collection Methods</th>
<th>Data Analysis Methods</th>
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<tbody>
<tr>
<td>WHAT DO WE WANT TO KNOW?</td>
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<td>WHAT STANDARDS DO WE MEASURE AGAINST?</td>
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<td>WHAT EVIDENCE WILL ANSWER THE QUESTION?</td>
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<td>WHERE ARE WE GOING TO GET THE EVIDENCE?</td>
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<td>WHAT WILL WE DO WITH IT ONCE WE GET IT?</td>
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- Legislation, regulations, professional standards.
- Standard measures or results of commitment of auditee.
- Performance of comparable organisations, best practices or standards developed by auditor.
- Facts (numerical evidence, descriptive evidence, qualitative information).
- Experiences / Perceptions/ Opinions.
- The entity, other public entities, published research, beneficiaries, suppliers, interest groups.
- In person (observation, examine documents, interviews, focus groups)
- By post, telephone, e-mail (request documents, questionnaires)
- Sample surveys (which could be either in person or by post, e-mail)
- Benchmark against comparable entities

- Quantitative evidence (e.g. trends, comparisons, ratios)
- Qualitative evidence (coding, matrices)
- Systems analysis (e.g. flowcharts)
- Case studies.
### CONTENTS OF AN AUDIT PLANNING MEMORANDUM

#### Executive Summary

The one-page Executive Summary updates and expands upon the Audit Proposal, prepared for the Annual Work Program, with new information or insights gleaned during the APM preparation stage. It summarizes the reasons for carrying out the audit, including the background of the audit, the audit question, approach and scope, the expected impact, the resources planned, and the reporting calendar.

#### What is the area we want to examine, and why?

| Description of the audit area | The reasons for selecting the audit subject are clearly stated. Relevant background information is briefly presented on the audit subject (e.g. policy, program), which may include the main activities, financial information, laws and regulations, the objectives of the audit subject and the roles and responsibilities of the major actors. |
| Materiality and risks to sound financial management | The monetary amounts involved are stated, and the main risks to sound financial management identified at the audit planning stage. |

#### Relevance

Interest in the subject matter from Parliament, the public, media or other interested parties is identified, as positive change is more likely to result from the audit if stakeholders are engaged with the topic.

#### Potential impact

Potential impacts to be identified may include the influencing of future policies and programs, potential cost-saving opportunities, and highlighting of good practice.

#### What are the audit questions and audit scope?

| Audit questions | The audit questions are defined as precisely as possible so as to provide the focus for the audit, avoid unnecessary and expensive work, and allow the audit team to conclude thereon. The audit questions are identified and, if there is only one audit question, translated into immediate sub-questions. Reasons for selecting the audit questions, and for excluding other potential audit questions, are briefly described. |
| Audit scope | The scope statement defines and explains the parts of the organization/program/policy that are the subject of the audit, and identifies the time period and geographical areas to be covered. Potential areas considered for inclusion in the audit scope, but rejected (e.g. due to being too time-consuming, not offering sufficient focus) are also noted. |
### How will we get the answers?

<table>
<thead>
<tr>
<th><strong>Audit approach</strong></th>
<th>The audit approach is clearly stated, i.e. the degree of emphasis to be placed on auditing performance directly, with an initial focus on outputs and outcomes, versus auditing the control systems, with an initial focus on systems and controls.</th>
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<tbody>
<tr>
<td><strong>Audit criteria</strong></td>
<td>The audit criteria, against which the actual situation is to be judged, are clearly stated, indicating the relevant legislation or other sources from which such criteria are sourced.</td>
</tr>
<tr>
<td><strong>Audit methodology</strong></td>
<td>A short paragraph is devoted to describing how each data collection and analysis method is to be used in the context of the audit. Detailed information regarding the methodology may be set out in an annex to the APM.</td>
</tr>
<tr>
<td><strong>Likely outcome of the audit</strong></td>
<td>The likely outcome identifies areas in which findings may be identified, conclusions drawn and recommendations made. It addresses the audit questions, and should not be too detailed or give false hopes of far-reaching effects of the audit.</td>
</tr>
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</table>

### How will the audit be resourced, supervised and monitored?

| **Resources, costs and timetable** | The audit team is identified by name, audit grade and time allocated, and the budget, including consultant and mission costs, is given. The timetable sets out the dates for starting and ending the audit, including the dates and location of missions; completion dates for all key milestones (with realistic timeframes being set for each, and taking account of holidays, training courses, etc.); the date of the progress report; and the date of final report publication. |
| **Risks to delivery within time and budget** | The major risks to delivering the audit report at the time required and within the forecast resources and cost are identified, together with the likelihood of each major identified risk occurring, the potential impact if the risk were to materialize, and proposals for managing each risk. |
| **Quality Control arrangements** | Depending on SAI’s Quality Control/Quality Assurance arrangement, a progress report upon completion of a key milestone should be provided for in the APM. |

### Has the auditee been informed?

<p>| <strong>Reference to discussion</strong> | Reference is made as to whether the audit objectives, questions, scope and criteria have been discussed with auditee management in preparing the APM and whether their reaction has been duly considered. In addition, planned contacts with the auditee and external experts throughout the course of the audit (as well as expected presentations of reports to Parliament or/and the media) should be included in the APM in the form of a brief communication plan containing information on who will be responsible for each communication; what the communication will be, and when is it likely to occur. |</p>
<table>
<thead>
<tr>
<th><strong>Conclusion</strong></th>
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<tbody>
<tr>
<td>We propose that the audit be undertaken. We hereby ask the Audit General/Deputy Auditor General/Secretary General for permission to proceed with the audit in the manner outlined above, and with the resources and timeframes indicated.</td>
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APPENDIX 5

OUTLINE OF AUDIT PROGRAMME

Audit task:

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<thead>
<tr>
<th>Prepared by:</th>
<th>Reviewed by:</th>
<th>Approved by:</th>
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<td>Date:</td>
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Audit questions:

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<tr>
<th>Audit procedures</th>
<th>Remarks</th>
<th>WP Reference</th>
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Assertion Levels
An assertion is statement given as an absolute fact or in accounting terminology, a representation by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur. So the assertion level is the level at which statement are presented as true. For example, assertions used by the auditor to consider types of potential misstatements that may occur on classes of transactions, account balances, and disclosures for the period under audit means to ensure its’ occurrence, completeness, accuracy, cut-off and classification.

Benchmarks
A standard or point of reference against which things may be compared or assessed.

Client-oriented perspective
From a customer’s or client’s point of view, e.g. service by government are delivered according to citizens’ expectations in terms of quality or timeliness.

Criteria
A principle or standard by which something may be judged or decided. In financial auditing, audit criteria are benchmarks used to evaluate or measure the subject matter, including, where relevant, benchmarks for presentation and disclosure. For performance audits, audit criteria includes laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. They must be reasonable and attainable standards of performance against which the economy, efficiency, and effectiveness of activities can be assessed. They reflect a normative (i.e. ideal) model for the subject matter under review. They represent best or good practice, a reasonable and informed person’s expectation of “what should be”.

Corruption
A form of dishonest or unethical conduct by a person entrusted with a position of authority, often to acquire personal benefit. Corruption may include many activities including bribery and embezzlement.

Desk audit
An audit on tax returns carried out at the tax office and is normally concerned with straightforward issues or tax adjustments, which are easily dealt with via correspondence. However, a taxpayer may be called for an interview at tax office if further information is required.

Detailed Audit Plan
A document of the nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It includes the proper planning of the audit procedures (using standard audit programs or audit completion checklists) that can be reviewed and approved prior to their performance/implementation.

**Direct cause-and-effect relationship**
A relationship in which one event (the cause) makes another event happen (the effect). One cause can have several effects.

**Economy**
Getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.

**Effectiveness**
Refers to the relationship between the outcomes of a program in terms of its effects on the target population (observed impacts), and the desired goals (expected impacts).

**Efficiency**
Getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.

**Ex ante audit**
Where the SAI is responsible in carrying out a compliance audit and giving prior approval to certain types of public expenditure. Or a before the fact review of administrative or financial activities. This means the administrative or financial activities may not be executed by the administration until after the ex-ante audit is completed and the SAI gives authorisation. Has the advantage of being able to prevent damage to the state before it occurs. But have the disadvantage of creating an excessive amount of work and blurring responsibilities under public law.

**Fraud**
Wrongful or criminal deception intended to result in financial or personal gain.

**Hypothesis**
A supposition or proposed explanation made on the basis of limited evidence as a starting point for further investigation.

**Inherent risk**
The risk posed by an error or omission in a financial statement due to a factor other than a failure of control.

**Internal control**
A process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives such as effectiveness and efficiency of operations;
reliability of financial reporting; and compliance with applicable laws and regulations.

**Overall Audit Strategy**
A document that sets the scope, timing and direction of the audit, and that guides the development of the Detailed Audit Plan. It also records key decisions considered necessary to properly plan the audit and to communicate significant matters to the audit team (regarding the overall scope, timing and conduct of the audit).

**Problem-oriented approach**
A performance audit approach that aims to verify problems (related to economy, efficiency and effectiveness of government undertakings or programs) and examining the causes to it. In terms of this approach, the following questions were dealt with: “Do the stated problems really exist? And, if so, how can they be understood? And what are the causes?” Here, hypotheses about possible causes and consequences are formulated and tested. The aim is to deliver updated information on the stated problems and how to deal with them. Auditors are not restricted in their analyses and all possible material causes are considered (only general goals are taken for granted), so proposals to amend laws, regulations, and structural design of government undertakings are not excluded, if is shown that the existing structure give rise to severe and verified problems.

**Professional judgment**
A reasonable judgment based facts and circumstances that are known by an auditor who applies his/her knowledge, skills and experience. It reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor’s report. In short, it is circumstantial based and does not mean that auditor possess the knowledge of unknown.

**Professional scepticism**
The state of mind which auditor must maintain to help himself in conducting audit engagement appropriately. A sceptic mind enables auditor to recognize that circumstances may exist that causes the financial statements to be material misstated so he/she should be alert and remain cautious about such information and events that indicate the existence of material misstatement in the financial statements. For example, an auditor needs to be alert to: audit evidence that contradicts other audit evidence obtained; information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence; conditions that may indicate possible fraud; circumstances that suggest the need for further audit procedures.

**Quality assurance**
A process through which the SAI assesses and monitors the system of Quality Control including a periodic review of audit engagements. This assessment is designed to ensure that the SAI systems of Quality Controls are working effectively and that individual audits are carried out in compliance
with the SAI’s standards, rules, procedures and practices that comply with ISSAI.
Quality control
Consists of the systems and practices designed to ensure that the SAI conducts audits that are in accordance to the SAI’s standards, rules, procedures and practices that complies with ISSAI.

Residual risk
The risk that remains even when controls are in place to mitigate the inherent risk or the risk to the achievement of objectives that remains after management’s responses have been developed and implemented.

Results-oriented approach
A performance audit approach that assesses whether pre-defined objectives have been achieved. Here the auditor studies performance (concerning economy, efficiency, and effectiveness) and relates observations to the given norms (goals, objectives, regulations, etc.) or the audit criteria (more or less precisely defined before the main study begins) and relates observations to the given norms (for example, goals, objectives, regulations) or the audit criteria. Using this approach, shortcomings are likely to be defined as deviations from norms or criteria. Consequently, audit recommendations are aimed at eliminating such deviations. This approach deals mainly with questions such as: ‘What is the performance or what results have been achieved, and have the requirements or the objectives been met?’ Recommendations, if presented, are often aimed at eliminating such deviations.

Retrospective audit approach
A performance audit approach that examines already available performance data, verifies compliance and assesses the performance of a program/activity after its completion, whereby key events and activities are often identified long after their occurrence. Can rarely arrive at forward looking results and audit recommendations are useful only for managerial decision-making and monitoring for future projects/activities of the same nature.

Reverse cause-and-effect relationship
When the dependent and independent variables are reversed in the process of establishing a relationship. For example, a government’s decision to lower VAT/GST rate could boost consumer spending and this leads to an overall rise in revenue, but equally, an overall rise in revenue could cause government to lower VAT/GST rate.

Risk assessment
The identification and analysis of relevant risks to the achievement of an organization’s objectives to determine how those risks should be managed. It implies an initial determination of operating objectives, then a systematic identification of those things that could prevent each objective from being attained. In other words, it is an analysis of what could go wrong.

Risk prioritization
Ranking risk in a most-to-least-critical importance in terms of impact and likelihood of occurrence.
**Stakeholder**

Key stakeholders of SAIs are legislature/parliament (including Public Accounts Committees) and the public. It includes all citizens, person, group, organization, member or system that can affect or can be affected by the actions, objectives and policies of government and public entities.

**Substantive procedure**

An audit procedure designed to detect material misstatements at the assertion level and it comprises of tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures.

**System-oriented approach**

An audit approach which examines the proper functioning of management/financial systems and focuses on whether management and internal control systems are sound. Performance auditing on effectiveness is based on ideas and concepts from a “system theory” where government undertakings or programs are seen as systems of interacting and functional interdependent elements. Here, the focus is on the effectiveness of the systems themselves and auditors should examine the effectiveness of government and government-financed activities and whether the results are those that parliament and the government intended to achieve when they allocated resources, established agencies, and passed legislation to implement a societal undertaking.

**Test of control**

An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

**Top-down perspective**

From the point of view of the government that concentrates mainly on the requirements, intentions, objectives and expectations of the legislature and central government. An approach in which the government decides what results are to be achieved and how, and passes the plan/policy down the hierarchy (implementing department/agencies) to be implemented.